

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF GARY

LAKE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
12/18/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	M. Celita Green	01-01-16 to 12-31-17
Mayor	Karen Freeman-Wilson	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Niquelle Allen	01-01-16 to 12-31-17
President of the Common Council	Ronald G. Brewer, Sr.	01-01-16 to 12-31-17
Executive Director of the Sanitary and Storm Water Management Districts	Daniel F. Vicari	01-01-16 to 12-31-17
President of the Boards of Sanitary and Storm Water Commissioners	Charles W. Jackson, Jr.	01-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Gary (City), for the period from January 1, 2016 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

December 12, 2017

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FINANCE DEPARTMENT
CITY OF GARY

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDING

FINDING 2016-001

Subject: Financial Transactions
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the City related to payroll transactions. After payroll was processed, a Final Payroll Register was sent to each City department for review to ensure accuracy, completeness, and classification of payroll expenditures. The City had not properly implemented these controls as there was no documentation that the reviews were actually performed by each department.

Context

The lack of controls was a systemic problem. There were no documented controls over the payroll transactions throughout the audit period.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the City had not implemented a proper system of internal controls.

Effect

The failure to implement controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the City's internal control processes be properly implemented to ensure that payroll transactions were accurate, complete, and properly classified.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



City Of Gary
Department of Finance

KAREN M. FREEMAN-WILSON
Mayor

401 Broadway
Gary, Indiana 46402
(219) 881-1363 / Fax (219) 881-1340
www.gary.in.us

M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION PLAN

FINDING 2016-001 – Financial Transactions

M. Celita Green, City Controller
Contact Phone Number: (219) 881-1363

Views of Responsible Official: Concur

Description of Corrective Action Plan:

As noted, the Payroll staff does forward to each department a final payroll register reflecting the payroll transactions for each pay period. To ensure that the final payroll registers are reviewed by department heads for accuracy and completeness, we will be adding a line for a signature to certify that the department head has reviewed and agrees with the payroll transactions on the payroll register.

A process will be developed for implementation and compliance of this internal control.

Anticipated Completion Date: March 2018



(Signature)

City Controller
(Title)

December 11, 2017
(Date)

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

A similar comment also appeared in 11 prior reports, including prior Reports B44236, B47027, and B47523, entitled *OVERDRAWN CASH BALANCES*.

The Financial Statement and Single Audit Report for the City included funds with overdrawn cash balances at December 31, 2016. Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants require the City to expend funds and subsequently request reimbursement. The City funds with overdrawn cash balances at December 31, 2016, which were not due to the timing of reimbursements are listed below:

Fund Name	Amount Overdrawn
General	\$ 9,621,510
Self-Insurance	419,390
WCI/UCI Benefit	176,352
Safe Route Plan	21,696
Maternal Child Health Infant Mortality	44,841
Tobacco	10,659
CLC - CDBG	37,948
VOCA ONE-TIME	20,101
Protective Services Grant I	1,023,534
Emergency Shelter	625,105
Health And Human Services	469,000
Leased Properties - Gary Bldg Corp.	232,721

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TEMPORARY TRANSFER OF FUNDS

The same comment also appeared in 11 prior reports, including prior Reports B44236, B47027, and B47523, entitled *TEMPORARY TRANSFER OF FUNDS*.

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2016:

Loan To	Loan From	Loans Outstanding January 1, 2016	Loans Made	Loans Repaid	Loans Outstanding December 31, 2016
General	Other City Funds (Excluding GSD Funds)	\$ 12,144,015	\$ 5,500,000	\$ 2,418,215	\$ 15,225,800
General	GSD Funds	5,357,127	-	-	5,357,127

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Loan To	Loan From	Loans Outstanding January 1, 2016	Loans Made	Loans Repaid	Loans Outstanding December 31, 2016
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	620,317	331,600	-	951,917
GSD Solid Waste Disposal	GSD WWTP General Operating	10,162,000	-	-	10,162,000
	Totals	<u>\$ 28,283,459</u>	<u>\$ 5,831,600</u>	<u>\$ 2,418,215</u>	<u>\$ 31,696,844</u>

Of the \$31,696,844 outstanding and not repaid by December 31, 2016, \$25,865,244 (or 82 percent) had been outstanding since 2015 or prior, as noted below:

