

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HAMMOND

LAKE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
03/27/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Heather Garay	01-01-16 to 12-31-18
Mayor	Thomas M. McDermott, Jr.	01-01-16 to 12-31-19
Clerk	Robert J. Golec	01-01-16 to 12-31-19
City Judge	Jeffrey Harkin Gerald P. Kray (Pro Tempore) Amy Jorgensen	01-01-15 to 04-22-16 04-23-16 to 11-20-16 11-21-16 to 12-31-19
President of the Board of Public Works and Safety	Stanley J. Dostatni	01-01-16 to 12-31-18
President of the Common Council	Michael Opinker Janet Venecz	01-01-16 to 07-28-16 07-29-16 to 12-31-18
Sanitary District Manager	Marty J. Wielgos	01-01-16 to 12-31-18
Sanitary District Business Manager	Rachel Montes	01-01-16 to 12-31-18
President of the Sanitary District Board of Commissioners	Dean Button	01-01-16 to 12-31-18
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-16 to 12-31-18
Water Utility Office Manager	Deborah L. Van Meter	01-01-16 to 12-31-18
President of the Water Utility Board	Sharon M. Daniels	01-01-16 to 12-31-18
Director of the Port Authority	Milan A. Kruszynski	01-01-16 to 12-31-18
Chairman of the Port Authority Board of Directors	Thomas E. Kuhn	01-01-16 to 12-31-18
Port Authority Financial Director	Richard A. Szany	01-01-16 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF HAMMOND, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Hammond (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/](http://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

February 7, 2018

CITY CONTROLLER  
CITY OF HAMMOND

CITY CONTROLLER  
CITY OF HAMMOND  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2015-001.

*Condition*

There were several deficiencies in the internal control system of the City related to Financial Transactions and Reporting.

*Lack of Segregation of Duties:* The City had not separated incompatible activities related to Cash and Investments, Disbursements, and Financial Close and Reporting.

*City*

- Cash and investments and bank reconcilements: The City implemented a control over cash and investments and trust bank reconcilements, which was not effective.

*Sanitary District*

- The Accounts Payable Clerk prepared the checks and recorded the invoices to the accounting system without oversight or review.
- The Payroll Manager was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. The Sanitary District Manager implemented a procedure to select up to 15 employees each pay period whose payroll records were audited by an accountant. That audit did not include a verification of the pay distribution to the proper funds and accounts.
- The Business Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

*Water Utility*

- The Office Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

*Preparing Financial Statement:* Effective internal control over Financial Reporting would have required the identification and analysis of the risks of material misstatement to the City's audited financial statement and determining how those identified risks should have been managed. The City had not identified risks to the preparation of a reliable financial statement and, as a result, failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements. In addition, management of the City had not established a process for final review of the financial statement after compilation.

CITY CONTROLLER  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

*Context*

This was a systemic issue, as there was not a proper system of controls for any of the areas noted above.

*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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

*Cause*

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

*Effect*

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

*Recommendation*

We recommended that the City establish a system of internal controls to ensure that financial transactions are properly recorded and reported, and that cash and investments are properly reconciled.

*Views of Responsible Officials*

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

CITY CONTROLLER  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

**FINDING 2016-002**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Condition*

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The City failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which is the source of the SEFA. One employee prepared the grant information for the federal awards without a system of oversight or review to detect and correct errors before submission.

*Context*

Due to the lack of controls, the following errors resulted in the understatement of the SEFA by a total of \$3,739,286:

1. The Highway Planning and Construction Cluster grant was omitted, which understated the federal expenditures by \$3,148,642.
2. The Community Development Block Grants/Entitlement Grants for award number B16MC180006 was omitted, which understated the federal expenditures and Pass-Through to Subrecipient by \$352,735 and \$84,473, respectively.
3. The Emergency Solutions Grants Program for award number E16MC180006 was omitted, which understated the federal expenditures and Pass-Through to Subrecipient by \$68,044 each.
4. The Home Investment Partnerships Program for award number M16MC180204 was omitted, which understated the federal expenditures by \$17,348.

Audit adjustments were proposed, approved by the City, and made to the SEFA.

*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. . . .

CITY CONTROLLER  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

CITY CONTROLLER  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

The failure to establish and properly implement internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Context*.

*Recommendation*

We recommended that the City's management establish controls to ensure accurate and complete reporting of the SEFA.

*Views of Responsible Officials*

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

**FINDING 2016-003**

Subject: Staffing for Adequate Fire and Emergency Response (SAFER) - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance  
Federal Agency: U.S. Department of Homeland Security  
Federal Program: Staffing for Adequate Fire and Emergency Response (SAFER)  
CFDA Number: 97.083  
Federal Award Number and Year (or Other Identifying Number): EMW-2013-FH-00107  
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance  
Audit Finding: Material Weakness

*Condition*

An internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance compliance requirements.

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

The City had not properly designed an effective control system to ensure that the disbursements recorded in the grant fund included all of the allowable costs for the allowable activities charged to the grant. The City's Fire Department determined six new firefighter's salaries and related fringe benefits amounts from the City's payroll records; however, the amounts were not reconciled to the activity in the grant fund.

*Cash Management*

The City had not properly designed an effective control system to ensure compliance with the Cash Management compliance requirement. The Requests for Funds were prepared and submitted by one employee without a proper system of oversight or review.

CITY CONTROLLER  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

*Period of Performance*

The City had not properly designed an effective control system to ensure that all allowable activities that occurred during the period of performance were charged to the grant fund.

*Context*

This was a systemic problem, as there was not a proper system of controls for any of the compliance requirements noted above.

*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. . . ."

*Cause*

The City's management had not developed a system of internal controls to ensure compliance with the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance 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. A lack of segregation of duties within an internal control system could have also allowed noncompliance with 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 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance compliance requirements.

