

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF GARY

LAKE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
11/26/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Finance Department:	
Federal Finding:	
Finding 2017-001	
Financial Transactions and Reporting	6-10
Corrective Action Plan	11
Audit Results and Comments:	
Overdrawn Cash Balances	12
Temporary Transfer of Funds	12-14
Investments	14-15
Ordinances and Resolutions	15-16
Ambulance/EMS Nonreverting Fund	16-17
Official Response	18-21
Exit Conference	22
Department of Commerce - Division of Community Development:	
Federal Finding:	
Finding 2017-002	
CDBG - Entitlement Grants Cluster - Reporting	24-25
Corrective Action Plan	26
Exit Conference	27
Fire Department:	
Federal Findings:	
Finding 2017-003	
Assistance to Firefighters Grant - Internal Controls	30-31
Finding 2017-004	
Assistance to Firefighters Grant - Equipment	31-33
Corrective Action Plan	34-35
Audit Result and Comment:	
Ambulance/EMS Nonreverting Fund	36-37
Exit Conference	38
Common Council:	
Audit Results and Comments:	
Overdrawn Cash Balances	40
Temporary Transfer of Funds	40-42
Ordinances and Resolutions	42-43
Ambulance/EMS Nonreverting Fund	43-44
Government Employee Holding Office	44-45
Exit Conference	46
Sanitary Department:	
Federal Finding:	
Finding 2017-001	
Financial Transactions and Reporting	48-53
Corrective Action Plan	54-55
Audit Results and Comments:	
Delinquent Wastewater Accounts	56
Fund Sources and Uses	56-58
Temporary Transfer of Funds	58-59
Government Employee Holding Office	59-60
Exit Conference	61

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	M. Celita Green Angelia Hayes	01-01-17 to 02-28-18 03-01-18 to 12-31-18
Mayor	Karen Freeman-Wilson	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Niquelle Allen	01-01-17 to 12-31-18
President of the Common Council	Ronald G. Brewer, Sr.	01-01-17 to 12-31-18
Executive Director of the Sanitary and Storm Water Management Districts	Daniel F. Vicari	01-01-17 to 12-31-18
President of the Boards of Sanitary and Storm Water Commissioners	Charles W. Jackson, Jr.	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

This report is supplemental to our audit report of the City of Gary (City), for the period from January 1, 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 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

November 1, 2018

(This page intentionally left blank.)

FINANCE DEPARTMENT
CITY OF GARY

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDING

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were several deficiencies in the internal control system of the City related to financial transactions and reporting. There was a lack of segregation of duties as the City had not separated incompatible activities related to cash and investments, journal entries, receipts, and financial reporting, including the financial statement and the Schedule of Expenditures of Federal Awards (SEFA). There were no documented controls to ensure the accuracy and timeliness of the recordkeeping and reporting functions.

In addition, the City had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.

Cash and Investments (Bank Reconciliations)

City

A check list was maintained to support that the bank reconciliations were reviewed; however, the check list was not monitored and was not effective. The City's controls did not ensure that all bank accounts were included on the check list, and that all of the accounts were reconciled.

Two bank accounts, with bank balances totaling \$895,050, were not reconciled as of December 31, 2017. These missing reconciliations could not be verified as reviewed through the City's process.

The City had 58 bank accounts. The City routinely transferred money from one bank account to another in order to avoid overdrawn bank accounts. The City performed a combined reconciliation, which included amounts owed from one bank to another; however, the transfers to banks did not reconcile to the transfers from banks by \$17,011. Accumulated transfers to and from banks as of December 31, 2017, totaled \$11,183,690, and \$11,166,679, respectively.

The City's bank accounts have not been reconciled in total since December 31, 2017.

Gary Sanitary District

A consultant reconciled the bank accounts for the Sanitary District funds. The reconciliation was subsequently reviewed by Sanitary District officials as signified by a signature; however, the date the reconciliation was performed and reviewed was not noted.

The reconciliations performed for all months in 2017 did not have either the date it was reconciled or the date the reconciliation was reviewed; thus, it could not be determined if the bank accounts were reconciled timely. As of August 2018, the most current reconciliations provided were for the month of January 2018.

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

Journal Entries

The City and Sanitary District did not have an effective system of internal controls to ensure that journal entries were posted accurately, timely, and to the appropriate fiscal period. The computer software allowed the City and Sanitary District to post journal entries to prior accounting periods. There were also no controls to ensure that records that supported adjustments which required correction by journal entry were retained and available for audit.

Adjustments identified from bank reconcilements were not posted timely and were posted to prior accounting periods. The computer software used by the City and Sanitary District allowed for journal entries to be posted to prior periods by indicating an effective date for the journal entry.

A journal entry to record collections of \$1,128,798 from Sanitary District customers was posted on August 30, 2017, with an effective date of December 31, 2016, to the 2016 ledger based upon the December 31, 2016 bank reconciliation. The collections were actually received in January 2017, so subsequent journal entries were recorded in September 2017 with prior period effective dates to correct the errors.

Adjustments totaling \$359,825 identified on the Sanitary District's December 31, 2017 bank reconcilements were not posted until April 18, 2018, with effective dates of December 31, 2017. These adjustments were not captured within the 2017 financial statement due to timing of the posting. Part of this adjustment included the removal of a duplicate posting of collections totaling \$166,386 from a Sanitary District customer on June 27, 2017, originally identified on the June 30, 2017 bank reconciliation. When the adjustment was recorded, the cash account was properly corrected; however, the receipts were not adjusted to remove the duplicate collection.

Receipts

The City did not have controls to ensure that collections were recorded timely and to the correct funds.

The City did not record state distributions timely. The City recorded 58 of the 166 distributions from 16 to 300 days after the funds were electronically deposited by the state. The distributions ranged from \$150 to \$1,000,000. Transactions were not recorded in the City's financial system until the employee in charge of entering the transaction received a form from the appropriate department. This process delayed various entries of receipts.

The City also did not record county tax distributions timely. The City deposited \$1,411,275 in storm water distributions on June 22, 2017, but the collections were not recorded until December 27, 2017.

Financial Reporting

Financial Statement

The City prepared and submitted the financial information into the Indiana Gateway for Government Units financial reporting system, which was the source for the financial statement. There was no evidence of an oversight or review process to detect and correct errors before submission.

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

Schedule of Expenditures of Federal Awards (SEFA)

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA. Due to the lack of controls, the SEFA presented for audit included the following errors:

1. The SEFA excluded the Assistance to Firefighters Grant of \$758,004.
2. The SEFA excluded the Community Development Block Grant Section 108 Loan of \$1,341,187.
3. The SEFA excluded program income totaling \$82,936, which is required to be reported by the City.
4. The SEFA excluded \$32,162 in Youth Gang Prevention grant expenditures.
5. The SEFA excluded \$4,959 in Equitable Sharing Program grant expenditures.
6. The SEFA over reported \$16,322 in Emergency Solutions Grant Program expenditures.
7. The SEFA over reported \$3,000 in Crime Victim Assistance grant expenditures.
8. Amounts reported as passed through to subrecipients were over reported by \$1,349,269 due to reporting expenditures by other City departments as subrecipients.
9. Various other grants had incorrect grant names or identifying numbers.

Context

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

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

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. . . ."

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

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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:

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

- (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."

Cause

Management of the City had not established a proper system of internal control that segregated key functions. Management also had not conducted a risk assessment related to the City's financial transactions and reporting.

Effect

The failure to establish controls enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls were either not designed properly or not operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

Recommendation

We recommended that the City's management design and implement a proper system of internal controls, which would segregate key functions and also perform periodic monitoring of its system of internal controls. Internal controls should be developed in a way to prevent, or detect and correct, errors in financial transactions and reporting. We recommended the City reconcile bank accounts in accordance with State Statute, record journal entries and receipts in a timely manner, and ensure the accuracy 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.



City Of Gary

Department of Finance

401 Broadway
Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

www.gary.in.us

KAREN M. FREEMAN-WILSON

Mayor

DAYNA BENNETT

Chief of Staff

Angelia Hayes

Controller

CORRECTIVE ACTION PLAN

FINDING 2017-001

Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Angelia Hayes, Controller
Contact Phone Number: 219-881-1363

Views of Responsible Official: The City concurs with the finding. The Gary Sanitary District has provided a separate Corrective Action Plan to address the issues related to their internal controls processes and procedures.

