

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA

January 1, 2018 to December 31, 2018



**FILED**  
08/27/2019



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
City Controller:	
Federal Findings:	
Finding 2018-001	
Financial Transactions and Reporting .....	6-10
Finding 2018-002	
Preparation of the Schedule of Expenditures of Federal Awards .....	10-13
Finding 2018-003	
Highway Planning and Construction Cluster - Cash Management, Matching, Period of Performance .....	13-15
Corrective Action Plan .....	16-18
Audit Results and Comments:	
Overdrawn Cash Balances .....	19
Late Submission of Annual Financial Report .....	19-20
Training and Certification on Internal Control Standards .....	20
Exit Conference .....	21
Sanitary District:	
Federal Finding	
Finding 2018-001	
Financial Transactions and Reporting .....	24-28
Corrective Action Plan .....	29
Exit Conference .....	30
Water Utility:	
Federal Finding:	
Finding 2018-001	
Financial Transactions and Reporting .....	32-36
Corrective Action Plan .....	37
Exit Conference .....	38
Common Council:	
Audit Result and Comment:	
Training and Certification on Internal Control Standards .....	40
Exit Conference .....	41
Planning and Redevelopment - Community Development:	
Federal Findings:	
Finding 2018-004	
CDBG - Entitlement Grants Cluster - Special Tests and Provisions - Required Certification and HUD Approvals, Special Tests and Provisions - Rehabilitation .....	44-46
Finding 2018-005	
CDBG - Entitlement Grants Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles .....	46-49
Finding 2018-006	
CDBG - Entitlement Grants Cluster - Suspension and Debarment .....	49-50
Finding 2018-007	
CDBG - Entitlement Grants Cluster - Reporting .....	51-52
Corrective Action Plan .....	53-58
Exit Conference .....	59

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Richard Murphy	01-01-18 to 12-31-19
Mayor	Ron Meer	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Stephen Janus	01-01-18 to 12-31-19
President of the Common Council	Donald Przybylinski	01-01-18 to 12-31-19
Superintendent of the Water Utility	Randall Russell	01-01-18 to 12-31-19
President of the Water Utility Board of Directors	L. J. Jordan, III (Vacant) Kenneth Behrendt	01-01-18 to 07-02-19 07-03-19 to 07-22-19 07-23-19 to 12-31-19
General Manager of the Sanitary District	Michael Kuss	01-01-18 to 12-31-19
President of the Sanitary District Board of Commissioners	Garry Mitchell	01-01-18 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 MICHIGAN CITY, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Michigan City (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 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

July 29, 2019

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CITY CONTROLLER  
CITY OF MICHIGAN CITY

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS

**FINDING 2018-001**

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

*Repeat Finding*

This is a repeat of Finding 2017-001 from the immediately prior audit report.

*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, receipts, disbursements, and financial reporting.

*Cash and Investments*

*City and Sanitary District*

The City and the Sanitary Department each had employees who were responsible for ensuring that their respective ledgers were reconciled with the bank depository balances. Effective controls were not in place to ensure that the depository reconciliements were performed accurately and timely. Reconciliements for 2018 were unperformed as of June 5, 2019. Officials completed the December 31, 2018 reconciliements on June 20, 2019, with the following variances:

Bank Account	Reconciled Depository Balance at 12-31-18	Cash Ledger Balance 12-31-18	Difference
City Operating	\$ 18,478,409	\$ 18,549,922	\$ (71,513)
Medical Trust	692,221	692,109	112
Department of Redevelopment	21,530,137	21,534,906	(4,769)
Port Authority Operating and Maintenance	4,742,332	4,741,256	1,076
Sanitary District Operating	2,331,020	2,287,455	43,565
Sanitary District Tax Levy	1,668,375	1,696,943	(28,568)
Water Transfer	2,378	2,611	(234)
Totals	<u>\$ 49,444,871</u>	<u>\$ 49,505,202</u>	<u>\$ (60,331)</u>

*Water*

The Water Department had employees who were responsible for ensuring that their ledgers were reconciled with the bank depository balances. Effective controls were not in place to ensure that the depository reconciliements were performed accurately and timely. All utility collections were deposited and subsequently disbursed from the Transfer Fund bank account into all other utility bank accounts and funds. The December 31, 2018 Transfer Fund bank reconciliation was not presented for audit. As of May 20, 2019, the bank reconciliation had not been completed.