*Views of Responsible Officials*

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

CITY CONTROLLER  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

***FINDING 2016-004***

Subject: Staffing for Adequate Fire and Emergency Response (SAFER) - Reporting  
Federal Agency: Department of Homeland Security  
Federal Program: Staffing for Adequate Fire and Emergency Response (SAFER)  
CFDA Number: 97.083  
Federal Award Number and Year (or Other Identifying Number): EMW-2013-FH-00107  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*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 Reporting compliance requirement.

The City had not properly designed effective controls to ensure that the disbursements recorded in the grant fund agreed with the amounts submitted on the Requests for Funds and on the Federal Financial Report (SF-425).

The City's Fire Department personnel prepared the Request for Funds and the Federal Financial Report (SF-425) based upon handwritten, manually-calculated amounts and not the actual disbursements recorded in the fund (SEMA Grant fund) used to account for the SAFER grant program. No supporting documentation was attached to the Request for Funds, nor was documentation readily available to support the amounts on the SF-425.

Supporting documentation was available from the City's financial system. This was determined to be adequate to support amounts paid from the both the grant fund and the General fund reported on the Requests for Funds and the SF-425. The grant fund did not reflect the total amount reported for allowable fringe benefits paid by the City.

*Context*

The lack of controls and the noncompliance were systemic issues 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. . . ."

44 CFR 152.4(b) states in part:

"Recipients (Grantees) must agree to: . . .

- (4) Retain grant files and supporting documentation for three years after the official closeout of the grant. . . .
- (6) Maintain documentation to support the expenditure of grant funds as well as pertinent grant decisions. . . ."

CITY CONTROLLER  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

*Cause*

The City's management had not developed a system of internal controls to ensure compliance with the Reporting compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and comply with the Reporting compliance requirement.

*Views of Responsible Officials*

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



Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**

February 7, 2018

CORRECTIVE ACTION PLAN

**Section II – Financial Statement Findings**

**FINDING 2016-001 – FINANCIAL TRANSACTIONS AND REPORTING**

Contact Person Responsible for Corrective Action: Heather Garay, City Controller  
Contact Phone Number: 219-853-6324

Corrective Action Plan:

1. Lack of Segregation of Duties:

City:

- a. We concur with the finding.

The City has created binders for all bond issues which include all bond documents, related resolutions and ordinances and all trust statements. The City is working with a financial advisor to create and maintain a file for each bond issue binder that will include:

- Instructions to set-up proper funds according to the trust indenture
- Debt schedules
- Payment instructions

The Controller will designate an employee to set-up funds and accounts according to the instruction file. A copy of this activity will be reviewed and signed by the Controller. All debt payments will require signature by the Controller prior to funding. The trust accounts will be reconciled on a monthly basis with the other bank accounts by the Bank Reconciliation Clerk.

Anticipated Completion Date: July 1, 2018

Sanitary District:

- b. We concur with the finding.

Due to staffing size and budget constraints, the Sanitary District did not separate the accounts payable duties of recording invoices and preparing checks for the years 2016-2017. These duties will be performed by two separate employees.

Anticipated Completion Date: May 31, 2018

City of Hammond  
Controller's Office  
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**Heather Garay, J.D.**  
Controller

**CITY OF HAMMOND**

- c. We concur with the finding.

Sanitary District funds are separated as individual companies. At the time of employment, the business manager enters the employee's information on the proper company fund for payroll. The payroll administrator cannot change the company/fund during the time of payroll. Management will create and maintain a master list of employees separated by company/fund to allow and have this list verified by the supervisor in charge of that company/fund. This list will be updated for any new hires or employment changes.

Anticipated Completion Date: December 31, 2018

- d. We concur with the finding.

Cash financials used in the Gateway reporting are currently entered by the Sanitary District's business manager. Supporting documentation is submitted the City Controller for review and final submission. Going forward, the financial reports will be first reviewed internally by the District's Director or the Director's designee and submitted to the Board of Directors for approval prior to submission to the City Controller.

Anticipated Completion Date: December 31, 2018

#### Water Utility

- e. We concur with the finding.

Cash financials used in the Gateway reporting are currently entered by the Water Utility's office manager. Supporting documentation is submitted the City Controller for review and final submission. Going forward, the financial reports will be first reviewed internally by the Water Utility's CEO and submitted to the Board of Directors for approval prior to submission to the City Controller.

Anticipated Completion Date: December 31, 2018

## *2. Preparing Financial Statement:*

- a. We concur with the finding.

- i. Designated employees within the Controller's office are responsible for compiling data for the financial report. This information is then entered on Gateway by the City Controller. Going forward, the Controller will designate employees to verify data entered on Gateway matches the supporting data. Employees will sign a copy of the report once information is verified.

Anticipated Completion Date: March 1, 2018

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**Heather Garay, J.D.**  
Controller



- ii. The Water Utility, Sanitary District and Port Authority are responsible for entering their own data for the financial statement on Gateway. They must also submit supporting documentation to the City Controller for review and final submission of the financial report. Going forward, management will work with each entity to develop an internal review and approval policy for financial statements at the entity level prior to submission to the City Controller. This review will include review by the entity's executive and/or board of directors. Employees responsible for preparing the financial statement will be encouraged to attend training on reporting practices and updates.

Anticipated Completion Date: December 31, 2018

**FINDING 2016-002 – Preparation of the Schedule of Federal Expenditures of Federal Awards**

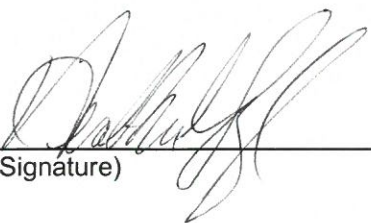
Contact Person Responsible for Corrective Action: Heather Garay, City Controller

Contact Phone Number: 219-853-6324

- 1. We concur in the finding.

