

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HOBART

LAKE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
08/01/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2017-001	
Preparation of the Schedule of Expenditures of Federal Awards	6-7
Finding 2017-002	
Highway Planning and Construction - Period of Performance	7-8
Corrective Action Plan	9-10
Audit Result and Comment:	
Overdrawn Cash Balances	11
Official Response.....	12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Longer	01-01-16 to 12-31-19
Mayor	Brian Snedecor	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Brian Snedecor	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Jerry Herzog	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of Hobart (City), for the period from January 1, 2017 to December 31, 2017. 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 Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

June 26, 2018

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CLERK-TREASURER
CITY OF HOBART

CLERK-TREASURER
CITY OF HOBART
FEDERAL FINDINGS

FINDING 2017-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

Repeat Finding

This is a repeat of Finding 2016-001 from the immediately prior audit.

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 had not implemented a system of internal controls to ensure that federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA, was accurate prior to submission. One employee prepared the federal award information without a system of oversight or review.

Context

The lack of controls over the preparation of the SEFA was a systemic issue 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 had not established a system of internal control that would have ensured proper reporting of the SEFA.

CLERK-TREASURER
CITY OF HOBART
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish and properly implement internal controls could have enabled material misstatements of the SEFA to go undetected.

Views of Responsible Officials

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

FINDING 2017-002

Subject: Highway Planning and Construction - Period of Performance

Federal Agency: Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers and Years (or Other Identifying Numbers): DES#0810541, DES#0900071,
EDS: A249-15-320102,
EDS: A249-15-320103

Pass-Through Entity: Indiana Department of Transportation

Compliance Requirement: Period of Performance

Audit Finding: Material Weakness

Condition

The City had not established an effective internal control system to ensure compliance with requirements related to the grant agreement and the Period of Performance compliance requirement.

The City did not have controls in place to ensure that funds were not obligated or spent prior to or after the grant period.

Context

The lack of controls was a systemic issue throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The City had not developed a system of internal controls to ensure compliance with the grant agreement and the Period of Performance compliance requirement.

CLERK-TREASURER
CITY OF HOBART
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have allowed noncompliance with the compliance requirement 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 Period of Performance compliance requirement.

Views of Responsible Officials

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

Deborah A. Longer
Clerk-Treasurer



"The Friendly City"

The City of Hobart

414 Main Street • Hobart, Indiana 46342

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CORRECTIVE ACTION PLAN

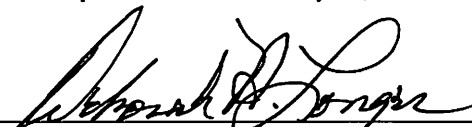
FINDING 2017-001

Contact Person Responsible for Corrective Action: Deborah Longer, Clerk-Treasurer
Contact Phone Number: (219) 942-1940

As described in the Corrective Action Plan issued on February 14, 2017 and similarly on October 13, 2017, the City Executive and the Clerk-Treasurer met with the Department Heads and instituted a new internal control specifically requiring each Employee in Responsible Charge (ERC) of any federal awards or grants of any kind, to submit quarterly reports to designated staff in the Clerk-Treasurer's office for each grant applied for and/or awarded including any and all expenditures, receipts, quarterly reports and other filings related to the grant(s). In addition, at the end of 2017, each ERC signed off on the internal reporting spreadsheet showing annual totals prior to the SEFA being submitted. The local Internal Controls Policy Manual also outlines the procedure and the Clerk-Treasurer's office staff follows up quarterly with the various departments to assure there is some notation or update in each grant file, signed off by the ERC.

Beginning with the 2018 Annual Report, the Clerk-Treasurer's office staff will be preparing and entering the information provided by the ERC for any Expenditures of Federal Awards into the Gateway SEFA and this will be reviewed by the Clerk-Treasurer and the Council before and after submittal.