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Various GSD Funds	\$ 5,357,127	2006
General	Consolidated Area TIF District	668,000	2009
General	Alcohol and Drug Treatment	15,800	2010
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	380,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
General	Media	600,000	2011
General	Consolidated Area TIF District	2,300,000	2011
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
General	Consolidated Area TIF District	32,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
General	Lakefront TIF District	1,660,000	2013
GSD Solid Waste Disposal	GSD WWTP General Operating	3,490,000	2013
General	Lakefront TIF District	2,550,000	2014
Blight Elimination Program	Midwest Center TIF District	200,000	2015
General	Lakefront TIF District	1,000,000	2015
Subtotal Outstanding Since 2014		25,865,244	
General	Lakefront TIF District	1,200,000	2016
General	LOIT SPECIAL DI	3,000,000	2016
General	LDA CASINO	1,300,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Park Nonreverting	10,600	2016
Blight Elimination Program	Midwest Center TIF District	300,000	2016
Total		<u>\$ 31,696,844</u>	

Indiana Code 36-1-8-4, concerning temporary transfers states in part:

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-8-4, concerning temporary transfers states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."



City Of Gary

Department of Finance

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KAREN M. FREEMAN-WILSON

Mayor

M. CELITA GREEN

Controller

MICHELE ROBY

Deputy Controller

2016 CITY OF GARY RESPONSES TO AUDIT RESULTS AND COMMENTS FINANCE DEPARTMENT

OVERDRAWN CASH BALANCES:

Safe Route Plan, Maternal Child Health, Tobacco, CDBG, VOCA, Protective Services, Emergency Shelter, and Health and Human Services are all reimbursable grants. This means that funds must be expended first, before reimbursement can be requested from the grantor. For instance, if funds are expended at the end of year for payroll, the City will not receive reimbursement until January of the following year, which will result in a deficit balance at the end of the current year.

The City experienced an unanticipated reduction in property tax distributions and casino funds in 2016, which resulted in the City's inability to properly fund the insurance fund, and WCI/UCI fund. The General Fund deficit also increased. The City is diligently working to increase other city revenues, and make additional reductions where possible to balance these funds. The City is also looking to develop a 5-year financial plan to assist in financial recovery and sustainability.

TEMPORARY TRANSFER OF FUNDS;

During the time that the state underwent a change in the method of reassessment, property tax distributions were delayed up to 4 months, so the City had to make additional inter-fund loans. Property tax caps became institutionalized soon after, which reduced the City's property distributions to a point that made it impossible to repay inter-fund loans in a timely manner. Property tax collections continue to decline annually as assessed values also decline for the City. The City departments inter-fund loans (excluding GSD internal inter-fund loans) totaled \$19,664,842 at the end of 2016. Of that amount, \$5,500,000 was repaid in the first 6 months of 2017. The city continues to make every effort to repay loans, as funds become available.

FINANCE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2017, with M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr.; President of the Common Council; Linda Barnes Caldwell, Common Council member; Rebecca L. Wyatt, Common Council member; Dayna Bennett, Chief of Staff; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Curtis Whittaker, Financial Advisor.

DEPARTMENT OF ENVIRONMENTAL
AND GREEN URBANISM AFFAIRS
CITY OF GARY

DEPARTMENT OF ENVIRONMENTAL
AND GREEN URBANISM AFFAIRS
CITY OF GARY
FEDERAL FINDING

FINDING 2016-002

Subject: Great Lakes Program - Cash Management, Reporting, Matching
Federal Agency: Environmental Protection Agency
Federal Program: Great Lakes Program
CFDA Number: 66.469
Federal Award Number and Year (or Other Identifying Number): 00E01272
Compliance Requirements: Cash Management, Reporting, Matching, Level of Effort, Earmarking
Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Cash Management, Reporting, and Matching requirements of the Matching, Level of Effort, Earmarking compliance requirements.

Cash Management

One employee completed the drawdown request and approved the subsequent payments without evidence of a proper system of oversight or review to ensure timely remittances of grant funds.

Reporting

The Semi-Annual Progress reports were prepared by one employee without evidence of a proper system of oversight or review.

Matching

Policies and procedures were not established to ensure that the City met the Matching requirements. Evidence that the City formally tracked expenditures from the grant fund and local match funds was not presented.

Context

The lack of controls was a systemic problem. There were no documented controls over the compliance requirements noted in the *Condition* throughout the audit period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

DEPARTMENT OF ENVIRONMENTAL
AND GREEN URBANISM AFFAIRS
CITY OF GARY
FEDERAL FINDING
(Continued)

Cause

The City's management had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the Cash Management, Reporting, and Matching requirements of the Matching, Level of Effort, Earmarking compliance requirements.