Management has already taken measures to address concerns with the preparation of the SEFA. Grant information is provided to the Controller by the department responsible for administering the grant. The Controller verifies this information against the financial system's numbers. Discrepancies are addressed by the two parties. The Controller's office now maintains a file for all new grants in addition to the department's file for verification purposes and is working to create files on all past active grants.

Anticipated Completion Date: March 1, 2018

  
\_\_\_\_\_  
(Signature)

Controller  
\_\_\_\_\_  
(Title)

2/7/2018  
\_\_\_\_\_  
(Date)

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Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**

February 7, 2018

CORRECTIVE ACTION PLAN

**Section III – Federal Award Findings and Questioned Costs**

***FINDING 2016-003 – Staffing for Adequate Fire and Emergency Response (SAFER) – Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance***

Contact Person Responsible for Corrective Action: Heather Garay, City Controller  
Contact Phone Number: 219-853-6324

Corrective Action Plan:

- 1. We concur in the finding.

This grant has ended. The City Controller will work with the Fire Department to establish a control policy for any new grants obtained by their department.

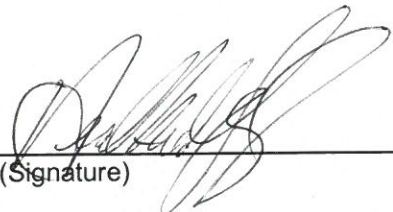
***FINDING 2016-004 – Staffing for Adequate Fire and Emergency Response (SAFER) – Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance***

Contact Person Responsible for Corrective Action: Heather Garay, City Controller  
Contact Phone Number: 219-853-6324

Corrective Action Plan:

- 2. We concur in the finding.

This grant has ended. The City Controller will work with the Fire Department to establish a control policy for any new grants obtained by their department.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Controller  
(Title)

*2/7/2018*  
\_\_\_\_\_  
(Date)



CITY CONTROLLER  
CITY OF HAMMOND  
AUDIT RESULTS AND COMMENTS

***PERMANENT TRANSFER APPROVAL***

The City made permanent transfers from the Gaming Fund to the General, Facade, Inspt/Rental, Homebound, Demolition, and Cut and Clean funds in 2016 totaling \$14,700,000. An Accounts Payable Voucher was not created for each permanent transfer and the permanent transfers were not included on the list of Accounts Payable Vouchers approved by the Common Council.

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

***DEBT SERVICE RESERVE AND SINKING FUNDS***

The same comment also appeared in prior Report B47309.

The City adopted Bond Ordinance 9277 and had a private placement memorandum concerning the creation of a debt service reserve fund for the 2015 bond issue. However, the City did not comply with its existing ordinance and private placement memorandum as follows:

1. The \$3,650,000 received for the debt service reserve was recorded in the General fund in 2015; not in a separate debt service reserve fund.
2. The required sinking fund transfers were accounted for in a bank account, which was part of the General fund; not a separate sinking fund account.

The City also sold Economic Development Revenue bonds Series 2015A in 2015. However, the City did not comply with bond purchase agreement (Agreement) as follows:

1. The Debt Service Reserve (Reserve) fund required by the bond purchase agreement was not created.
2. The \$170,000 minimum required to be held in the Reserve fund was recorded into City fund 421, Gastevich Bond.
3. The minimum required reserve of \$170,000, per the Agreement, could only be disbursed for the payment of principal and interest. As of December 31, 2016, the cash balance of City fund 421, Gastevich Bond, was \$115,173.

Pursuant to the Loan Agreement, the Bond Bank established a Debt Service Reserve Fund, which was held as security for the Bonds and was required to be maintained in the amount of \$3,650,000 (the "Reserve Requirement"). Upon issuance of the Bonds, the Debt Service Reserve Fund would be fully funded in such amount from the proceeds of the Bonds. (Private Placement Memorandum Dated June 17, 2015)

CITY CONTROLLER  
CITY OF HAMMOND  
AUDIT RESULTS AND COMMENTS  
(Continued)

Section 10c of Ordinance 9277 states in part:

"There is hereby created a 2014 Hammond Revenue Bond Debt Service Reserve Fund (the 'Debt Service Reserve Fund'). On the date of the delivery of the Bonds, a portion of the proceeds of the Bonds, funds on hand of the City, or a combination thereof shall be deposited in the Debt Service Reserve Fund . . ."

Section 10b of Ordinance 9277 states in part: "There is hereby created a '2014 Hammond Revenue Bond Sinking Fund (the 'Sinking Fund'). There shall be transferred to the Sinking Fund, on or before the last calendar day of the month . . ."

(h) Series 2015 Reserve Fund. The Controller of the City shall establish and maintain, so long as any of the Bonds are outstanding, a separate fund to be known as the 'Series 2015 Reserve Fund,' which shall be funded in an amount not less the One Hundred Seventy Thousand Dollars (\$170,000). On the date of the issuance of the Bonds, the Controller shall deposit, from available TIF Revenues, the amount of One Hundred Seventy Thousand Dollars (\$170,000) to satisfy such requirement. The funds held in the Series 2015 reserve Funds shall be disbursed by the City solely for the payment of interest on and principal of the Bonds, and only in the event that moneys in the Series 2015 Bonds Fund are insufficient to pay principal of and interest on the Bonds as it comes due on an Interest Date. Moneys held in the Series 2015 Reserve Fund shall also be available to pay all or a portion of the principal and interest due on the Maturity Date of the Bonds. (Bond Purchase Agreement Dated August 5, 2015)

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)

**PAYMENTS IN ADVANCE**

A similar comment also appeared in eleven prior reports, including the three most recent Reports B45294, B47291, and B47309, entitled *PAYROLL DEFICIENCIES*.

