

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HOBART

LAKE COUNTY, INDIANA

January 1, 2018 to December 31, 2018



**FILED**  
06/13/2019



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### SCHEDULE OF OFFICIALS

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



**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](http://www.in.gov/sboa)

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

This report is supplemental to our audit report of the City of Hobart (City), for the period from January 1, 2018 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

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

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

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

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

April 29, 2019

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CLERK-TREASURER  
CITY OF HOBART

CLERK-TREASURER  
CITY OF HOBART  
FEDERAL FINDINGS

***FINDING 2018-001***

Subject: Equitable Sharing Program - Special Tests and Provisions  
Federal Agency: Department of Justice  
Federal Program: Equitable Sharing Program  
CFDA Number: 16.922  
Federal Award Number and Year (or Other Identifying Number): FY2018  
Compliance Requirement: Special Tests and Provisions - Commingling of Funds  
Audit Findings: Material Weakness, Other Matters

*Condition*

The City had not established an effective internal control system to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Commingling of Funds compliance requirement.

The City established the Police Seizure fund for the receipt of all federal, state, and local forfeiture proceeds, and the related disbursements. The Police Seizure fund also included non-grant activity from other sources. Although the sources of the receipts into the fund and the related disbursements were tracked separately outside of the financial system, the City did not comply with the requirement that federal equity sharing funds not be commingled with other funds.

*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). . . ."

The City accepted and agreed to abide by the Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies. The *Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies* VI.A states in part:

"The state or local participating . . . agency must:

1. Maintain equitable sharing funds with the same entity that maintains the agency's appropriated funds and administers procurement actions. Bank accounts, check-books, purchase cards, and other financial instruments or documents must be maintained in the same manner as appropriated funds.

CLERK-TREASURER  
CITY OF HOBART  
FEDERAL FINDINGS  
(Continued)

2. Establish separate Department of Justice and Department of the Treasury accounts or accounting codes to track both revenues and expenditures for each respective Program. No other funds may be commingled in these accounts or with these accounting codes. . . ."

The City accepted and agreed to abide by the *Equitable Sharing Agreement and Certification*. The *Equitable Sharing Agreement and Certification* states in part:

". . . **5. Internal Controls.** The Agency agrees to account separately for federal equitable sharing funds received from the Department of Justice and the Department of the Treasury. Funds from state and local forfeitures and other sources must not be commingled with federal equitable sharing funds. . . ."

*Cause*

The City's management had not designed or implemented an effective system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Commingling of Funds compliance requirement.

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish effective controls to ensure compliance with the grant agreement, and comply with the Special Tests and Provisions - Commingling of Funds compliance requirement.

*Views of Responsible Officials*

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

CLERK-TREASURER  
CITY OF HOBART  
FEDERAL FINDINGS  
(Continued)

***FINDING 2018-002***

Subject: Highway Planning and Construction Cluster - Period of Performance

Federal Agency: Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers and Years (or Other Identifying Numbers): A249-16-L150188,  
A249-17-L170015,  
A249-17-L170017,  
Des#0810541,  
Des#0900071,  
EDS: A249-15-320102,  
EDS: A249-15-320103,  
DES#1592275

Pass-Through Entity: Indiana Department of Transportation

Compliance Requirement: Period of Performance

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2017-002.

*Condition*

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

Reports were completed quarterly which were intended to list the period of performance of each grant so it could be monitored in conjunction with expenditures made from the grant. This was meant to ensure that funds were not obligated or spent prior to or after the grant period. Although the reports were completed, some did not list the period of performance, and in one instance, listed an incorrect period of performance. As such, the control was not properly implemented.

*Context*

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

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

CLERK-TREASURER  
CITY OF HOBART  
FEDERAL FINDINGS  
(Continued)

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

*Cause*

The City's management had not implemented an effective system of internal controls to ensure compliance with the grant agreement and the Period of Performance compliance requirement.

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management properly implement effective controls to ensure compliance with the Period of Performance compliance requirement.

*Views of Responsible Officials*

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

**Deborah A. Longer**  
Clerk-Treasurer

"The Friendly City"

Telephone:  
(219) 942-1940



# The City of Hobart

414 Main Street • Hobart, Indiana 46342

Fax:  
(219) 942-0505

## CORRECTIVE ACTION PLAN

### *FINDING 2018-001*

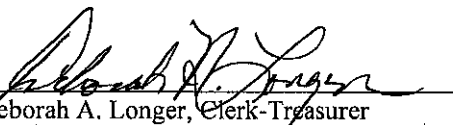
Contact Person Responsible for Corrective Action: Deborah Longer, Clerk-Treasurer  
Contact Phone Number: (219) 942-1940

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

Upon the Police Department and the City being made aware of the issue of commingled funds within the Police Seizure Fund during the Audit for 2018 being completed in April 2019, a separate fund was created specifically for Department of Justice funds received to separate the funds from those received from the Department of the Treasury. The Police Department and the Clerk-Treasurer reviewed the past reports of all Department of Justice funds previously received and expended and moved the balance of funds specifically pertaining to the Department of Justice into the new fund on April 18, 2019. These funds are no longer commingled and will now be tracked in both revenue and expenditures for each respective program in the future.