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. The lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls to ensure compliance with the Cash Management, Reporting, and Matching, Level of Effort, Earmarking compliance requirements.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Auditor's Response

The Corrective Action Plan stated no action was required due to the processes the City had in place. However, evidence of those processes were not available for audit.

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CITY OF GARY

Karen Freeman-Wilson
Mayor

Brenda Scott Henry
Director

Department of
Green Urbanism
839 Broadway, Suite North 206
Gary, Indiana 46402
(219) 882-3000 Fax (219) 882-3012

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Brenda Scott Henry, Director
Contact Phone Number: (219) 882-3000 Ext. 6749

Views of Responsible Official:

Description of Corrective Action Plan:

Cash Management: No corrective action required. Please review the flow chart for the cash management process.

Grant Reporting: No corrective action required. Please review the flow chart for the grant reporting process.

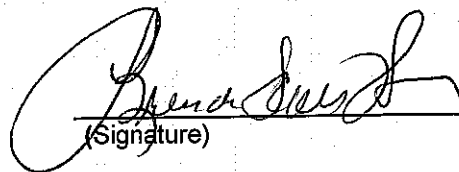
Local Match Tracking:

Policies and procedures were not established to ensure that the City met the matching requirements. Evidence that the City tracked expenditures from the grant fund and local match funds was not presented.

As indicated in the grant proposal, the matching fund consisted of grants from the Great Lakes Protection Fund (Vacant to Vibrant) and the National Fish & Wildlife Foundation. EPA did not have a formal requirement to submit cash match requirement (see semi-annual report template).

Correction Action: Project Manager will compile cash match activities monthly. The Administrative Assistant will enter cash match information semi-annually into the RDS financial system and attach a detailed cash match report/documentation.

Anticipated Completion Date: January 18, 2017.



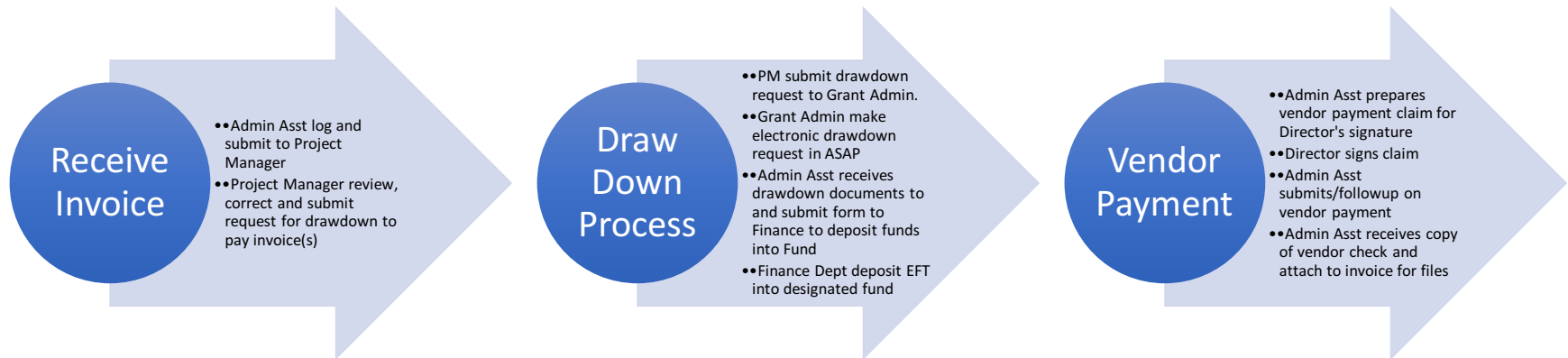
(Signature)

Director
(Title)

12/12/2017
(Date)