Employee compensation, hours, and leave time were reported by the departmental payroll clerks to the Controller's Office on a bi-weekly "Payroll Earnings Forecast" (forecast). The forecasts were submitted for payroll processing by the Monday or Tuesday prior to the pay date, which was on the following Friday. Salaried employees were paid for the current and subsequent week and were, therefore, paid in advance up to ten days prior to performing the service. This pay also did not reflect leave time used for the period covered.

Indiana Code 5-7-3-1 states in part: "Public officers may not draw or receive their salaries in advance. . . ."

**PAYROLL DEFICIENCY - LEAVE POLICIES**

A similar comment also appeared in eleven prior reports, including the three most recent Reports B45294, B47291, and B47309, entitled *PAYROLL DEFICIENCIES*.

The City abided by negotiated union agreements for sick and injured leaves and benefits for police officers and firefighters. Both union agreements were effective for the period of January 1, 2014 through December 31, 2016. Neither agreement contained the details of the leave and benefits policies. We could not determine what the policies entailed; therefore, we could not determine if the City complied with the approved policies.

CITY CONTROLLER  
CITY OF HAMMOND  
AUDIT RESULTS AND COMMENTS  
(Continued)

Each unit must adopt a written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing body would be considered as written policy. The policy must conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**OVERDRAWN CASH BALANCES**

A similar comment also appeared in several prior reports, including the three most recent Reports B45294, B47291, and B47309, entitled *OVERDRAWN CASH BALANCES*.

The financial statement presented for audit including the following funds with overdrawn cash balances at December 31, 2016:

Fund	Amount Overdrawn
Park	\$ 319,283
LOIT	204,754
Diesel Fuel Tax	6,461
Park Bond	232,192
Jail Processing	38,062

Funds with overdrawn cash balances as a result of grant expenditures awaiting reimbursement were not included in the list above.

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)



Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**

February 21, 2018

State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2765

## OFFICIAL RESPONSE

City of Hammond Official Response to 2016 Audit Result and Comment Permanent Transfer Approval:

Internal Controls to correct this issue were put in place after the 2014/2015 audit. However, due to the timing of the 2014/2015 audit, these controls did not affect the 2016 transfers. Starting in 2017, the following policies were put in place for permanent transfers:

- All “off the top” Gaming Fund Transfers for major programs will be included as a line item on the Gaming Fund Budget Approved by the Common Council and Mayor during the regular budget approval process.
- Any Gaming Transfers from Council District Funds or Mayor’s Funds to other operational funds such as Park or Engineering Project Funds, will require a Transfer Request Form to be signed by the Councilman and Mayor for Council funds or by the Mayor for Mayor’s Funds and submitted to the Board of Public Works and Safety for approval prior to the transfer of funds.
- Any other purchase or transfer of funds to outside entities will require regular claim approval.

Heather Garay, Controller

Date

City of Hammond  
Controller's Office  
5925 Calumet Avenue  
Hammond, Indiana 46320

219.853.6324  
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Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**

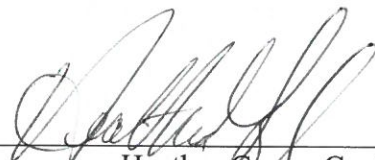
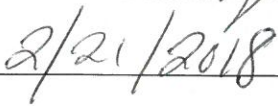
February 21, 2018

State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2765

## OFFICIAL RESPONSE

City of Hammond Official Response to 2016 Audit Result and Comment Debt Service Reserve and Sinking Funds:

The City created and funded accounts to address this finding after the 2014/2015 audit; however, these accounts were not set-up properly as individual funds as required by the bonds documents. This issue was resolved in 2017 and the City has put in place new controls to ensure compliance with bond documents for the creation and used of bond-related funds.

  
\_\_\_\_\_  
Heather Garay, Controller  
  
\_\_\_\_\_  
Date

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Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**


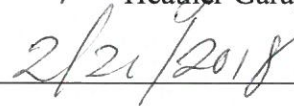
February 21, 2018

State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2765

## OFFICIAL RESPONSE

City of Hammond Official Response to 2016 Audit Result and Comment Payroll Deficiency – Leave Policies:

The City has adhered to long-standing sick and injured leave policies for Police and Fire union employees. The current contracts are in place until December 2020. The administration will work with the unions to incorporate the existing sick and injured leave policies into the written contract for the next negotiated term. The administration will approach the unions about amending the current 2017-2020 contract to include this language.

  
\_\_\_\_\_  
Heather Garay, Controller  
  
\_\_\_\_\_  
Date

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Controller's Office  
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**Heather Garay, J.D.**  
Controller

**CITY OF HAMMOND**

February 21, 2018

State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2765

## OFFICIAL RESPONSE

City of Hammond Official Response to 2016 Audit Result and Comment Overdrawn Cash Balances:

The administration continues to work towards achieving a balanced budget annually. The City has increased its efforts to reduce spending and create new sources of revenue. The 2017 Annual Financial Statement demonstrates these efforts, as all non-reimbursement grant funds have positive ending cash balances. The City has also created and funded a Rainy Day Fund in 2017 to assist with potential revenue shortfalls or unexpected expenses. The administration is committed to maintaining financial stability within its departments.

Heather Garay, Controller

Date

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Controller's Office  
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Hammond, Indiana 46320

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CITY CONTROLLER  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2018, with Heather Garay, Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Phil Taillon, Chief of Staff; Dan Spitale, Common Council member; Mark Kalwinski, Common Council member; Anthony Higgs, Common Council member; William Emerson, Sr., Common Council member; and Dave Woerpel, Common Council member.

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SANITARY DEPARTMENT  
CITY OF HAMMOND

SANITARY DEPARTMENT  
CITY OF HAMMOND  
FEDERAL FINDING

***FINDING 2016-001***

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2015-001.

*Condition*

There were several deficiencies in the internal control system of the City related to Financial Transactions and Reporting.

*Lack of Segregation of Duties:* The City had not separated incompatible activities related to Cash and Investments, Disbursements, and Financial Close and Reporting.