Description of Corrective Action Plan:

On March 1, 2018, a new Controller joined the City of Gary team. While a number of financial policies and procedures existed, a number of them were not routinely being followed. Additionally, while the Gary Common Council passed an Internal Controls policy and a number of individuals were trained on this policy, detailed implementation procedures were not outlined.

The Internal Controls team will supplemental the policy with procedures by December 15, 2018. A member of the Common Council will be a part of this team. Additionally, Department Heads and other finance staff will be trained on the implementation procedures by December 31, 2018. Finally, there will be a weekly review of entries, journal entries, and receipting. There will be a monthly review of financial reporting, bank reconciliations and grants.

Angelia Hayes
(Signature)

Controller
(Title)

11/5/18
(Date)

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in 12 prior reports, including the 4 most recent Reports B44236, B47027, B47523, and B49191.

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2017. Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants require the City to expend funds and subsequently request reimbursement. The City funds with overdrawn cash balances at December 31, 2017, including the grant funds with no reimbursement received in January 2018, are listed below:

Fund Name	Amount Overdrawn
General	\$ 9,301,800
Self-Insurance	550,109
Equipment Fund	198,709
WCI/UCI Benefit	500,327
Maternal Child Health Infant Mortality	80,236
Tobacco	62,384
Nat. Wildlife	1,237
JAG Grant	30,052
TANF Summer Youth	99,479
Protective Services Grant I	1,023,534
Emergency Shelter	716,054
Health and Human Services	437,749
Bioterrorism	10,249
Summer Jobs Training Program	31,200
Leased Properties - Gary Bldg Corp.	220,721
County Market Tif District	198,126

The General, Protective Services Grant I, and Leased Properties - Gary Bldg Corp. funds have remained overdrawn for at least five years. The Protective Services Grant I did not have any receipts or disbursements in 2017.

The overdrawn cash balance of the General fund of \$9,301,800, included tax anticipation warrant proceeds of \$8,875,000 received on December 26, 2017. Without the tax anticipation warrant proceeds, the overdrawn cash balance of the General fund would have been \$18,176,800.

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

TEMPORARY TRANSFER OF FUNDS

The same comment appeared in 12 prior reports, including the 4 most recent Reports B44236, B47027, B47523, and B49191.

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

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. Due to the way that the City accounted for their temporary loans, there was an over repayment of \$59,200 to the Alcohol and Drug Treatment fund. Furthermore, on December 19, 2017, the Common Council approved an extension of the loan from the Lakefront TIF District to General for \$2,910,000; however, the total unpaid loan balance as of December 31, 2017, was \$5,930,000.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2017:

Loan To	Loan From	Loans Outstanding January 1, 2017	Loans Made	Loans Repaid	Loans Outstanding December 31, 2017
General	Other City Funds (Excluding Gsd Funds)	\$ 15,225,800	\$ 5,340,000	\$ 5,521,400	\$ 15,044,400
General Other City Funds (Excluding Gsd Funds)	Gsd Funds	5,357,127	-	-	5,357,127
	Other City Funds (Excluding Gsd Funds)	951,917	240,329	-	1,192,245
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	10,162,000	-	-	10,162,000
Totals		<u>\$ 31,696,843</u>	<u>\$ 5,580,329</u>	<u>\$ 5,521,400</u>	<u>\$ 31,755,772</u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Gsd Equipment Replacement	\$ 3,857,127	2006
General	Gsd Capital Improvement	1,500,000	2006
General	Consolidated Area Tif District	668,000	2009
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area Tif District	380,000	2010
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	500,000	2010
General	Media	600,000	2011
General	Consolidated Area Tif District	2,300,000	2011
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	897,000	2011
General	Consolidated Area Tif District	32,000	2012
Lancaster Dusable TIF District	Lakefront Tif District	40,317	2012
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	5,275,000	2012
General	Lakefront Tif District	460,000	2013
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	3,490,000	2013
General	Lakefront Tif District	2,550,000	2014
Blight Elimination Program	Midwest Center Tif District	200,000	2015
General	Lakefront Tif District	1,000,000	2015
General	Lakefront Tif District	1,200,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Park Nonreverting	5,000	2016
Blight Elimination Program	Midwest Center Tif District	300,000	2016
Subtotal Outstanding Since 2016		26,175,444	
General	Fire Pension	1,500,000	2017
General	Police Pension	800,000	2017
General	Wheel Exc Surtax	950,000	2017
Parks and Recreation	Wheel Tax	240,329	2017
General	Lakefront Tif District	720,000	2017
General	Cedit	350,000	2017
General	Public Safety Income Tax	1,020,000	2017
Total		<u>\$ 31,755,772</u>	

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

Indiana Code 36-1-8-4 states in part:

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

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

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

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

INVESTMENTS

The Landfill Trust fund included investments in stocks and non-federal debt instruments.

Indiana Code 5-13-9-2(a) states:

"Each officer designated in section 1 of this chapter may invest or reinvest any funds that are held by the officer and available for investment in any of the following:

- (1) Securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by any of the following:
 - (A) The United States Treasury.
 - (B) A federal agency.
 - (C) A federal instrumentality.
 - (D) A federal government sponsored enterprise.

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

(2) Securities fully guaranteed and issued by any of the following:

- (A) A federal agency.
- (B) A federal instrumentality.
- (C) A federal government sponsored enterprise.

(3) Municipal securities issued by an Indiana local governmental entity, a quasi-governmental entity related to the state, or a unit of government, municipal corporation, or special taxing district in Indiana, if the issuer has not defaulted on any of the issuer's obligations within the twenty (20) years preceding the date of the purchase. . . ."

Indiana Code 5-13-9-2.5 states in part:

"(a) An officer designated in section 1 of this chapter may invest or reinvest funds that are held by the officer and available for investment in investments commonly known as money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940, as amended (15 U.S.C. 80a et seq.)

(b) The investments described in subsection (a) shall be made through depositories designated by the state board of finance as depositories for state deposits under IC 5-13-9.5.

(c) The portfolio of an investment company or investment trust described in subsection (a) must be limited to the following:

- (1) Direct obligations of the United States.
- (2) Obligations issued by any of the following:
 - (A) A federal agency.
 - (B) A federal instrumentality.
 - (C) A federal government sponsored enterprise.
- (3) Repurchase agreements full collateralized by obligations described in subdivision (1) or (2). . . ."

ORDINANCES AND RESOLUTIONS

Per the Local Wheel Revenue Bonds Series 2017A Trust Agreement (Bond Trust Agreement), the City was required to maintain a deposit of \$400,000 in a debt service reserve trust account.

The City deposited the \$400,000 with a trustee; however, the City did not establish a Bond Fund or the Sinking Fund as required by the Bond Trust Agreement.

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

The Bond Trust Agreement states in part:

". . . 2. As provided in the Bond Ordinance, the City hereby creates the Bond Fund and the Sinking Fund, within which is created therein the Bond and Interest Account and the Debt Service Reserve Account, to be held in the custody of the Trustee separate and apart from other funds of the City or the Trustee. Pursuant to the State of Indiana Form 47551, each monthly distribution of annual license excise surtax on each motor vehicle and each semiannual distribution of the annual wheel tax on each vehicle shall be wire transferred directly to the Trustee and deposited into the Bond Fund as provided in the Bond Ordinance. Pursuant to Sections 11 and 12 of the Bond Ordinance, the Trustee shall make proper deposits into and payments from the Bond Principal and Interest Account. If the balance in the Bond Fund exceeds 125% of the semiannual payment on the Bonds due on the next February 1 or August 1, any excess shall be remitted to the City Controller by the Trustee."

3. On the date of closing on the Bonds, \$400,000 shall be wire transferred to the Trustee and deposited into the Debt Service Reserve Account to be held in the custody of the Trustee separate and apart from other funds of the City or the Trustee. . . ."