Anticipated Completion Date: February 28, 2019

Signed: 
Deborah A. Longer, Clerk-Treasurer

Date: 6/26/2018

Deborah A. Longer
Clerk-Treasurer



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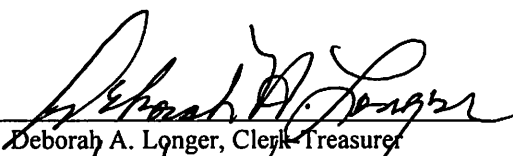
CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: Deborah Longer, Clerk-Treasurer
Contact Phone Number: (219) 942-1940

The Clerk-Treasurer's office maintains files on all Federal and Local Grant Awards and the City of Hobart Internal Control Policy requires each Employee in Responsible Charge (ERC) to provide all paperwork related to the award including the grant agreement, quarterly reports and to provide regular updates on expenditures and receipts related to the award. While in many cases, the period of performance is included within the award paperwork, it has not been clearly noted on the file to permit the verification by staff to ensure that funds were not obligated or spent prior to or after the grant period. Recently the PO's issued with the award have included the period of performance on the face of the document but some of the awards reviewed during the audit process were issued prior to the revised PO information being included. The City of Hobart will include a requirement within their Internal Controls policies that the ERC is to specifically provide documentation as to the Period of Performance for each award. As each request for reimbursement is submitted, the Clerk-Treasurer's office will verify both the expenses and reimbursement request is within the period of performance of the award to ensure compliance with the award agreement.

Anticipated Completion Date: October 1, 2018

Signed: 
Deborah A. Longer, Clerk-Treasurer

Date: 6/26/2018

CLERK-TREASURER
CITY OF HOBART
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the General fund with an overdrawn cash balance of \$1,343,169 at December 31, 2017.

Those funds with overdrawn cash balances due to the timing of reimbursements for expenditures were not included in this comment.

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)

Deborah A. Longer
Clerk-Treasurer

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July 3, 2018

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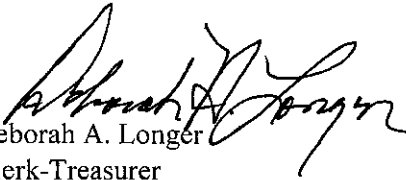
RE: Official Response to City of Hobart 2017 Audit

In response to the State Board of Accounts Audit Results and Comment for the fiscal year 2017 for the City of Hobart, please be advised of the following:

Overdrawn Cash Balances:

The audit report lists the General Fund with an overdrawn cash balance as of December 31, 2017. This is a result of the property taxes collected and distributed to the City of Hobart at the end of December 2017 for the 2016/pay 2017 year that were less than expected, showing a collection rate of less than 92% of the anticipated funds. In addition, the Public Safety Income Tax funds received by the City were not sufficient to cover the overtime costs incurred by Police Officers and Firefighters throughout the course of the year that were paid from the General Fund. With less cash received, the City was unable to reimburse the General Fund for the overtime costs as had been budgeted for this use in the Public Safety Income Tax Fund.

The City of Hobart utilizes inter-fund borrowing as needed to meet the obligations for all funds. At the end of the fiscal year, the inter-fund borrowing is paid back to the appropriate funds as required which results in the possibility that certain funds will end the year with a negative cash balance, showing a true picture of funds not received. Additionally, the City uses a "pooled cash" approach so that it will not overdraw individual funds while waiting for reimbursements or tax distributions. The overdrawn fund noted in the audit are neither an indicator of serious financial problems nor of any inappropriate diversion of funds. The Administration is addressing the shortfall by limiting spending from the General Fund and shifting some operational costs to other funds appropriate for this use.


Deborah A. Longer
Clerk-Treasurer
City of Hobart, Indiana

CLERK-TREASURER
CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on June 26, 2018, with Deborah Longer, Clerk-Treasurer; Brain Snedecor, Mayor; Jerry Herzog, President Pro Tempore of the Common Council; Dan Waldrop, Common Council member; William Longer, City Judge; and Robert Fulton, President of the Sanitary District Board.