*City*

- Cash and investments and bank reconcilements: The City implemented a control over cash and investments and trust bank reconcilements, which was not effective.

*Sanitary District*

- The Accounts Payable Clerk prepared the checks and recorded the invoices to the accounting system without oversight or review.
- The Payroll Manager was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. The Sanitary District Manager implemented a procedure to select up to 15 employees each pay period whose payroll records were audited by an accountant. That audit did not include a verification of the pay distribution to the proper funds and accounts.
- The Business Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

*Water Utility*

- The Office Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

*Preparing Financial Statement:* Effective internal control over Financial Reporting would have required the identification and analysis of the risks of material misstatement to the City's audited financial statement and determining how those identified risks should have been managed. The City had not identified risks to the preparation of a reliable financial statement and, as a result, failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements. In addition, management of the City had not established a process for final review of the financial statement after compilation.

SANITARY DEPARTMENT  
CITY OF HAMMOND  
FEDERAL FINDING  
(Continued)

*Context*

This was a systemic issue, as there was not a proper system of controls for any of the areas noted above.

*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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

*Cause*

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

*Effect*

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

*Recommendation*

We recommended that the City establish a system of internal controls to ensure that financial transactions are properly recorded and reported, and that cash and investments are properly reconciled.

*Views of Responsible Officials*

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

# SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE  
HAMMOND, INDIANA 46327-1794  
TELEPHONE (219) 853-6413  
FAX (219) 853-6321

## Board of Sanitary Commissioners

DEAN BUTTON, PE  
MICHAEL DYE  
MATTHEW J. MUTA  
SAM DIMOPOLOS  
MICHAEL R. HAWKINS SR.



THOMAS McDERMOTT, JR.  
Mayor

MARTY WIELGOS  
District Manager

RACHEL MONTES  
Business Manager

JOSEPH P. ALLEGRETTI  
Legal Counsel

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-001***

Contact Person Responsible for Corrective Action: **Rachel Montes**  
Contact Phone Number: **219-853-6413 ext. 503**

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2015-001.

#### 1. Lack of Segregation of Duties:

##### Sanitary District:

b. The accounts payable clerk prepared the checks and recorded the invoices to the accounting system without oversight or review.

c. The payroll clerk was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. The Sanitary District manager implemented a procedure to select up to 15 employees each pay period whose payroll records were audited by the accounting assistant. That audit did not include a verification of the pay distribution to the proper funds and accounts.

d. The business manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

##### Description of Corrective Action Plan:

b. We concur with the finding.

Due to staffing size, the Sanitary District did not separate the accounts payable duties of recording the invoices and preparing checks for the years 2016-2017. These duties will be performed by two separate employees in 2018.

Anticipated Completion Date: May 31, 2018

c. We concur with the finding.

Sanitary District funds are separated as individual companies. At the time of employment, the business manager enters the employee's information into the proper company/fund for payroll. The payroll clerk

cannot change the company/fund during the time of payroll. Management will create and maintain a master list of employees separated by company/fund and have this list verified by the supervisor in charge of that company/fund. This list will be updated for any new hires or employment changes.

Anticipated Completion Date: December 31, 2018

d. We concur with the finding.

Cash financials used in Gateway reporting are currently entered by the Sanitary District's business manager. Supporting documentation is submitted to the City Controller for review and final submission. Going forward, the financial reports will be first reviewed internally by a second employee and submitted to the Board of Commissioners prior to submission to the City Controller.

Anticipated Completion Date: December 31, 2018

Rachel Mantz  
(Signature)

Business Manager  
(Title)

2/21/18  
(Date)

SANITARY DEPARTMENT  
CITY OF HAMMOND  
AUDIT RESULT AND COMMENT

***DELINQUENT WASTEWATER ACCOUNTS***

The same comment also appeared in prior Reports B47291 and B47309.

Delinquent wastewater fees and penalties were not certified to the County Auditor nor recorded with the County Recorder in 2016.

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. . . ."

# SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE  
HAMMOND, INDIANA 46327-1794  
TELEPHONE (219) 853-6413  
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Board of Sanitary Commissioners

DEAN BUTTON, PE  
MICHAEL DYE  
MATTHEW J. MUTA  
SAM DIMOPOLOS  
MICHAEL R. HAWKINS SR.



THOMAS MCDERMOTT, JR.  
Mayor

MARTY WIELGOS  
District Manager

RACHEL MONTES  
Business Manager

JOSEPH P. ALLEGRETTI  
Legal Counsel

February 21, 2018

State Board of Accounts  
302 West Washington Street, Room E418  
Indianapolis, IN 46204-2765

Re: State Board of Accounts Examination and Audit Results and Comments  
(Exam Period: January 1, 2016 – December 31, 2016)

## Internal Controls Over Financial Statements

### Examination Position

The Sanitary District (District) did not have a proper system of internal controls in place to prevent or detect and correct errors in the preparation of the financial statements. The District should have proper controls in place over the preparation of the financial statements, notes to financial statements, and required supplementary information to ensure accurate and reliable reporting of the District's financial activity. In addition, adequate internal control requires sufficient supervision and oversight to ensure complete and accurate financial reporting. Due to lack of internal controls the following material misstatements in the District prepared financial statements were undetected:

### Response

Going forward, the District will hire a consultant to evaluate all deficiencies noted in the 2016 audit and place proper controls for the accounts payable department, payroll department and financial statement preparation.

## Delinquent Wastewater Accounts

### Examination Position

Delinquent wastewater fees and penalties had not been certified to the County Auditor nor recorded with the County Recorder in 2016.

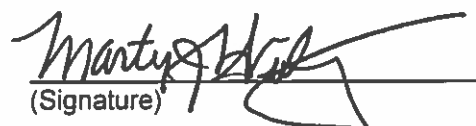
### Response

The District will meet with the District attorney and City Controller to evaluate the process needed to comply with Indiana Code 36-9-23-33.