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)

AMBULANCE/EMS NONREVERTING FUND

Background

In 1994, the Common Council adopted Ordinance 6708 to create the Ambulance/EMS Nonreverting fund, a capital improvement fund for the purpose of accounting for the receipt and disbursement of ambulance collections. The fund was to be used for maintenance and replacement of ambulances and equipment for the operation of emergency medical services. Ordinance 6708 also required 50 percent of all revenues collected from ambulance fees to be receipted to the Ambulance/EMS Nonreverting fund and the remaining 50 percent of all revenues be receipted to the General fund.

Section 1 of Ordinance 6708 has been amended three times by Ordinances 8106, 8298, and 8544. Each time, the amendment changed what the fund could be used for. The most recent amendment in Ordinance 8544, adopted by the Common Council in 2012, stated: "Whereas, in order to accommodate said expenses, all ambulance fees collected must be used exclusively for EMS expenses." Ordinance 8544 also provided the Ambulance/EMS Nonreverting fund was to be used to maintain and replace ambulance equipment as well as to provide funding for operational expenses of the Emergency Management Services department. The amendment in Ordinance 8544 was silent as to the formula for posting revenues.

The funding formula in Section 2 of Ordinance 6708 that 50 percent of all revenues collected from ambulance fees be receipted to the General fund has not been amended.

Posting of Revenues

The City contracted with a third-party billing service to bill and collect for ambulance services. The collections were deposited into a separate bank account. Review of the receipts issued for ambulance collections and the bank statement activity for 2017, noted that the ambulance collections were all recorded in the Ambulance/EMS Nonreverting fund. No collections were posted to the General fund as required by Ordinance 6708. Based on the provisions of Ordinance 6708 including its subsequent amendments, \$2,058,786 of ambulance collections in 2017 should have been recorded in the General fund.

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

We analyzed the collections to the Ambulance/EMS Nonreverting fund back through January 1, 2015, to determine the cash balance of the fund had the City only deposited 50 percent of the revenue into this fund as provided for by Ordinance 6708 including its subsequent amendments. We determined the cash balance of the fund would have been \$(194,989) as of December 31, 2017. If the City had followed the provisions of Ordinance 6708 including its subsequent amendments since its inception in 1994, the cash balance of the Ambulance/EMS Nonreverting fund would have a substantially larger deficit.

Ordinance 6708 states in Section 2: "The City Controller is requested to establish a non-reverting Ambulance Service Account. Fifty percent (50%) of all revenues collected from ambulance fees will go into the non-reverting capital improvement fund and the remaining 50% will be deposited into the city's General Fund."

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)

Other Revenue Sources

Revenue sources other than ambulance fees were recorded in the Ambulance/EMS Nonreverting fund. Ambulance run reports, fire equipment bid fees, insurance reimbursements for City insurance claims, and fire report collections were recorded in this fund. These revenues were not included in Ordinance 6708 as revenue sources for this fund and should have instead been receipted to the General fund.

Ordinance 6708 states in part: "The City Controller is requested to establish a non-reverting Ambulance Service Account. Fifty percent (50%) of all revenues collected from ambulance fees will go into the non-reverting capital improvement fund and the remaining 50% will be deposited into the city's General Fund."

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)

Disbursements

Ordinance 8544 adopted in 2012 amended the purpose of the Ambulance/EMS Nonreverting fund. Approved uses were maintenance and replacement of ambulance equipment and operational expenses of the EMS Department. In 2017, the City expended \$858,127 for fire department purposes, including \$333,409 on a fire engine lease purchase, \$208,011 for rehabilitation of two fire stations, and \$112,516 for fire equipment.

Ordinance 8544 states in part:

"There is hereby established a non-reverting capital improvement and operating fund for the Emergency Medical Services (EMS) Department of the City of Gary. The purpose of this fund is to maintain and replace ambulance equipment as well as to provide funding for the operational expenses, including salaries and other associated costs, of the Department to ensure its efficient and viable operation."

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)



City Of Gary

Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

www.gary.in.us

KAREN M. FREEMAN-WILSON

Mayor

DAYNA BENNETT

Chief of Staff

Angelia Hayes

Controller

RESPONSES TO THE 2017 AUDIT

Overdrawn Cash Balances

The City acknowledges it has overdrawn cash balances. The City has created a financial recovery plan to increase the general fund projected revenues; reverse the increasing deficit; and stabilize the general fund with an ultimate goal of a positive financial position. A Freeze Committee has been established to monitor all spending, hiring and purchases. A three year deficit reduction plan has been formulated which will allow the City to continue services while addressing the deficit. The City team is optimistic about the ability to eliminate the general fund deficit by 2021. See Note 12, "Plan to Address Financial Concerns" in the 2017 Audit Report.

Temporary Transfer of Fund

The City has not been able to repay the temporary internal fund transfers in accordance with statute. The City has a financial recovery plan to increase revenues and stabilize the general fund. It is the City's goal to be able to repay these loans once the general fund deficit has been eliminated.

In 2018, the City entered into an agreement that provides loan repayment terms with the Gary Sanitary District. The first payment was due and paid on September, 19, 2018. Payments are due on January 31 for the next six years to repay the \$5,057,127 amount due. For further details see Gary Sanitary District "Temporary Transfer of Funds" in the 2017 Audit Report.

Investments

The City has a Landfill Trust account with a local bank. The City will review with the bank how the funds are invested to so the account becomes compliant with state statute.

Ordinances and Resolutions – Local Wheel Revenue Bonds

The City will establish a Bond Fund or the Sinking Fund as required by the Bond Trust Agreement for the debt service reserve account for the Local Wheel Revenue bond.

Ordinances and Resolutions – Ambulance/EMS Non-reverting Fund

The City disagrees with the audit finding. The first section of Ordinance 8544 states that fees collected from ambulance services are to be deposited into a non-reverting ambulance fund to be utilized for the purchase of fire equipment and ambulance equipment. This language allows the funds to be used for purchases for the Fire Department.

Section 2 of Ordinance 6708 which discussed the 50/50 split between the general fund and Ambulance/EMS Fund was not included in the updated Ordinance 8544 adopted by the City Council in 2012. It was implied in Ordinance 8544 that the funding formula requiring the fifty percent of revenues collected be receipted into the general fund in Ordinance 6708 was rescinded. Therefore the City disagrees that fifty percent of the revenues collected should be deposited into the general fund.

The City agrees other revenue funds received on behalf of the Fire Department, such as ambulance run reports, fire equipment bid fees, fire report collections and other miscellaneous receipts, were not part of the ordinance and will be deposited into the general fund going forward.

To clarify the ordinance, the City will submit to the City Council a more concise ordinance in line with the City's needs for these funds that will also rescind all current ordinances related to the Ambulance/EMS Non-reverting Fund.

Financial Transactions and Reporting

On March 1, 2018, a new Controller joined the City of Gary team. While a number of financial policies and procedures existed, a number of them were not routinely being followed. The City has 58 bank accounts and routinely transferred money from one bank account to another in order to avoid overdrawn bank account balances. The past practice was that one City employee, with the assistance of an outside contractor, was responsible for the bank reconciliations, journal entries and reporting. Previously, there was a practice of transferring cash between bank accounts and were not recording the transactions in the accounting system.

We understand the importance of timely recording of transactions and bank reconciliations. Processes are being changed to properly record all bank transfers into the accounting system. When funds need to be transferred to cover overdrawn bank accounts, these transfers will be recorded as interfund transfers in the accounting system. Other department staff are being trained and given the task of performing the bank reconciliations and journal entries as the segregation of duties allows. There will be a weekly review of journal entries and receipting. There will be a monthly review of financial reporting, bank reconciliations and grants. The City is also working to close the unnecessary bank accounts.

November 21, 2018

Submitted by,



Angelia Hayes
Controller

November 1, 2018

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

CITY OF GARY
OFFICIAL RESPONSE TO AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

As indicated in this audit, the overdrawn balances comment has appeared in the City of Gary's audit for over 12 years. This includes the Protective Services Grant where \$1 was requested to be repaid to the grant agency over 12 years ago and resulted in a deficit for this fund. Due to the city's declining revenues and financial position, it has not had the funds available in the General Fund to transfer to the Protective Services fund to clear the deficit. Additionally, the Gary Building Corp. lost its largest tenant, resulting in a deficit to the fund. The mortgage has since been paid off, and the current tenant payments have made a significant reduction to the original deficit amount.