Completion Date: April 18, 2019

Signed:   
Deborah A. Longer, Clerk-Treasurer

Date: 4/23/2019

**Deborah A. Longer**  
Clerk-Treasurer



*"The Friendly City"*

# **The City of Hobart**

414 Main Street • Hobart, Indiana 46342

Telephone:  
(219) 942-1940

Fax:  
(219) 942-0505

## CORRECTIVE ACTION PLAN

### **FINDING 2018-002**

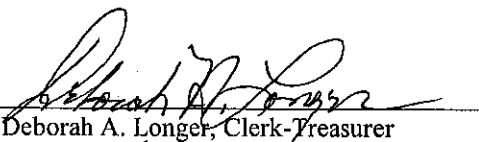
Contact Person Responsible for Corrective Action: Deborah Longer, Clerk-Treasurer  
Contact Phone Number: (219) 942-1940

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

As described in the Corrective Action Plan issued on June 26, 2018, The Clerk-Treasurer's office maintains files on all Federal and Local Grant Awards and the City of Hobart Internal Control Policy requires each Employee in Responsible Charge (ERC) to provide all paperwork related to the award including the grant agreement, quarterly reports and to provide regular updates on expenditures and receipts related to the award. The City of Hobart has, as of October 2018, included a requirement within their Internal Controls policies that the ERC is to specifically provide documentation as to the Period of Performance for each award. While this policy was put in place last year, there were errors made by some ERCs for certain grants in not supplying the necessary documentation for the period of performance. This was pointed out to the ERCs but requests for reimbursement had been submitted electronically prior to the Clerk-Treasurer receiving the information regarding the period of performance. The ERCs have been reminded of this requirement repeatedly and have been made aware of their error and as of April 23, 2019, the current active grant files all have the Period of Performance dates provided and noted by the ERCs so the internal controls policies in place are complied with.

Completion Date: April 23, 2019

Signed:   
Deborah A. Longer, Clerk-Treasurer

Date: 4/23/19

CLERK-TREASURER  
CITY OF HOBART  
AUDIT RESULT AND COMMENT

***OVERDRAWN CASH BALANCES***

The same comment appeared in the prior Report B50580.

The financial statement presented in the Financial Statement and Federal Single Audit Report included the General fund with an overdrawn cash balance of \$3,834,280 at December 31, 2018.

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

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

**Deborah A. Longer**  
Clerk-Treasurer

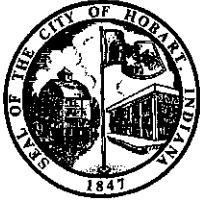
"The Friendly City"

Telephone:  
(219)942-1940

# The City of Hobart

414 Main Street • Hobart, Indiana 46342

Fax:  
(219)942-0505



April 30, 2019

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

Via e-mail Only to: [ldavid@sboa.in.gov](mailto:ldavid@sboa.in.gov)

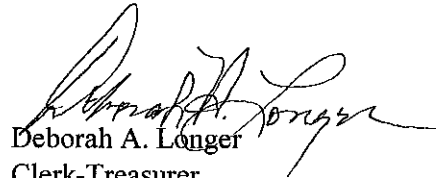
RE: Official Response to City of Hobart 2018 Audit

In response to the State Board of Accounts Audit Results and Comment for the fiscal year 2018 for the City of Hobart, please be advised of the following:

Overdrawn Cash Balances:

The audit report lists the General Fund with an overdrawn cash balance as of December 31, 2018. This is a result of the property taxes collected and distributed to the City of Hobart at the end of December 2018 for the 2017/pay 2018 year that were less than expected, showing a collection rate of just over 93% of the anticipated funds. In addition, the Public Safety Income Tax funds received by the City were not sufficient to cover the overtime costs incurred by Police Officers and Firefighters throughout the course of the year that were paid from the General Fund. With less cash received, the City was unable to reimburse the General Fund for the overtime costs as had been budgeted for this use in the Public Safety Income Tax Fund.

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

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

CLERK-TREASURER  
CITY OF HOBART  
EXIT CONFERENCE

The contents of this report were discussed on April 29, 2019, with Deborah Longer, Clerk-Treasurer; Brian Snedecor, Mayor; Dan Waldrop, Common Council member; Robert Fulton, President of the Sanitary and Stormwater District Board of Commissioners; and Stella McDaniels, Deputy Clerk-Treasurer.