  
(Signature)

Rachel Montes, Business Manager  
(Title)

February 21, 2018  
(Date)

  
(Signature)

Marty Wielgos, District Manager  
(Title)

February 21, 2018  
(Date)

SANITARY DEPARTMENT  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2018, with Heather Garay, Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Marty J. Wielgos, Sanitary District Manager; Rachel Montes, Sanitary District Business Manager; Michael Dye, Sanitary District Board of Commissioners member; Michael Hawkins, Sanitary District Board of Commissioners member; Pat Moore, Sanitary District Board of Commissioners member; Phil Taillon, Chief of Staff; Dan Spitale, Common Council member; Mark Kalwinski, Common Council member; Anthony Higgs, Common Council member; William Emerson, Sr., Common Council member; Dave Woerpel, Common Council member; and Karl Cender, Sanitary District Financial Advisor.

WATER DEPARTMENT  
CITY OF HAMMOND

WATER DEPARTMENT  
CITY OF HAMMOND  
FEDERAL FINDING

***FINDING 2016-001***

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2015-001.

*Condition*

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*Lack of Segregation of Duties:* The City had not separated incompatible activities related to Cash and Investments, Disbursements, and Financial Close and Reporting.

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*Water Utility*

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*Preparing Financial Statement:* Effective internal control over Financial Reporting would have required the identification and analysis of the risks of material misstatement to the City's audited financial statement and determining how those identified risks should have been managed. The City had not identified risks to the preparation of a reliable financial statement and, as a result, failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements. In addition, management of the City had not established a process for final review of the financial statement after compilation.

WATER DEPARTMENT  
CITY OF HAMMOND  
FEDERAL FINDING  
(Continued)

*Context*

This was a systemic issue, as there was not a proper system of controls for any of the areas noted above.

*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:

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The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

*Cause*

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

*Effect*

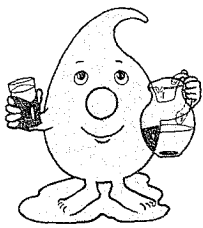
The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City establish a system of internal controls to ensure that financial transactions are properly recorded and reported, and that cash and investments are properly reconciled.

*Views of Responsible Officials*

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



# Hammond Water Works Department

BUSINESS OFFICE  
6505 COLUMBIA AVENUE  
HAMMOND, INDIANA 46320-2554  
TELEPHONE: (219) 853-6421  
FAX: (219) 853-6554

## BOARD OF DIRECTORS

Sharon Daniels  
Bernard Grisolia  
Robert Lendi  
Paul Walker  
Courtney Doughty

MAYOR  
Thomas M. McDermott, Jr.

CHIEF EXECUTIVE OPERATOR  
Edward Krusa

ATTORNEY  
Shana Levinson

## CORRECTIVE ACTION PLAN

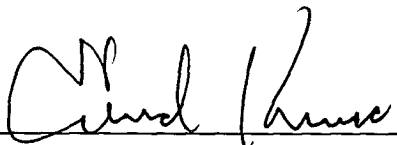
Finding 2016-001

Contact Person Responsible for Corrective Action: Deborah L. Van Meter  
Contact Phone Number: 219-853-6424

We concur with the findings.

Cash financials used in the Gateway reporting are currently entered by the Water Utility's office manager. Supporting documentation is submitted to the City Controller for review and final submission. Going forward, the financial reports will be first reviewed internally by the Water Utility's CEO for approval prior to submission to the City Controller.

Anticipated Completion Date: December 31, 2018

  
\_\_\_\_\_  
(Signature)

CEO  
\_\_\_\_\_  
(Title)

2-20-2018  
\_\_\_\_\_  
(Date)



WATER DEPARTMENT  
CITY OF HAMMOND  
AUDIT RESULT AND COMMENT

***TRAINING ON INTERNAL CONTROL STANDARDS***

Training over internal control standards was not provided to all Water Utility personnel whose official duties met the requirements of Indiana Code 5-11-1-27(c) as required by Indiana Code 5-11-1-27(g). Water Utility personnel, whose duties included receiving payments and making deposits, did not receive the required training on internal control standards.

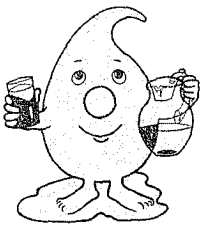
Indiana Code 5-11-1-27(c) states:

"As used in this section, 'personnel' means an officer or employee of a political subdivision whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity."

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."



# Hammond Water Works Department

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ATTORNEY  
Shana Levinson

## OFFICIAL RESPONSE

Audit Year 2016

Contact Person Responsible for Corrective Action: Deborah L. Van Meter

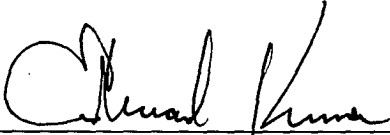
Contact Phone Number: 219-853-6424

We concur with the findings.

The Water Department continues to work on segregations of Duties. Currently the Office Manager works up and enters the annual journal entries for the Net Pension Liabilities. Going forward the Office Manager will work up the entries and submit them to the Utilities CEO for review prior to posting them to the general ledger. This will be implemented for the 2017 Annual Audit.

Training on Internal Control Standards was provided to key personnel only. The Water Utility has already had all employees view the Internal Control Video and complete the certification.

As for the Compensation and Benefits mentioned in the Management Letter. A "Revised" 2018 Salary Schedule has already been submitted to the Board of Directors to include the position of Summer Help at an hourly rate of \$9.00 per hour.