Due to the City's declining revenues and deficit financial position of the General Fund, it was not able to fully fund its Health Insurance and WCI/UCI Benefit funds by December 31 , 2017.

The TANF Summer Youth program, in partnership with the City of Gary, sponsored the City of Gary Summer Youth Program. As of December 31, 2017, drawdown reimbursements are still due to the City of Gary from TANF.

The majority of the remaining deficit funds are reimbursable grants. Some are due drawdown grant reimbursements that were not received from the grantor by December 31, 2017, as well as matching funds from 'the General Fund, which the City was not financially able to make as December 31 , 2017.

TEMPORARY TRANSFERS OF FUNDS:

As indicated in this audit, the temporary transfer comment has appeared in the City of Gary's audit for over 12 years. Property tax distributions became unstable during the period of reassessment and changes in the method of assessing properties, followed by a reduction of property taxes revenues to the City due to the property tax caps.

Prior to these changes, the City made temporary loan transfers which became extremely difficult for the General Fund to repay after property tax caps were constitutionalized. However, not only has property taxes been reduced by the property cap during a recession, but assessed values have since trended down, collection rates trail lower than most towns and cities in the County and state, as well, and casino funds have decreased substantially. These factors have resulted in loan repayments being made slower than required.

Many of the 2017 loans were repaid in first quarter of 2018, as required by the Council. The City continues to seek ways to increase its revenues and stabilize its financial position.

INVESTMENTS:

The Landfill Trust requires that the funds are placed with a state approved financial institution. Due to the restrictions relating to these funds, and the amount of the funds, it was late 2017 when the City was able to locate a financial institution willing to accept and invest the funds.

The City should identify the proper investment vehicle for the invested funds with its selected and state approved financial institution.

AMBULANCE/EMS NONREVERTING FUND:

The City of Gary should transfer \$2,058,786 of ambulance collection revenues from the EMS Fund -224 to the General Fund-101, to comply with the 50% revenue sharing section in Ordinance 6708.

Additionally, the City of Gary should transfer the \$858,127 from the General Fund101 to the EMS Fund-224 for reimbursement of Fire Department expenses purchased from the EMS Fund-224.

M. Celita Green,
Former City Controller

FINANCE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2018, with Ronald G. Brewer, Sr., President of the Common Council; Michael L. Prothro, Common Council member; Carolyn D. Rogers, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Wyatt, Common Council member; Virgil Moore, Jr., Common Council Finance Advisor; Curtis Whittaker, CPA, Consultant; M. Celita Green, former City Controller; Angelia Hayes, Controller, and Karen Freeman-Wilson, Mayor.

DEPARTMENT OF COMMERCE - DIVISION OF COMMUNITY DEVELOPMENT
CITY OF GARY

DEPARTMENT OF COMMERCE - DIVISION OF COMMUNITY DEVELOPMENT
CITY OF GARY
FEDERAL FINDING

FINDING 2017-002

Subject: CDBG - Entitlement Grants Cluster - Reporting
Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Number and Year or (Other Identifying Number): B-14-MC-18-0005 (Section 108 Loan)
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Modified Opinion

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 requirements.

The City had not designed or implemented adequate policies and procedures to ensure that monthly reports for the Section 108 Loan were accurately prepared and submitted. There was no oversight, review, or monitoring process.

The City did not comply with the reporting requirement for Section 108 Loans that monthly reports be submitted concerning the Guaranteed Loan Funds Account and the Debt Service Reserve Account.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period. For all twelve months, no Section 108 Loan reports were prepared or filed.

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. . . ."

The Contract for Loan guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974 number B-14-MC-18-0005, Hudson Campbell Sports and Fitness Center, dated November 14, 2014, states in Part II:

1. Receipt, Deposit and Use of Guaranteed Loan Funds (b):

"The Borrower shall by the fifteenth day of each month provide the Secretary with a written statement showing the balance of funds in the Guaranteed Loan Funds Account and the withdrawals from such account during the preceding calendar month, and a statement identifying the obligations and their assignments in the Guaranteed Loan Funds Investment Account."

DEPARTMENT OF COMMERCE - DIVISION OF COMMUNITY DEVELOPMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

6. Loan Repayment Account (b):

"The Borrower shall by the fifteenth day of each month, provide the Secretary with a written statement showing the balance of funds in the Loan Repayment Account and the deposits and withdrawals of all funds in such account during the preceding calendar month and a statement identifying the obligations and their assignments in the Loan Repayment Investment Account."

15. Special Conditions and Modifications (c) (ii):

"The Borrower shall by the fifteenth day of each month provide the Secretary with a written statement showing the balance of funds in the debt service reserve account and the withdrawals from such account during the preceding calendar month."

Cause

The City's management had not developed a system of internal controls that would have ensured compliance with the reporting requirements.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with grant agreement and reporting requirements 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 grant agreement and 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.



KAREN FREEMAN-WILSON
Mayor

CITY OF GARY
DIVISION OF COMMUNITY DEVELOPMENT

839 Broadway, Suite 302N
Gary, IN 46402
(219) 881-5075 ~ FAX: (219) 881-5085

ARLENE D. COLVIN
Director

E. NIKOLE RUMPH
Deputy Director

CORRECTIVE ACTION PLAN

FINDING 2017- 002 (Auditor Assigned Reference Number)
Contact Person Responsible for Corrective Action: Arlene Colvin, Director
Contact Phone Number: 219-881-5075

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: A tracking system is being implemented to ensure that monthly financial reports are submitted on or before the 15th of every month as required under the terms of the loan contract. Reports are currently up to date with past due reports having been submitted.

Completion Date: September 15, 2018.

Arlene Colvin

(Signature)

DIRECTOR

(Title)

10-01-18

(Date)

DEPARTMENT OF COMMERCE - DIVISION OF COMMUNITY DEVELOPMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2018, with Arlene Colvin, Community Development Director; Ianita Byrd, Grant Administrator; Ronald G. Brewer, Sr., President of the Common Council; Michael L. Protho, Common Council member; Carolyn D. Rogers, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Wyatt, Common Council member; Virgil Moore, Jr., Common Council Finance Advisor; Curtis Whittaker, CPA, Consultant; Angelia Hayes, City Controller, and Karen Freeman-Wilson, Mayor.

(This page intentionally left blank.)

FIRE DEPARTMENT
CITY OF GARY

FIRE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS

FINDING 2017-003

Subject: Assistance to Firefighters Grant - Internal Controls
Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number and Year or (Other Identifying Number): EMW-2015-FO-04597
Compliance Requirements: Cash Management; Period of Performance; Matching,
Level of Effort, Earmarking; Reporting
Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the compliance requirements listed above.

Cash Management

One employee completed the drawdown request without evidence of a proper system of oversight to ensure grant funds were spent timely.

Period of Performance

The City did not have a documented system of oversight to ensure grant funds were expended within the period of performance.

Level of Effort - Maintenance of Effort

The City was not aware of the maintenance of effort requirements; therefore, controls were not established to ensure compliance.

Reporting

The City did not have a documented system of review or oversight to ensure that reports were accurate, complete, and submitted timely.

Context

The lack of an effective internal control system 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

FIRE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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's management had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the compliance requirements listed above.

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 the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls to ensure compliance with the grant agreement and the compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2017-004

Subject: Assistance to Firefighters Grant - Equipment
Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number and Year or (Other Identifying Number): EMW-2015-FO-04597
Compliance Requirement: Equipment and Real Property Management
Audit Findings: Material Weakness, Modified Opinion

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 equipment requirements.

The City did not have adequate policies and procedures to ensure compliance with the requirements that equipment disposals be removed from the inventory records, or that the equipment records comply with the federal property records requirements.

FIRE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

The City's property records indicated the total cost for all equipment purchased. The records did not include the cost of each item, or a serial number or other identifying number. The City disposed of fire equipment purchased with federal funds totaling \$703,402, but did not remove it from City's equipment inventory.

Context

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

2 CFR 200.313(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated. . . ."

Cause

The City's management had not developed or implemented a system of internal controls that would have ensured compliance with the grant agreement and the equipment requirements.