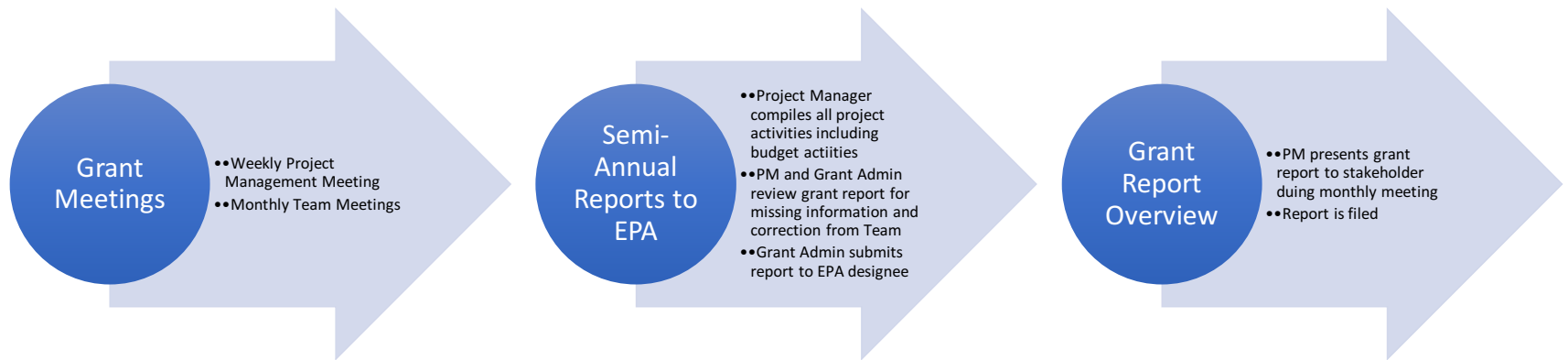
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Grant Cash Management Process



Grant Reporting Process

-20-



Finding 2016-002

Corrective Action: Cash Match Requirements

Policies and procedures were not established to ensure that the City met the matching requirements. Evidence that the City tracked expenditures from the grant fund and local match funds was not presented.

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DEPARTMENT OF ENVIRONMENTAL
AND GREEN URBANISM AFFAIRS
CITY OF GARY
EXIT CONFERENCE

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COMMON COUNCIL
CITY OF GARY

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS

TEMPORARY TRANSFER OF FUNDS

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	Totals	<u>\$ 28,283,459</u>	<u>\$ 5,831,600</u>	<u>\$ 2,418,215</u>	<u>\$ 31,696,844</u>

Of the \$31,696,844 outstanding and not repaid by December 31, 2016, \$25,865,244 (or 82 percent) had been outstanding since 2015 or prior, as noted below:

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General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	380,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
General	Media	600,000	2011
General	Consolidated Area TIF District	2,300,000	2011
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
General	Consolidated Area TIF District	32,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
General	Lakefront TIF District	1,660,000	2013
GSD Solid Waste Disposal	GSD WWTP General Operating	3,490,000	2013
General	Lakefront TIF District	2,550,000	2014
Blight Elimination Program	Midwest Center TIF District	200,000	2015
General	Lakefront TIF District	1,000,000	2015
Subtotal Outstanding Since 2014		25,865,244	

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Lakefront TIF District	1,200,000	2016
General	LOIT SPECIAL DI	3,000,000	2016
General	LDA CASINO	1,300,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Park Nonreverting	10,600	2016
Blight Elimination Program	Midwest Center TIF District	300,000	2016
Total		<u>\$ 31,696,844</u>	

Indiana Code 36-1-8-4, concerning temporary transfers states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

GOVERNMENT EMPLOYEE HOLDING OFFICE

The same comment also appeared in prior Reports B47027 and B47523, entitled *SUBSEQUENT EVENT - GOVERNMENT EMPLOYEE HOLDING OFFICE*.

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 3-5-9-7 permits government employees who also held elective office as of January 1, 2013, to continue holding elected office until the end of term of office. The Common Council has an elected member, Mary M. Brown, who also works for the Gary Sanitary District (GSD) as the Director of Customer Service.

The GSD was created by ordinance and is considered to be a department of the City. Indiana Code 36-9-25-3 states in part: "(a) A department of public sanitation is established as an executive department of the municipality. . . ."

Common Council member Mary M. Brown's term of office affected by Indiana Code 3-5-9-7 expired as of December 31, 2015. Common Council member Brown was re-elected in November 2015 and began a new term of office on January 1, 2016. Common Council member Brown, who was employed with the GSD during the previous term of office, has continued employment with the GSD in 2016 and has not complied with the requirements of Indiana Code 3-5-9-5. As a result, Mary M. Brown is deemed to have resigned her employment with the GSD on January 1, 2016. Any compensation paid to Mary M. Brown subsequent to October 14, 2016 (date of the prior Report B47027), related to employment with the GSD, may be the personal responsibility of Common Council member Mary M. Brown.

The compensation paid to Mary M. Brown for time worked after October 14, 2016, with the GSD until November 22, 2017, totaled \$80,051.