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Receipts - City and Sanitary District*

The City had designed controls over the receipting process. The departments generated the individual receipts at the time of collection. One employee verified that the receipts entered into the software system were in agreement with a receipt listing from the department and with the deposits made to the bank before the receipts were recorded, but the control was inconsistent for the Sanitary District and City receipts. There was not always evidence of an oversight or approval process to ensure the accuracy and classification of the receipts.

As a result of the lack of effective controls, electronic fund transfers totaling \$173,880 deposited in 2018 were not recorded in the City and Sanitary District's ledgers as of July 2019.

*Receipts and Disbursements - Journal Entries*

Journal entries were made by one employee without evidence of a review, oversight, or approval process to ensure the accuracy and classification of the receipts and disbursements to the proper funds and accounts.

The City disbursed funds through electronic payments and posted the transactions via a journal entry. These payments were not approved by the fiscal officer or appropriate governing board at a public meeting.

*Financial Reporting*

*Water Department*

Annual financial data is entered into an Excel spreadsheet at the Water Department and sent to the City Controller's office for entry into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the financial statement. Adequate supporting documentation from the Water Department's point-of-sale software was not provided to the City for review to ensure the amounts were accurate. An oversight or review process was not documented at the Water Department or at the City for the amounts reported from the Water Department.

*City*

A consultant prepared the financial information for the Annual Financial Report (AFR) submitted through Gateway. The AFR was the source for the City's financial statement. The City had designed controls over the financial transactions regarding the financial report; however, no documentation was provided that controls had been properly implemented.

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

The lack of controls allowed errors on the financial statement to occur and not be detected as follows:

Fund	Receipts Overstatement (Understatement)	Disbursements Overstatement (Understatement)	Ending Balance Overstatement (Understatement)
General Fund	\$ 814,573	\$ 814,471	\$ 102
Local Road And Street	(26)	-	(26)
Redevelopment Operating	(63)	-	(63)
Aviation Operating	1,044	1,045	(1)
Riverboat Gaming	238,129	238,130	(1)
Golf	498	479	19
Cemetery Extension	2,000	-	2,000
Cemetery Flower Fund	(22,500)	(22,500)	-
Cemetery Dabbert Vault	(2,000)	(2,000)	-
Cemetery Lutz Vault	(2,800)	(2,800)	-
Aviation Fuel	(5,244)	(5,244)	-
Mayor's Special Events	2,000	1,980	20
MC Promise Scholarship Fund	1,500	1,500	-
Sewage Works Operating	(43,718)	(35,318)	(8,400)
Sewage Works - Indian Springs Proj	(71,172)	(71,172)	-
MCPA Operating	-	17	(17)
Security Deposit Fund	(31,200)	(31,200)	-
Sanitary District Special Revenue	508	508	-
Totals	<u>\$ 881,528</u>	<u>\$ 887,896</u>	<u>\$ (6,368)</u>

*Context*

The lack of controls related to cash and investments was a systemic issue, which occurred throughout the audit period. The noncompliance related to cash and investments was a systemic issue for the City and Sanitary District, but was isolated to the Transfer Fund bank account for the Water Department. The lack of controls and noncompliance related to receipts were isolated to the electronic funds transfers. The lack of controls and noncompliance related to journal entries were limited to transactions posted for transfers between funds and other electronic payments. The lack of controls over financial reporting was a systemic issue, which occurred 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. . . .

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

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

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

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

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (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 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)

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management of the City had not established a proper system of internal controls that segregated key functions and would have ensured timely and accurate depository reconcilements, timely recording of electronic funds transfers, proper approval of disbursements, and accurate financial reporting.