Effect

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

FIRE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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 Equipment and Real Property Management compliance requirement.

Views of Responsible Officials

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



Karen Freeman-
Wilson
Mayor

City of Gary FIRE DEPARTMENT FIRE HEADQUARTERS

455 Massachusetts St.- GARY, IN 46402-1309
(219) 881-5252 - Fax (219) 882-7453



Paul Bradley
Fire Chief
James Stanton
Deputy Chief

CORRECTIVE ACTION PLAN

FINDING 2017-003 (Auditor Assigned Reference Number)

Subject: Assistance to Firefighter Grant- Internal Controls

Contact Person Responsible for Corrective Action:

Paul L. Bradley Fire Chief

James Stanton –Deputy Chief Gary Fire Department

Contact Phone Number: 219-881-5252

Compliance Requirements: Cash Management, Period of Performance, Matching, Level of Effort,
Earmarking, Reporting

Views of Responsible Official: We concur

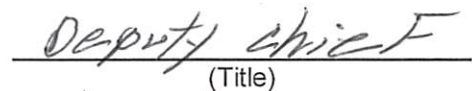
Description of Corrective Action Plan:

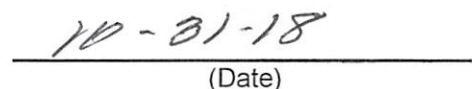
The Gary Fire Department will create a grant signature and review process flow report for each approver. This report will provide visible detection and oversight for each approver for fund request and reporting.

The process will be adopted and implemented with the next successful grant award.

Anticipated Completion Date: November 1, 2018 is the completion date. The grant is closed.


(Signature)


(Title)


(Date)



Karen Freeman-
Wilson
Mayor

City of Gary FIRE DEPARTMENT FIRE HEADQUARTERS

455 Massachusetts St.- GARY, IN 46402-1309
(219) 881-5252 - Fax (219) 882-7453



Paul Bradley
Fire Chief
James Stanton
Deputy Chief

CORRECTIVE ACTION PLAN

FINDING 2017-004 (Auditor Assigned Reference Number)
Assistance to Firefighter Grant- Equipment
Contact Person Responsible for Corrective Action: Paul L. Bradley Fire Chief
James Stanton –Deputy Chief Gary Fire Department
Contact Phone Number: 219-881-5252
Compliance Requirement: Equipment and Real Property Management

Views of Responsible Official:
We agree to the finding.

Description of Corrective Action Plan:

The Gary Fire Department will insure that all equipment and disposal items follow current policies and procedures are reported or removed timely in the inventory system.

The Department will work with the Internal Auditor to insure that all grant items are clearly identified, entered into the inventory system and removed if they are disposal items.

Anticipated Completion Date: December 15, 2018.


(Signature)

Deputy Fire Chief
(Title)

11-5-18
(Date)

FIRE DEPARTMENT
CITY OF GARY
AUDIT RESULT AND COMMENT

AMBULANCE/EMS NONREVERTING FUND

Background

In 1994, the Common Council adopted Ordinance 6708 to create the Ambulance/EMS Nonreverting fund, a capital improvement fund for the purpose of accounting for the receipt and disbursement of ambulance collections. The fund was to be used for maintenance and replacement of ambulances and equipment for the operation of emergency medical services. Ordinance 6708 also required 50 percent of all revenues collected from ambulance fees to be receipted to the Ambulance/EMS Nonreverting fund and the remaining 50 percent of all revenues be receipted to the General fund.

Section 1 of Ordinance 6708 has been amended three times by Ordinances 8106, 8298, and 8544. Each time, the amendment changed what the fund could be used for. The most recent amendment in Ordinance 8544, adopted by the Common Council in 2012, stated: "Whereas, in order to accommodate said expenses, all ambulance fees collected must be used exclusively for EMS expenses." Ordinance 8544 also provided the Ambulance/EMS Nonreverting fund was to be used to maintain and replace ambulance equipment as well as to provide funding for operational expenses of the Emergency Management Services department. The amendment in Ordinance 8544 was silent as to the formula for posting revenues.

The funding formula in Section 2 of Ordinance 6708 that 50 percent of all revenues collected from ambulance fees be receipted to the General fund has not been amended.

Posting of Revenues

The City contracted with a third-party billing service to bill and collect for ambulance services. The collections were deposited into a separate bank account. Review of the receipts issued for ambulance collections and the bank statement activity for 2017, noted that the ambulance collections were all recorded in the Ambulance/EMS Nonreverting fund. No collections were posted to the General fund as required by Ordinance 6708. Based on the provisions of Ordinance 6708 including its subsequent amendments, \$2,058,786 of ambulance collections in 2017 should have been recorded in the General fund.

We analyzed the collections to the Ambulance/EMS Nonreverting fund back through January 1, 2015 to determine the cash balance of the fund had the City only deposited 50 percent of the revenue into this fund as provided for by Ordinance 6708 including its subsequent amendments. We determined the cash balance of the fund would have been \$(194,989) as of December 31, 2017. If the City had followed the provisions of Ordinance 6708 including its subsequent amendments since its inception in 1994, the cash balance of the Ambulance/EMS Nonreverting fund would have a substantially larger deficit.

Ordinance 6708 states in Section 2: "The City Controller is requested to establish a non-reverting Ambulance Service Account. Fifty percent (50%) of all revenues collected from ambulance fees will go into the non-reverting capital improvement fund and the remaining 50% will be deposited into the city's General Fund."

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)

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

Other Revenue Sources

Revenue sources other than ambulance fees were recorded in the Ambulance/EMS Nonreverting fund. Ambulance run reports, fire equipment bid fees, insurance reimbursements for City insurance claims, and fire report collections were recorded in this fund. These revenues were not included in Ordinance 6708 as revenue sources for this fund and should have instead been receipted to the General fund.

Ordinance 6708 states in part: "The City Controller is requested to establish a non-reverting Ambulance Service Account. Fifty percent (50%) of all revenues collected from ambulance fees will go into the non-reverting capital improvement fund and the remaining 50% will be deposited into the city's General Fund."

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)

Disbursements

Ordinance 8544 adopted in 2012 amended the purpose of the Ambulance/EMS Nonreverting fund. Approved uses were maintenance and replacement of ambulance equipment and operational expenses of the EMS Department. In 2017, the City expended \$858,127 for fire department purposes, including \$333,409 on a fire engine lease purchase, \$208,011 for rehabilitation of two fire stations, and \$112,516 for fire equipment.

Ordinance 8544 states in part:

"There is hereby established a non-reverting capital improvement and operating fund for the Emergency Medical Services (EMS) Department of the City of Gary. The purpose of this fund is to maintain and replace ambulance equipment as well as to provide funding for the operational expenses, including salaries and other associated costs, of the Department to ensure its efficient and viable operation."

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)

FIRE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2018, with James Stanton, Deputy Fire Chief; Shanita Starks, Fire Department Business Manager; Ronald G. Brewer, Sr., President of the Common Council; Michael L. Protho, Common Council member; Carolyn D. Rogers, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Wyatt, Common Council member; Virgil Moore, Jr., Common Council Finance Advisor; Curtis Whittaker, CPA, Consultant; Angelia Hayes, City Controller, and Karen Freeman-Wilson, Mayor.

COMMON COUNCIL
CITY OF GARY

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in 12 prior reports, including the 4 most recent Reports B44236, B47027, B47523, and B49191.

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2017. Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants require the City to expend funds and subsequently request reimbursement. The City funds with overdrawn cash balances at December 31, 2017, including the grant funds with no reimbursement received in January 2018, are listed below:

Fund Name	Amount Overdrawn
General	\$ 9,301,800
Self-Insurance	550,109
Equipment Fund	198,709
WCI/UCI Benefit	500,327
Maternal Child Health Infant Mortality	80,236
Tobacco	62,384
Nat. Wildlife	1,237
JAG Grant	30,052
TANF Summer Youth	99,479
Protective Services Grant I	1,023,534
Emergency Shelter	716,054
Health and Human Services	437,749
Bioterrorism	10,249
Summer Jobs Training Program	31,200
Leased Properties - Gary Bldg Corp.	220,721
County Market Tif District	198,126

The General, Protective Services Grant I, and Leased Properties - Gary Bldg Corp. funds have remained overdrawn for at least five years. The Protective Services Grant I did not have any receipts or disbursements in 2017.