Indiana Code 3-5-9-1 states:

"As used in this chapter, 'elected office' refers only to the following:

- (1) The executive or a member of the executive body of a unit.
- (2) A member of the legislative body or fiscal body of a unit."

Indiana Code 3-5-9-2 states: "As used in this chapter, 'government employee' refers to an employee of a unit. The term does not include an individual who holds only an elected office."

Indiana Code 3-5-9-5 states: "Except as provided in section 7 of this chapter, an individual is considered to have resigned as a government employee when the individual assumes an elected office of the unit that employs the individual."

A Declaratory Judgment Complaint filed in the Lake County Superior Court on behalf of Mary M. Brown as plaintiff to determine the applicability of Indiana Code 3-5-9-5 to this situation remains pending as of the date of this Report, Cause No. 45D01-1611-PL-124.

COMMON COUNCIL
CITY OF GARY
EXIT CONFERENCE

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PARK DEPARTMENT
CITY OF GARY

PARK DEPARTMENT
CITY OF GARY
AUDIT RESULT AND COMMENT

RECEIPT ISSUANCE, FEES, AND RECORDS

A similar comment also appeared in prior Report B47523 entitled, *INTERNAL CONTROLS - GOLF COURSE and RECEIPT ISSUANCE AND FEES*.

Marquette and Lake Street Beach Parking

The daily sales reports were not provided for audit, therefore, we were unable to determine if all collections were remitted and deposited and if rates were properly charged. Three out of the six City receipts tested were not remitted timely to the Controller based upon the dates noted on the Park Department's beach park collection envelopes.

Park Receipt Issuance - Parking Collection

The Park Department Secretary did not issue receipts for the parking collections remitted to her. The Marquette and Lake Street Beach staff remitted the collections to the Park Secretary, who counted the cash and took these collections to the Finance Department for deposit. Receipts were not written at the Park Department at the time the collections were remitted.

Hudson Campbell

The facility did not charge the proper fees according to the Board approved rate schedule. The fees charged for basketball court rental for practice differed from the basketball court rental fee on the approved rate schedule. Only approved rates should be charged and collected.

Gleason Golf Course

The facility did not retain the daily sales reports with the receipts. Therefore, we were unable to determine if all collections were remitted and deposited and if fees were properly charged.

Indiana Code 5-15-6-3(f), concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

PARK DEPARTMENT
CITY OF GARY
AUDIT RESULT AND COMMENT
(Continued)

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."



**CITY OF GARY
DEPARTMENT OF PUBLIC PARKS**

Board of Commissioners

Rev. Dwight Gardner, President
Renee Ceaser Patterson, Vice President
Juanita Jackson, Secretary
Tommy Williams, Member

Karen Freeman-Wilson
Mayor, City of Gary

Nathaniel George
Superintendent of Parks & Recreation

**2016 CITY OF GARY RESPONSES TO AUDIT RESULTS AND COMMENTS
PARK DEPARTMENTS**

Marquette and Lake Street Beach Parking – Receipt Issuance and Collections

Marquette Park staff remits deposits and receipts to the Park Department for daily sales reporting, however, the Park's Finance Manager did not a receipt to the Marquette park staff for funds remitted. The Parks' Finance Manager will began to provide receipts to Marquette for the funds that they remit for deposit to the Finance Dept. Additionally, Marquette Staff will remit daily deposits for events and parking within 24 hours, while weekend events must be submitted to the Finance Manager by Monday morning. The Finance Manager will make deposits to the Finance Department before the end of the day on which the deposits were received. Records of deposits must be maintained for audit, by both Marquette and the Finance Manager of the Parks Department. Management will periodically monitor for compliance.in timely deposits, receipt distribution, and records control. This process will be in effect January of 2018.

Hudson Campbell

The Parks Department will provide a posting of all fees approved by the Parks Board to the Hudson Campbell Director. A standard daily activity spreadsheet will be developed that will show each paying activity for Hudson Campbell, and the amount collected for that activity. The rate will be standard on the spreadsheet, and should reconciled to the daily deposits made to the Finance Manager. A copy of the spreadsheet must be maintained by the Finance Manager for audit, and monitored by management for compliance. This process will be in effect by March of 2018.