*Effect*

Without a proper system of internal controls in place that operated effectively, noncompliance occurred and remained undetected as identified in the *Condition*. Additionally, the failure to establish controls over financial reporting could have enabled misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City establish a system of internal controls related to financial transactions and reporting. Additionally, we recommended that the City ensures that bank reconciliations will be performed accurately and timely for all bank accounts, all receipts, including EFTs, are posted at the time the transaction occurs, disbursements posted via a journal entry will be approved by the fiscal officer and appropriate governing board, and that accurate cash receipts and disbursements are submitted to the Gateway.

*Views of Responsible Officials*

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

**FINDING 2018-002**

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

*Repeat Finding*

This is a repeat of Finding 2017-002 from the immediately prior audit report.

*Condition*

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The federal grant information entered and submitted in the Indiana Gateway for Government Units (Gateway) financial reporting system was the source of the SEFA. The City Controller's office did not have an effective review process in place to detect and correct errors prior to submission.

During 2017, the City converted to a new financial accounting software system. The system has the capability to generate Project Transaction Reports by fund that reflect the receipt and disbursement activity of various grant projects. The software does not have the capability to track the cash and investment balances by project.

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

The City had not designed or implemented controls to ensure that the grant transactions were accurately recorded to the proper fund and that the cash and investment balances of the grants could be determined. The City established a new fund in 2017, Grants #4121, to track grant activity. There were 16 prior grant funds with a combined cash balance of \$1,063,555 on January 1, 2018, that were not included in the new grant fund presented on the financial statement. The 2018 financial transactions of these grants were recorded in the new grant fund, but none of the current period activity was recorded in the 16 prior grant funds presented in the financial statement.

*Context*

Due to the lack of controls, the SEFA contained the following errors:

1. The Indiana Department of Transportation Community Crossing state grant funds of \$378,288 were erroneously reported as federal expenditures.
2. The Indiana Department of Homeland Security Fire Infrastructure state grant funds of \$34,949 were erroneously reported as federal expenditures.
3. The State Clean Diesel Program expenditures of \$112,500 were reported on the SEFA; however, the City did not receive the funds for this grant in 2018.
4. The Coastal Zone Management Administration Awards expenditures were overstated by \$19,295, which was determine to be the non-federal dollars received in 2018.
5. The Equitable Sharing Program funds were omitted, which understated the federal expenditures by \$22, 419.

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

*Criteria*

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

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

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

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. . . .

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

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

2 CFR 200.508 states in part:

"The auditee must: . . .

- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

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

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

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Cause*

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

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

*Recommendation*

We recommended that the City's management establish a system of controls to ensure that federal expenditures will be properly reported on the SEFA.

*Views of Responsible Officials*

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

**FINDING 2018-003**

Subject: Highway Planning and Construction Cluster - Cash  
Management, Matching, Period of Performance

Federal Agency: Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers and Years (or Other Identifying Numbers): DES#301165, DES #1500324,  
DES #1601869

Pass-Through Entity: Indiana Department of Transportation

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

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 following compliance requirements:

*Cash Management and Matching*

The Employee in Responsible Charge (ERC) prepared the Local Public Agency (LPA) Invoice Voucher with the required supporting documentation to request reimbursement and to ensure that the City had met the matching percentage included in the Indiana Department of Transportation LPA contract (contract). An oversight or review process had not been established to ensure that the expenditure dates were prior to the LPA Invoice Voucher and that the matching percentage was in agreement with the contract.

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Period of Performance*

The City had not designed adequate internal controls to ensure that the LPA Invoice Vouchers were submitted within the period of performance allowed by the federal grantor agency. The LPA had 90 days after the project end date to request reimbursement from the grantor agency. The ERC maintained an LPA Invoice Voucher Purchase Order Tracking Log to track the projects; however, the project end date was not included on the tracking log.

*Context*

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

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

*Cause*

The City had not developed a system of internal controls to ensure compliance with the grant agreement and the 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 listed above. 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 could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

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

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

### **FINDING 2018-001**

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (219) 873-1404

Views of Responsible Official: We concur with finding.