The overdrawn cash balance of the General fund of \$9,301,800, included tax anticipation warrant proceeds of \$8,875,000 received on December 26, 2017. Without the tax anticipation warrant proceeds, the overdrawn cash balance of the General fund would have been \$18,176,800.

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

TEMPORARY TRANSFER OF FUNDS

The same comment appeared in 12 prior reports, including the 4 most recent Reports B44236, B47027, B47523, and B49191.

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

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. Due to the way that the City accounted for their temporary loans, there was an over repayment of \$59,200 to the Alcohol and Drug Treatment fund. Furthermore, on December 19, 2017, the Common Council approved an extension of the loan from the Lakefront TIF District to General fund for \$2,910,000; however, the total unpaid loan balance as of December 31, 2017, was \$5,930,000.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2017:

Loan To	Loan From	Loans Outstanding January 1, 2017	Loans Made	Loans Repaid	Loans Outstanding December 31, 2017
General	Other City Funds (Excluding Gsd Funds)	\$ 15,225,800	\$ 5,340,000	\$ 5,521,400	\$ 15,044,400
General Other City Funds (Excluding Gsd Funds)	Gsd Funds	5,357,127	-	-	5,357,127
	Other City Funds (Excluding Gsd Funds)	951,917	240,329	-	1,192,245
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	<u>10,162,000</u>	<u>-</u>	<u>-</u>	<u>10,162,000</u>
Totals		<u>\$ 31,696,843</u>	<u>\$ 5,580,329</u>	<u>\$ 5,521,400</u>	<u>\$ 31,755,772</u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Gsd Equipment Replacement	\$ 3,857,127	2006
General	Gsd Capital Improvement	1,500,000	2006
General	Consolidated Area Tif District	668,000	2009
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area Tif District	380,000	2010
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	500,000	2010
General	Media	600,000	2011
General	Consolidated Area Tif District	2,300,000	2011
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	897,000	2011
General	Consolidated Area Tif District	32,000	2012
Lancaster Dusable TIF District	Lakefront Tif District	40,317	2012
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	5,275,000	2012
General	Lakefront Tif District	460,000	2013
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	3,490,000	2013
General	Lakefront Tif District	2,550,000	2014
Blight Elimination Program	Midwest Center Tif District	200,000	2015
General	Lakefront Tif District	1,000,000	2015
General	Lakefront Tif District	1,200,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Park Nonreverting	5,000	2016
Blight Elimination Program	Midwest Center Tif District	<u>300,000</u>	2016
Subtotal Outstanding Since 2016		26,175,444	
General	Fire Pension	1,500,000	2017
General	Police Pension	800,000	2017
General	Wheel Exc Surtax	950,000	2017
Parks and Recreation	Wheel Tax	240,329	2017
General	Lakefront Tif District	720,000	2017
General	Cedit	350,000	2017
General	Public Safety Income Tax	<u>1,020,000</u>	2017
Total		<u>\$ 31,755,772</u>	

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

Indiana Code 36-1-8-4 states in part:

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

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

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

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

ORDINANCES AND RESOLUTIONS

Per the Local Wheel Revenue Bonds Series 2017A Trust Agreement (Bond Trust Agreement), the City was required to maintain a deposit of \$400,000 in a debt service reserve trust account.

The City deposited the \$400,000 with a trustee; however, the City did not establish a Bond Fund or the Sinking Fund as required by the Bond Trust Agreement.

The Bond Trust Agreement states in part:

". . . 2. As provided in the Bond Ordinance, the City hereby creates the Bond Fund and the Sinking Fund, within which is created therein the Bond and Interest Account and the Debt Service Reserve Account, to be held in the custody of the Trustee separate and apart from other funds of the City or the Trustee. Pursuant to the State of Indiana Form 47551, each monthly distribution of annual license excise surtax on each motor vehicle and each semiannual distribution of the annual wheel tax on each vehicle shall be wire transferred directly to the Trustee and deposited into the Bond Fund as provided in the Bond Ordinance. Pursuant to Sections 11 and 12 of the Bond Ordinance, the Trustee shall make proper deposits into and payments from the Bond Principal and Interest Account. If the balance in the Bond Fund exceeds 125% of the semiannual payment on the Bonds due on the next February 1 or August 1, any excess shall be remitted to the City Controller by the Trustee.

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

3. On the date of closing on the Bonds, \$400,000 shall be wire transferred to the Trustee and deposited into the Debt Service Reserve Account to be held in the custody of the Trustee separate and apart from other funds of the City or the Trustee. . . ."

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)

AMBULANCE/EMS NONREVERTING FUND

Background

In 1994, the Common Council adopted Ordinance 6708 to create the Ambulance/EMS Nonreverting fund, a capital improvement fund for the purpose of accounting for the receipt and disbursement of ambulance collections. The fund was to be used for maintenance and replacement of ambulances and equipment for the operation of emergency medical services. Ordinance 6708 also required 50 percent of all revenues collected from ambulance fees to be receipted to the Ambulance/EMS Nonreverting fund and the remaining 50 percent of all revenues be receipted to the General fund.

Section 1 of Ordinance 6708 has been amended three times by Ordinances 8106, 8298, and 8544. Each time, the amendment changed what the fund could be used for. The most recent amendment in Ordinance 8544, adopted by the Common Council in 2012, stated: "Whereas, in order to accommodate said expenses, all ambulance fees collected must be used exclusively for EMS expenses." Ordinance 8544 also provided the Ambulance/EMS Nonreverting fund was to be used to maintain and replace ambulance equipment as well as to provide funding for operational expenses of the Emergency Management Services department. The amendment in Ordinance 8544 was silent as to the formula for posting revenues.

The funding formula in Section 2 of Ordinance 6708 that 50 percent of all revenues collected from ambulance fees be receipted to the General fund has not been amended.

Posting of Revenues

The City contracted with a third-party billing service to bill and collect for ambulance services. The collections were deposited into a separate bank account. Review of the receipts issued for ambulance collections and the bank statement activity for 2017, noted that the ambulance collections were all recorded in the Ambulance/EMS Nonreverting fund. No collections were posted to the General fund as required by Ordinance 6708. Based on the provisions of Ordinance 6708 including its subsequent amendments, \$2,058,786 of ambulance collections in 2017 should have been recorded in the General fund.

We analyzed the collections to the Ambulance/EMS Nonreverting fund back through January 1, 2015, to determine the cash balance of the fund had the City only deposited 50 percent of the revenue into this fund as provided for by Ordinance 6708 including its subsequent amendments. We determined the cash balance of the fund would have been \$(194,989) as of December 31, 2017. If the City had followed the provisions of Ordinance 6708 including its subsequent amendments since its inception in 1994, the cash balance of the Ambulance/EMS Nonreverting fund would have a substantially larger deficit.

Ordinance 6708 states in Section 2: "The City Controller is requested to establish a non-reverting Ambulance Service Account. Fifty percent (50%) of all revenues collected from ambulance fees will go into the non-reverting capital improvement fund and the remaining 50% will be deposited into the city's General Fund."

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

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)

Other Revenue Sources

Revenue sources other than ambulance fees were recorded in the Ambulance/EMS Nonreverting fund. Ambulance run reports, fire equipment bid fees, insurance reimbursements for City insurance claims, and fire report collections were recorded in this fund. These revenues were not included in Ordinance 6708 as revenue sources for this fund and should have instead been receipted to the General fund.

Ordinance 6708 states in part: "The City Controller is requested to establish a non-reverting Ambulance Service Account. Fifty percent (50%) of all revenues collected from ambulance fees will go into the non-reverting capital improvement fund and the remaining 50% will be deposited into the city's General Fund."

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)

Disbursements

Ordinance 8544 adopted in 2012 amended the purpose of the Ambulance/EMS Nonreverting fund. Approved uses were maintenance and replacement of ambulance equipment and operational expenses of the EMS Department. In 2017, the City expended \$858,127 for fire department purposes, including \$333,409 on a fire engine lease purchase, \$208,011 for rehabilitation of two fire stations, and \$112,516 for fire equipment.