Gleason Golf Course

Gleason Golf Course staff remits deposits and receipts to the Park Department for daily sales reporting, however, the Park's Finance Manager did not a receipt to Gleason staff for funds remitted. The Parks' Finance Manager will began to provide receipts to Gleason for the funds that they remit for deposit to the Finance Dept. Additionally, Gleason Golf Course staff will remit daily deposits for events and parking within 24 hours, while weekend events must be submitted to the Finance Manager by Monday morning. The Finance Manager will make deposits to the Finance Department before the end of the day on which the deposits were received. Records of deposits must be maintained for audit, by both Gleason and the Finance Manager of the Parks Department. Management will periodically monitor for compliance.in timely deposits, receipt distribution, and records control. This process will be in effect January of 2018

PARK DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2017, with M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr.; President of the Common Council; Linda Barnes Caldwell, Common Council member; Rebecca L. Wyatt, Common Council member; Dayna Bennett, Chief of Staff; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; Curtis Whittaker, Financial Advisor; Dwight Gardner, President of the Park Board; Renee Patterson, Vice President of the Park Board; Nathaniel George, Superintendent of Park and Recreation; Tiffany Merrills, Executive Manager of Marquette Park; Victoria Ward, Park Fiscal Manager; and Don Plohg, Gleason Golf Course Manager.

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SANITARY DEPARTMENT
CITY OF GARY

SANITARY DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

TEMPORARY TRANSFER OF FUNDS

A similar comment also appeared in 11 prior reports, including prior Reports B44236, B47027, and B47523, entitled *TEMPORARY TRANSFER OF FUNDS*.

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2016:

Loan To	Loan From	Loans Outstanding January 1, 2016	Loans Made	Loans Repaid	Loans Outstanding December 31, 2016
General (City)	GSD Funds	\$ 5,357,127	\$ -	\$ -	\$ 5,357,127
GSD Solid Waste Disposal	GSD WWTP General Operating	10,162,000	-	-	10,162,000
	Totals	<u>\$ 15,519,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,519,127</u>

All of the amounts outstanding were not repaid by December 31, 2016, and had been outstanding since 2013 or prior as noted below:

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General (City)	GSD Equipment Replacement	\$ 3,857,127	2006
General (City)	GSD Capital Improvement	1,500,000	2006
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	3,490,000	2013
Total		<u>\$ 15,519,127</u>	

Indiana Code 36-1-8-4, concerning temporary transfers states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

SANITARY DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (3) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

FUND SOURCES AND USES

A similar comment also appeared in prior Reports B47027 and B47523, entitled *FUND SOURCES AND USES*.

The GSD had various funds to account for its activities. The GSD WWTP General Operating fund (Operating) was to account for the receipts and disbursements associated with the operation, construction, and maintenance of the wastewater treatment plant. The GSD Solid Waste Disposal fund (Solid Waste) was to account for the receipts and disbursements associated with the collection and disposal of trash, garbage, and solid waste. The receipts and costs related to these activities were to be recorded in the related fund created to account for the activity.

The City established separate user charges for funding the operation and maintenance of the wastewater treatment plant and the collection and disposal of trash, garbage, and solid waste. However, the Operating fund subsidized the Solid Waste fund.

Upon receipt of collections from customers, all user fees were recorded in the Operating fund. This included all user fees collected for the Solid Waste fund.

The user fees for trash collections were not transferred to the Solid Waste fund. Instead, the GSD determined that \$5,450,000 was needed to cover the expenses of the Solid Waste fund. Thus, \$450,000 or \$500,000 was transferred monthly from the Operating fund to the Solid Waste fund to cover the monthly expenses. This method of accounting does not accurately reflect the activity of the funds.

For 2016, if the GSD had recorded the monthly user fees into the Solid Waste fund and used those collections to pay for the related costs, disbursements would have exceeded receipts by \$1,831,998. In addition, because the trash collections user fees were recorded in the Operating fund and transfers to the Solid Waste fund exceeded those user fees, the Operating fund subsidized \$1,854,616 of the 2016 solid waste operations as follows:

SANITARY DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Explanation	Amount
Trash fees collected and posted to GSD WWTP General Operating	\$ 3,595,384
Less: GSD Solid Waste Disposal fund disbursements	<u>5,427,382</u>
Insufficient collections	<u>\$ (1,831,998)</u>
GSD WWTP General Operating transfers to GSD Solid Waste Disposal fund	\$ 5,450,000
Less: Trash fees collected and posted to GSD WWTP General Operating	<u>3,595,384</u>
GSD WWTP General Operating subsidy of GSD Solid Waste Disposal	<u>\$ 1,854,616</u>

Indiana Code 36-9-25-11 states in part:

"(a) In connection with its duties, the board may fix fees for the treatment and disposal of sewage and other waste discharged into the sewerage system, collect the fees, and establish and enforce rules governing the furnishing of and payment for sewage treatment and disposal service. The fees must be just and equitable and shall be paid by any user of the sewage works. . .