  
\_\_\_\_\_  
(Signature)

CEO  
\_\_\_\_\_  
(Title)

2-20-2018  
\_\_\_\_\_  
(Date)



WATER DEPARTMENT  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2018, with Heather Garay, Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Deborah Van Meter, Office Manager; Edward Krusa, Chief Executive Operator; Sharon Daniels, President of the Waterworks Board of Directors; Mark McLaughlin, Assistant Chief Executive Operator; Paul Walker, Waterworks Board of Directors member; Robert Lendi, Waterworks Board of Directors member; Shana Levinson, Water Utility Attorney; Phil Taillon, Chief of Staff; Dan Spitale, Common Council member; Mark Kalwinski, Common Council member; Anthony Higgs, Common Council member; William Emerson, Sr., Common Council member; and Dave Woerpel, Common Council member.

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COMMON COUNCIL  
CITY OF HAMMOND

COMMON COUNCIL  
CITY OF HAMMOND  
AUDIT RESULT AND COMMENT

**COUNCIL COMPENSATION**

In addition to serving as an elected Common Council member, Janet Venecz (Venecz) also served on the City's Plan Commission in 2016, 2017, and 2018. Venecz's compensation as a Common Council member was fixed by a salary ordinance adopted by the Common Council for all three years. However, Venecz also received compensation for serving on the Plan Commission. The total compensation paid to Venecz exceeded the amount fixed in the salary ordinances by \$600 in 2016, \$1,400 in 2017, and \$400 in 2018. We requested Venecz reimburse the City \$2,400 for the overpayment of compensation. Venecz has entered into a repayment agreement with the City to reimburse the City for the \$2,400 in overpayment of compensation.

In addition, the compensation paid for serving on the Plan Commission was incorrectly paid from the Redevelopment fund.

Indiana Code 36-4-7-2 states in part:

"(a) As used in this section, 'compensation' means the total of all money paid to an elected city officer for performing duties as a city officer, regardless of the source of funds from which the money is paid.

(b) The city legislative body shall, by ordinance, fix the annual compensation of all elected city officers. . . ."

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)

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)



Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**


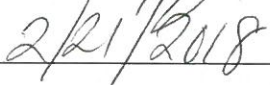
February 21, 2018

State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2765

## OFFICIAL RESPONSE

City of Hammond Official Response to 2016 Audit Result and Comment Council Compensation:

IC 36-7-4-207 (a)(1) requires that One (1) member appointed by the City Legislative Body from its membership must serve on the City's Planning Commission. All board and commission salaries are included in our Civil City Salary Ordinance under the designated department or fund. Board and Commission compensation was not included on the Elected Officials Salary Ordinance. Both salary ordinances are prepared by the Controller prior to being submitted to the Council as a whole for approval. This is the only paying board on which an elected official serves. Because this compensation was not included on the Elected Officials Salary Ordinance, the compensation paid to the Council member for serving on the Planning Commission constitutes compensation in excess of the fixed amount by ordinance. The affected Council person has entered into a repayment plan with the City to reimburse the commission salary paid from 2016 to date. This repayment plan was made available to the auditors prior to the exit conference for the 2016 audit. All further elected official compensation for serving on this commission has since been stopped. The salaries paid to non-elected officials serving on the Planning Commission will no longer be paid from the Redevelopment General Fund.

  
\_\_\_\_\_  
Heather Garay, Controller  
  
\_\_\_\_\_  
Date

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COMMON COUNCIL  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2018, with Heather Garay, Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Phil Taillon, Chief of Staff; Dan Spitale, Common Council member; Mark Kalwinski, Common Council member; Anthony Higgs, Common Council member; William Emerson, Sr., Common Council member; and Dave Woerpel, Common Council member.

FIRE DEPARTMENT  
CITY OF HAMMOND

FIRE DEPARTMENT  
CITY OF HAMMOND  
FEDERAL FINDINGS

***FINDING 2016-003***

Subject: Staffing for Adequate Fire and Emergency Response (SAFER) - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance  
Federal Agency: U.S. Department of Homeland Security  
Federal Program: Staffing for Adequate Fire and Emergency Response (SAFER)  
CFDA Number: 97.083  
Federal Award Number and Year (or Other Identifying Number): EMW-2013-FH-00107  
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance  
Audit Finding: Material Weakness

*Condition*

An internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance compliance requirements.

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

The City had not properly designed an effective control system to ensure that the disbursements recorded in the grant fund included all of the allowable costs for the allowable activities charged to the grant. The City's Fire Department determined six new firefighter's salaries and related fringe benefits amounts from the City's payroll records; however, the amounts were not reconciled to the activity in the grant fund.

*Cash Management*

The City had not properly designed an effective control system to ensure compliance with the Cash Management compliance requirement. The Requests for Funds were prepared and submitted by one employee without a proper system of oversight or review.

*Period of Performance*

The City had not properly designed an effective control system to ensure that all allowable activities that occurred during the period of performance were charged to the grant fund.

*Context*

This was a systemic problem, as there was not a proper system of controls for any of the compliance requirements noted above.

*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. . . ."

FIRE DEPARTMENT  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

*Cause*

The City's management had not developed a system of internal controls to ensure compliance with the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance 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. A lack of segregation of duties within an internal control system could have also allowed noncompliance with 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 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance compliance requirements.

*Views of Responsible Officials*

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

**FINDING 2016-004**

Subject: Staffing for Adequate Fire and Emergency Response (SAFER) - Reporting  
Federal Agency: Department of Homeland Security  
Federal Program: Staffing for Adequate Fire and Emergency Response (SAFER)  
CFDA Number: 97.083  
Federal Award Number and Year (or Other Identifying Number): EMW-2013-FH-00107  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*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 Reporting compliance requirement.

The City had not properly designed effective controls to ensure that the disbursements recorded in the grant fund agreed with the amounts submitted on the Requests for Funds and on the Federal Financial Report (SF-425).

The City's Fire Department personnel prepared the Request for Funds and the Federal Financial Report (SF-425) based upon handwritten, manually-calculated amounts and not the actual disbursements recorded in the fund (SEMA Grant fund) used to account for the SAFER grant program. No supporting documentation was attached to the Request for Funds, nor was documentation readily available to support the amounts on the SF-425.