Ordinance 8544 states in part:

"There is hereby established a non-reverting capital improvement and operating fund for the Emergency Medical Services (EMS) Department of the City of Gary. The purpose of this fund is to maintain and replace ambulance equipment as well as to provide funding for the operational expenses, including salaries and other associated costs, of the Department to ensure its efficient and viable operation."

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)

GOVERNMENT EMPLOYEE HOLDING OFFICE

The same comment also appeared in prior Reports B47027 and B47523, entitled *SUBSEQUENT EVENT - GOVERNMENT EMPLOYEE HOLDING OFFICE* and in prior Report B49191, entitled *GOVERNMENT EMPLOYEE HOLDING OFFICE*.

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

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

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

Common Council member Mary M. Brown's (Brown) term of office affected by Indiana Code 3-5-9-7 expired as of December 31, 2015. Common Council member Brown was re-elected in November 2015 and began a new term of office on January 1, 2016. Common Council member Brown, who was employed with the GSD during the previous term of office, continued employment with the GSD in 2017 and part of 2018 and did not comply with the requirements of Indiana Code 3-5-9-5. As a result, Brown is deemed to have resigned her employment with the GSD on January 1, 2016. Any compensation paid to Brown subsequent to October 14, 2016 (date of the prior Report B47027), related to employment with the GSD, may be the personal responsibility of Common Council member Brown.

A Declaratory Judgment Complaint was filed in the Lake County Superior Court on behalf of Brown as plaintiff to determine the applicability of Indiana Code 3-5-9-5 to this situation. Summary judgment was entered into that matter, Cause No. 45D01-1611-PL-124, in favor of the State, on June 25, 2018. The summary judgment order confirmed that Brown was deemed by law to have resigned her position with the GSD on January 1, 2016.

The compensation paid to Brown for time worked after October 14, 2016, with the GSD through June 26, 2018, totaled \$132,748.35. We requested that Brown reimburse the GSD in the amount of \$132,748.35 for compensation received based on noncompliance with statutory prohibitions.

Indiana Code 3-5-9-1 states:

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

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

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

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

COMMON COUNCIL
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2018, with Ronald G. Brewer, Sr., President of the Common Council; Michael L. Prothro, Common Council member; Carolyn D. Rogers, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Wyatt, Common Council member; Virgil Moore, Jr., Common Council Finance Advisor; Curtis Whittaker, CPA, Consultant; Angelia Hayes, City Controller, and Karen Freeman-Wilson, Mayor.

SANITARY DEPARTMENT
CITY OF GARY

SANITARY DEPARTMENT
CITY OF GARY
FEDERAL FINDING

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were several deficiencies in the internal control system of the City related to financial transactions and reporting. There was a lack of segregation of duties as the City had not separated incompatible activities related to cash and investments, journal entries, receipts, and financial reporting, including the financial statement and the Schedule of Expenditures of Federal Awards (SEFA). There were no documented controls to ensure the accuracy and timeliness of the recordkeeping and reporting functions.

In addition, the City had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.

Cash and Investments (Bank Reconciliations)

City

A check list was maintained to support that the bank reconciliations were reviewed; however, the check list was not monitored and was not effective. The City's controls did not ensure that all bank accounts were included on the check list, and that all of the accounts were reconciled.

Two bank accounts, with bank balances totaling \$895,050, were not reconciled as of December 31, 2017. These missing reconciliations could not be verified as reviewed through the City's process.

The City had 58 bank accounts. The City routinely transferred money from one bank account to another in order to avoid overdrawn bank accounts. The City performed a combined reconciliation, which included amounts owed from one bank to another; however, the transfers to banks did not reconcile to the transfers from banks by \$17,011. Accumulated transfers to and from banks as of December 31, 2017, totaled \$11,183,690, and \$11,166,679, respectively.

The City's bank accounts have not been reconciled in total since December 31, 2017.

Gary Sanitary District

A consultant reconciled the bank accounts for the Sanitary District funds. The reconciliation was subsequently reviewed by Sanitary District officials as signified by a signature; however, the date the reconciliation was performed and reviewed was not noted.

The reconciliations performed for all months in 2017 did not have either the date it was reconciled or the date the reconciliation was reviewed; thus, it could not be determined if the bank accounts were reconciled timely. As of August 2018, the most current reconciliations provided were for the month of January 2018.

SANITARY DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

Journal Entries

The City and Sanitary District did not have an effective system of internal controls to ensure that journal entries were posted accurately, timely, and to the appropriate fiscal period. The computer software allowed the City and Sanitary District to post journal entries to prior accounting periods. There were also no controls to ensure that records that supported adjustments which required correction by journal entry were retained and available for audit.

Adjustments identified from bank reconcilements were not posted timely and were posted to prior accounting periods. The computer software used by the City and Sanitary District allowed for journal entries to be posted to prior periods by indicating an effective date for the journal entry.

A journal entry to record collections of \$1,128,798 from Sanitary District customers was posted on August 30, 2017, with an effective date of December 31, 2016, to the 2016 ledger based upon the December 31, 2016 bank reconciliation. The collections were actually received in January 2017, so subsequent journal entries were recorded in September 2017 with prior period effective dates to correct the errors.

Adjustments totaling \$359,825 identified on the Sanitary District's December 31, 2017 bank reconcilements were not posted until April 18, 2018, with effective dates of December 31, 2017. These adjustments were not captured within the 2017 financial statement due to timing of the posting. Part of this adjustment included the removal of a duplicate posting of collections totaling \$166,386 from a Sanitary District customer on June 27, 2017, originally identified on the June 30, 2017 bank reconciliation. When the adjustment was recorded, the cash account was properly corrected; however, the receipts were not adjusted to remove the duplicate collection.

Receipts

The City did not have controls to ensure that collections were recorded timely and to the correct funds.

The City did not record state distributions timely. The City recorded 58 of the 166 distributions from 16 to 300 days after the funds were electronically deposited by the state. The distributions ranged from \$150 to \$1,000,000. Transactions were not recorded in the City's financial system until the employee in charge of entering the transaction received a form from the appropriate department. This process delayed various entries of receipts.

The City also did not record county tax distributions timely. The City deposited \$1,411,275 in storm water distributions on June 22, 2017, but the collections were not recorded until December 27, 2017.

Financial Reporting

Financial Statement

The City prepared and submitted the financial information into the Indiana Gateway for Government Units financial reporting system, which was the source for the financial statement. There was no evidence of an oversight or review process to detect and correct errors before submission.

SANITARY DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

Schedule of Expenditures of Federal Awards (SEFA)

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA. Due to the lack of controls, the SEFA presented for audit included the following errors:

1. The SEFA excluded the Assistance to Firefighters Grant of \$758,004.
2. The SEFA excluded the Community Development Block Grant Section 108 Loan of \$1,341,187.
3. The SEFA excluded program income totaling \$82,936, which is required to be reported by the City.
4. The SEFA excluded \$32,162 in Youth Gang Prevention grant expenditures.
5. The SEFA excluded \$4,959 in Equitable Sharing Program grant expenditures.
6. The SEFA over reported \$16,322 in Emergency Solutions Grant Program expenditures.
7. The SEFA over reported \$3,000 in Crime Victim Assistance grant expenditures.
8. Amounts reported as passed through to subrecipients were over reported by \$1,349,269 due to reporting expenditures by other City departments as subrecipients.
9. Various other grants had incorrect grant names or identifying numbers.

Context

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

SANITARY DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(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. . . ."

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

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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. . . ."

SANITARY DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

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."

Cause

Management of the City had not established a proper system of internal control that segregated key functions. Management also had not conducted a risk assessment related to the City's financial transactions and reporting.

Effect

The failure to establish controls enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls were either not designed properly or not operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

SANITARY DEPARTMENT
CITY OF GARY
FEDERAL FINDING
(Continued)

Recommendation

We recommended that the City's management design and implement a proper system of internal controls, which would segregate key functions and also perform periodic monitoring of its system of internal controls. Internal controls should be developed in a way to prevent, or detect and correct, errors in financial transactions and reporting. We recommended the City reconcile bank accounts in accordance with State Statute, record journal entries and receipts in a timely manner, and ensure the accuracy 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.