(b) The board may change fees from time to time. The fees, together with the taxes levied under this chapter, must at all times be sufficient to produce revenues sufficient to pay operation, maintenance, and administrative expenses, to pay the principal and interest on bonds as they become due and payable, and to provide money for the revolving fund authorized by this chapter. . . ."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Fund means "cash" or a group of accounts set aside for the purpose of accounting for moneys or other resources of general functions or specific activities such as utilities, construction projects or other activities of a city or town in accordance with a system of accounts prescribed by the State Board of Accounts or as required by statute. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 2)

GAAFR defines a fund as: "A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations." A further discussion of the types of funds GAAFR requires will be found in Chapter 2, Section B, Page 7-1. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 2)

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in prior Reports B44236, B47027, and B47523, entitled *DELINQUENT WASTEWATER ACCOUNTS*.

Delinquent wastewater fees and penalties had not been certified to the County Auditor since 2009. The delinquent fees had been recorded with the County Recorder more frequently, but not certified to the County Auditor.

SANITARY DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

(1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

(B) A description of the premises, as shown by the records of the county auditor.

(C) The amount of the delinquent fees, together with the penalty.

(2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

GOVERNMENT EMPLOYEE HOLDING OFFICE

The same comment also appeared in prior Reports B47027 and B47523, entitled *SUBSEQUENT EVENT - GOVERNMENT EMPLOYEE HOLDING OFFICE*.

Indiana Code 3-5-9-7 permits government employees who also held elective office as of January 1, 2013, to continue holding elected office until the end of term of office. The Common Council has an elected member, Mary M. Brown, who also works for the Gary Sanitary District (GSD) as the Director of Customer Service.

The GSD was created by ordinance and is considered to be a department of the City. Indiana Code 36-9-25-3 states in part: "(a) A department of public sanitation is established as an executive department of the municipality. . . ."

Common Council member Mary M. Brown's term of office affected by Indiana Code 3-5-9-7 expired as of December 31, 2015. Common Council member Brown was re-elected in November 2015 and began a new term of office on January 1, 2016. Common Council member Brown, who was employed with the GSD during the previous term of office, has continued employment with the GSD in 2016 and has not complied with the requirements of Indiana Code 3-5-9-5. As a result, Mary M. Brown is deemed to have resigned her employment with the GSD on January 1, 2016. Any compensation paid to Mary M. Brown subsequent to October 14, 2016 (date of the prior Report B47027), related to employment with the GSD, may be the personal responsibility of Common Council member Mary M. Brown.

SANITARY DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

The compensation paid to Mary M. Brown for time worked after October 14, 2016, with the GSD until November 22, 2017, totaled \$80,051.

Indiana Code 3-5-9-1 states:

"As used in this chapter, 'elected office' refers only to the following:

- (1) The executive or a member of the executive body of a unit.
- (2) A member of the legislative body or fiscal body of a unit."

Indiana Code 3-5-9-2 states: "As used in this chapter, 'government employee' refers to an employee of a unit. The term does not include an individual who holds only an elected office."

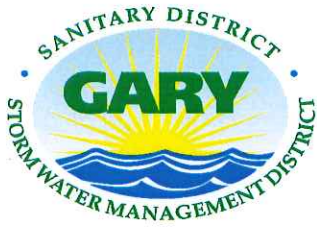
Indiana Code 3-5-9-5 states: "Except as provided in section 7 of this chapter, an individual is considered to have resigned as a government employee when the individual assumes an elected office of the unit that employs the individual."

A Declaratory Judgment Complaint filed in the Lake County Superior Court on behalf of Mary M. Brown as plaintiff to determine the applicability of Indiana Code 3-5-9-5 to this situation remains pending as of the date of this Report, Cause No. 45D01-1611-PL-124.