FIRE DEPARTMENT  
CITY OF HAMMOND  
FEDERAL FINDINGS  
(Continued)

Supporting documentation was available from the City's financial system. This was determined to be adequate to support amounts paid from the both the grant fund and the General fund reported on the Requests for Funds and the SF-425. The grant fund did not reflect the total amount reported for allowable fringe benefits paid by the City.

*Context*

The lack of controls and the noncompliance were systemic issues 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. . . ."

44 CFR 152.4(b) states in part:

"Recipients (Grantees) must agree to: . . .

- (4) Retain grant files and supporting documentation for three years after the official closeout of the grant. . . .
- (6) Maintain documentation to support the expenditure of grant funds as well as pertinent grant decisions. . . ."

*Cause*

The City's management had not developed a system of internal controls to ensure compliance with the Reporting compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and comply with the Reporting compliance requirement.

*Views of Responsible Officials*

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



Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**

February 7, 2018

CORRECTIVE ACTION PLAN

**Section III – Federal Award Findings and Questioned Costs**

***FINDING 2016-003 – Staffing for Adequate Fire and Emergency Response (SAFER) – Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance***

Contact Person Responsible for Corrective Action: Heather Garay, City Controller  
Contact Phone Number: 219-853-6324

Corrective Action Plan:

1. We concur in the finding.

This grant has ended. The City Controller will work with the Fire Department to establish a control policy for any new grants obtained by their department.

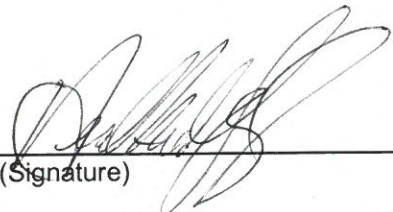
***FINDING 2016-004 – Staffing for Adequate Fire and Emergency Response (SAFER) – Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance***

Contact Person Responsible for Corrective Action: Heather Garay, City Controller  
Contact Phone Number: 219-853-6324

Corrective Action Plan:

2. We concur in the finding.

This grant has ended. The City Controller will work with the Fire Department to establish a control policy for any new grants obtained by their department.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Controller  
(Title)

2/7/2018  
\_\_\_\_\_  
(Date)



FIRE DEPARTMENT  
CITY OF HAMMOND  
AUDIT RESULT AND COMMENT

***PAYROLL DEFICIENCY - LEAVE POLICIES***

A similar comment also appeared eleven prior Reports, including the three most recent Reports B45294, B47291, and B47309, entitled *PAYROLL DEFICIENCIES*.

The City abided by negotiated union agreements for sick and injured leaves and benefits for firefighters. The union agreement was effective for the period of January 1, 2014 through December 31, 2016. The agreement did not contain the details of the leave and benefits policies. We could not determine what the policies entailed; therefore, we could not determine if the City complied with the approved policies.

Each unit must adopt a written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing body would be considered as written policy. The policy must conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**


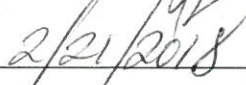
February 21, 2018

State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2765

## OFFICIAL RESPONSE

Fire Department, City of Hammond Official Response to 2016 Audit Result and Comment Payroll Deficiency – Leave Policies:

The City has adhered to long-standing sick and injured leave policies for Fire union employees. The current contracts are in place until December 2020. The administration will work with the unions to incorporate the existing sick and injured leave policies into the written contract for the next negotiated term. The administration will approach the union about amending the current 2017-2020 contract to include this language.

  
\_\_\_\_\_  
Heather Garay, Controller  
  
\_\_\_\_\_  
Date

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FIRE DEPARTMENT  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2018, with Heather Garay, Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Phil Taillon, Chief of Staff; Dan Spitale, Common Council member; Mark Kalwinski, Common Council member; Anthony Higgs, Common Council member; William Emerson, Sr., Common Council member; Dave Woerpel, Common Council member; Jeff Smith, Fire Chief; Kevin Margraf, Deputy Fire Chief; and Jeff Kochis, Assistant Fire Chief.

POLICE DEPARTMENT  
CITY OF HAMMOND

POLICE DEPARTMENT  
CITY OF HAMMOND  
AUDIT RESULT AND COMMENT

***PAYROLL DEFICIENCY - LEAVE POLICIES***

A similar comment also appeared in eleven prior Reports, including the three most recent Reports B45294, B47291, and B47309, entitled *PAYROLL DEFICIENCIES*.

The City abided by negotiated union agreements for sick and injured leaves and benefits for police officers. The union agreement was effective for the period of January 1, 2014 through December 31, 2016. The agreement did not contain the details of the leave and benefits policies. We could not determine what the policies entailed; therefore, we could not determine if the City complied with the approved policies.

Each unit must adopt a written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing body would be considered as written policy. The policy must conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



Heather Garay, J.D.  
Controller

**CITY OF HAMMOND**


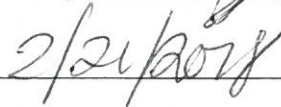
February 21, 2018

State Board of Accounts  
302 West Washington Street  
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Indianapolis, Indiana 46204-2765

## OFFICIAL RESPONSE

Police Department, City of Hammond Official Response to 2016 Audit Result and Comment Payroll Deficiency – Leave Policies:

The City has adhered to long-standing sick and injured leave policies for Police union employees. The current contracts are in place until December 2020. The administration will work with the unions to incorporate the existing sick and injured leave policies into the written contract for the next negotiated term. The administration will approach the union about amending the current 2017-2020 contract to include this language.

  
\_\_\_\_\_  
Heather Garay, Controller  
  
\_\_\_\_\_  
Date

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POLICE DEPARTMENT  
CITY OF HAMMOND  
EXIT CONFERENCE

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