**Mayor Karen Freeman-Wilson
Special Administrator**

**Daniel F. Vicari, P.E.
Executive Director**

**Main Office
3600 West 3rd Avenue
Gary, IN 46406
Telephone: 219-944-0595
Fax: 219-977-8318**

**Customer Service
504 Broadway
Gary, IN 46402
Telephone: 219-883-1027
Fax: 219-883-1029**

**Gary Sanitary District
Board of Commissioners
&
Gary Storm Water
Management District
Board of Directors**

**Charles W. Jackson, Jr.
President**

**Tramel R. Raggs
Vice President**

**Ola V. Morris
Secretary/Treasurer**

**Maurice G. Mabon
Member**

Jewell Harris, Jr., Attorney

**Website:
www.garysanitary.com**

CORRECTIVE ACTION PLAN

FINDING 2017-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Ms. Vern E. White
Contact Phone Number: 219.944.0595 Ext. 1813

Description of Corrective Action Plan:

It was noted that the bank reconciliations did not have a date relative to when the reconciliations were reviewed and performed. Going forward, a date of review will be placed on the reconciliation report when it is sign by the reviewer.

It was noted that as of August 2018, the most recent reconciliation was as of January 2018. Working with our consultants we are now reconciled through June 2018 with the goal to have accurate and timely bank reconciliations performed on in a timely manner.

It was noted that the Sanitary District did not have an effective system of internal controls to ensure that the journal entries were posted accurately, timely and to the appropriate fiscal period.

We disagree with the auditors blanket statement regarding the Gary Sanitary District not having an effective system of internal control related to journal entries. There are times when a clerk will mis-post a payment; however, the items that the auditors are referring to were subsequently noted and corrected during the normal reconciliation process. During the normal course of reconciling the bank statements, the reconciliation process determined any mis-posted entries and an internal correction was made. Going forward we will ensure that reconciling the bank statements happens with both accuracy (which has been and continues to be our standard, that the information that is provided to the public is correct) and with timeliness.

In addition to this, it was noted that the Sanitary District did not have controls to ensure that records that supported adjustments which required correction by journal entry were retained and available for audit.

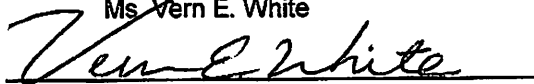
We also disagree with the statement that the Sanitary District did not have

An Equal Opportunity Employer
"Producing Living Water for a Quality Environment"

controls to ensure that records that supported adjustments which required correction by journal entry were retained and available for audit. The Sanitary District maintains all of the records that support the adjustments made by journal entry.

Anticipated Completion Date: 12/31/2018

Ms. Vern E. White

A handwritten signature in cursive script, reading "Vern E. White", is written over a solid horizontal line.

Director of Administration

11/1/2018

SANITARY DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in prior reports B44236, B47027, B47523, and B49191.

Delinquent wastewater fees and penalties have not been certified to the County Auditor since 2009. The delinquent fees have been recorded with the County Recorder more frequently, but not certified to the County Auditor. Wastewater fees and penalties outstanding for over 1 year as of August 1, 2018, totaled \$7,389,261.

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. . . ."

FUND SOURCES AND USES

The same comment also appeared in prior Reports B47027, B47523, and B49191.

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

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

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

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

The user fees for trash collections were not transferred to the Solid Waste fund. The District determined that \$5,700,000 was needed to cover the disbursements of the Solid Waste fund; thus, monthly transfers of either \$450,000 or \$500,000 were made from the Operating fund to the Solid Waste fund.

For 2017, disbursements of the Solid Waste fund exceeded user fees collected by \$1,952,012. In addition, because the trash collections user fees were recorded in the Operating fund and transfers to the Solid Waste fund exceeded those user fees, the Operating fund subsidized \$1,966,288 of the 2017 solid waste operations as follows:

Explanation	Amount
Trash fees collected and posted to Gsd Wwtp General Operating	\$ 3,733,712
Less: Gsd Solid Waste Disposal fund disbursements	<u>5,685,724</u>
Insufficient collections	<u>(1,952,012)</u>
Gsd Wwtp General Operating transfers to Gsd Solid Waste Disposal	5,700,000
Less: Trash fees collected and posted to Gsd Wwtp General Operating	<u>3,733,712</u>
Gsd Wwtp General Operating subsidy of Gsd Solid Waste Disposal	<u>\$ 1,966,288</u>

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

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

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

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

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

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

GAAFR defines a fund as: "A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations." A further discussion of the types of funds GAAFR requires will be found in Chapter 4. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

TEMPORARY TRANSFER OF FUNDS

The same comment appeared in 12 prior reports, including the 3 most recent Reports B47027, B47523, and B49191.

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2017:

Loan To	Loan From	Loans Outstanding January 1, 2017	Loans Made	Loans Repaid	Loans Outstanding December 31, 2017
General (City)	Gsd Equipment Replacement	\$ 3,857,127	\$ -	\$ -	\$ 3,857,127
General (City)	Gsd Capital Improvement	1,500,000	-	-	1,500,000
Gsd Solid Waste Disposal	Gsd Wwtp General Operating	10,162,000	-	-	10,162,000
Totals		<u>\$ 15,519,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,519,127</u>

All of the amounts outstanding were not repaid by December 31, 2017, and had been outstanding since 2013 or prior as noted below:

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

Indiana Code 36-1-8-4 states in part:

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

(3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.

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

(4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

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

(1) Passes an ordinance or a resolution that contains the following:

(A) A statement that the fiscal body has determined that an emergency exists.

(B) A brief description of the grounds for the emergency.

(C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.

(2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

GOVERNMENT EMPLOYEE HOLDING OFFICE

The same comment also appeared in prior Reports B47027 and B47523, entitled *SUBSEQUENT EVENT - GOVERNMENT EMPLOYEE HOLDING OFFICE* and in prior Report B49191, entitled *GOVERNMENT EMPLOYEE HOLDING OFFICE*.

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

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

Common Council member Mary M. Brown's (Brown) term of office affected by Indiana Code 3-5-9-7 expired as of December 31, 2015. Common Council member Brown was re-elected in November 2015 and began a new term of office on January 1, 2016. Common Council member Brown, who was employed with the GSD during the previous term of office, continued employment with the GSD in 2017 and part of 2018 and did not comply with the requirements of Indiana Code 3-5-9-5. As a result, Brown is deemed to have resigned her employment with the GSD on January 1, 2016. Any compensation paid to Brown subsequent to October 14, 2016 (date of the prior Report B47027), related to employment with the GSD, may be the personal responsibility of Common Council member Brown.

A Declaratory Judgment Complaint was filed in the Lake County Superior Court on behalf of Brown as plaintiff to determine the applicability of Indiana Code 3-5-9-5 to this situation. Summary judgment was entered into that matter, Cause No. 45D01-1611-PL-124, in favor of the State, on June 25, 2018. The summary judgment order confirmed that Brown was deemed by law to have resigned her position with the GSD on January 1, 2016.

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

The compensation paid to Mary M. Brown for time worked after October 14, 2016, with the GSD through June 26, 2018, totaled \$132,748.35. We requested that Mary M. Brown reimburse the GSD in the amount of \$132,748.35 for compensation received based on noncompliance with statutory prohibitions.

Indiana Code 3-5-9-1 states:

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

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

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

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

SANITARY DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2018, with Ronald G. Brewer, Sr., President of the Common Council; Michael L. Protho, Common Council member; Carolyn D. Rogers, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Wyatt, Common Council member; Virgil Moore, Jr., Common Council Finance Advisor; Daniel F. Vicari, Executive Director of the Sanitary and Storm Water Management Districts; Charles W. Jackson Jr., President of the Boards of Sanitary and Storm Water Commissioners; Vern E. White, Director of Administration; Jerome Foster, Staff Accountant; Maurice Mabon, Sanitary and Storm Water Commissioner; Ola Morris, Sanitary and Storm Water Commissioner; Tramel Raggs, Sanitary and Storm Water Commissioner; Nick Snow, Attorney; Curtis Whittaker, CPA, Consultant; Angelia Hayes, City Controller, and Karen Freeman-Wilson, Mayor.