CAPITAL ASSETS

The Gary Sanitary District and the Gary Storm Water Management District reported \$397,048,062 and \$18,631,000, respectively, in the Schedule of Capital Assets. Complete detail listings of these capital assets were not presented for audit to substantiate the reported amounts. A summary report noting the beginning capital asset balances, additions, deletions, and calculated ending balances was provided.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1 - Prescribed Forms, Taxes, General Information, Local Policies, and Deposits and Investments)



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Gary Sanitary District
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&
Gary Storm Water
Management District
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Gary Sanitary District **2016 Audit Comment Responses**

Temporary Transfer of Funds (includes City Funds)

GSD acknowledges the existence of and concurs with the amounts stated by SBOA in reference to the outstanding loan balance between the City of Gary and the Gary Sanitary District (GSD). The City of Gary has made periodic payments over a period of time to eliminate the outstanding debt. GSD has continued to extend the loan and declare it as an emergency situation via the approval of semi-annual resolutions by the Board of Commissioners in accordance with the requirements of Ind. Code 36-1-8-4. The last such resolution, No. SD17-14, was passed by the Board of Commissioners on December 4, 2017.

The Gary Sanitary District made interfund loans between its General Operating Fund (670) and Solid Waste Fund (672) in the aggregate amount of \$10,162,000.00. The interfund loans were required to cover the costs of solid waste expenses due to the low solid waste collection rate. In 2014, a decision was made following a series of conversations with GSD's contract accountant, to account for the transactions as transfers between the funds. GSD management is evaluating plans to address the outstanding loan and will seek board approval once a final resolution has been determined.

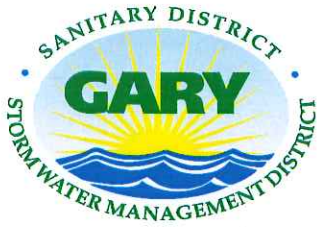
Fund Sources and Uses

GSD acknowledges use of the Operating fund to subsidize the Solid Waste fund. Management of funds in this matter is a fiscal necessity at this time, due to a combination of prohibitively low collection rates for solid waste services and the continuing need to make full payments to GSD's solid waste disposal contractor in order to allow for uninterrupted service to residents.

GSD currently employs a combined billing system, which was approved by the Indiana Utility Regulatory commission in a March 19, 2014 ruling under Cause No. 44424 and includes built-in mechanisms for increasing solid waste collections by prioritizing the application of payments to solid waste. GSD management is currently evaluating various additional alternatives to resolve the solid waste collection rate and increase revenue, including updated utility billing software that would eliminate manual accounting for sewer user funds and solid waste funds.

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Gary Sanitary District

2016 Audit Comment Responses (Page 2.)

Delinquent Wastewater Accounts

This section of the Audit Results and Comments refers to Ind. Code 36-9-23-33 for its requirement that delinquent wastewater fees be certified to the County Auditor. Respectfully, however, GSD notes that it is not directly governed by this statute, as this statute (along with all of Ind. Code 36-9-23) refers to a municipal sanitation department. GSD is not the sanitation department of the City of Gary, but rather is a special taxing district and a political subdivision of the State of Indiana. Therefore, GSD is governed by Ind. Code 36-9-25, which, according to GSD's initial review, does not contain an analogous requirement of certification to the County Auditor.

GSD will further research the interaction between Ind. Code 36-9-23 and 36-9-25 in this regard, in order to determine whether it has the authority to certify fees to the County Auditor. In the meantime, however, GSD does employ the collection method described in Ind. Code 36-9-25-11.5 of cooperating with the local water utility to disconnect water service in residences with delinquent sewer accounts. Additionally, GSD acknowledges that it can be more proactive with regard to the recording of sewer liens against delinquent properties. GSD further employs a collections attorney in furtherance of the authority to collect delinquent fees via civil lawsuits pursuant to Ind. Code 36-9-25-11. Finally, GSD is evaluating a billing software system to automate the sewer lien process and to enhance the certification and recording process.

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Gary Sanitary District **2016 Audit Comment Responses (Page 3.)**

Subsequent Event – Government Employees Holding Office

GSD legal counsel has advised us that while the issue of dual lucrative offices, as defined by Indiana Constitution Article 2, Section 9 has been litigated in the Lake Circuit Court under Cause Number; 45D05-1603-PL-22, GSD has been advised that the case is being appealed; however, it is being litigated by parties other than GSD. Counsel for GSD will further investigate the litigation status and address this issue upon the conclusion of the litigation.

Capital Assets

Per the audit comment, GSD provided a summary report noting the beginning capital asset balances, additions, deletions and calculated ending balances. The summary report is provided annually to the Controller's office to be entered into the Gateway financial system. The summary report has been provided annually to the State Board of Accounts upon request.

GSD is currently updating the capital assets detail in accordance with the State Board of Accounts regulations. Upon completion of this detail, GSD will have compiled the necessary information to achieve compliance with this reporting requirement.

December 18, 2017

Submitted by,

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