### Description of Corrective Action Plan:

Due to our total financial software conversion that was implemented in 2018, personnel fell behind on bank reconciliations. For 2019, our action plan is to have all bank reconciliations completed in a timely manner effective September 30, 2019. This process will include a monthly review of bank reconciliations by a second person in the Controller's office. Going forward from September 30, 2019 the action plan is to have City, Water, and Sanitary bank reconciliations completed with 60 days following the end of the month.

A timely management of bank reconciliations will insure that all EFTs have been properly identified and recorded in the ledger.


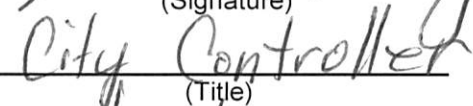
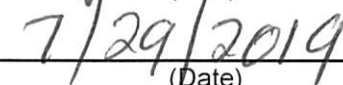
Effective August 1, 2019, all journals prepared by the Controller's office will be reviewed and approved by another employee with approval rights prior to posting.

Effective August 1, 2019 all disbursed funds through EFTs will be posted through the accounts payable system thereby places on a claims docket and will be approved the appropriate governing board.

Effective September 1, 2019 the Water Department submits monthly financials to the Controller and includes the cycle receipts journal as a source document. The Controller confirms receipt, reviews financials, and files them on the shared City Drive. The Controller's office receives the annual CTAR report from the Water Department and enters data on Gateway. Controller's office reviews data and submits on Gateway. The Controller and Water Department meet quarterly to review and discuss financials.

Effective March 2019 with the preparation of the 2019 Annual Financial Report, all worksheets and supporting documentation will be provided in order to support the amounts included in the Annual Financial Report and will be reviewed and signed off by the Controller's office.

Anticipated Completion Date: See above for anticipated completion date for each item.

  
\_\_\_\_\_  
(Signature)  
  
\_\_\_\_\_  
(Title)  
  
\_\_\_\_\_  
(Date)

RON MEER – MAYOR



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com  
CORRECTIVE ACTION PLAN

## **FINDING 2018-002**

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (219) 873-1404

Views of Responsible Official: We concur with finding.

Description of Corrective Action Plan:

Effective September 30, 2019, the City Controller's office will maintain a file containing all executed federal grant agreements. The Controller's office will review those grant agreements and monitor the receipts and disbursements to insure that the federal SEFA is properly prepared.

Prior to submitting the 2019 Annual Financial Report, all prior grant funds will be reviewed to determine if the cash balances are correct and adjustments will be made if necessary.

Anticipated Completion Date: September 30, 2019

  
\_\_\_\_\_  
(Signature)  
  
City Controller  
\_\_\_\_\_  
(Title)  
  
7/29/2019  
\_\_\_\_\_  
(Date)

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515  
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com



# MICHIGAN CITY INDIANA

## CORRECTIVE ACTION PLAN

### **FINDING 2018-003**

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: 219-873-1404

Views of Responsible Official: We concur with the finding

#### Description of Corrective Action Plan:

The ERC will request the Purchase Order end date and add the date to the LPA Invoice Voucher Purchase Order Tracking Log to ensure reimbursement requests are being made prior to the PO end date.

The ERC will prepare the LPA Invoice Voucher with the required supporting documentation to request reimbursement. The ERC will submit the Voucher to the Controller to review the Voucher for contract compliance. The Controller's office will review the invoice voucher to ensure the matching percentage agrees with the contract. The Controller's office will also review the expenditure and request dates to ensure expenditures were prior to the invoice voucher and the request is within 90 days of the project end date. Once reviewed and approved by the Controller by their signature and date, the voucher will be returned to the ERC for submission for reimbursement.

Anticipated Completion Date: July 24,2019

  
(Signature)

City Controller  
(Title)

July 29, 2019  
(Date)

RON MEER – MAYOR

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statement presented in the Financial Statement and Federal Single Audit Report of the City included the following funds with overdrawn cash balances at December 31, 2018:

Fund	Amount Overdrawn 12-31-18
General Fund	\$ 54,020
Police Pension	114,799
Fire Pension	113,605
Golf	19,803
Aviation Fuel	27,369
MC Employee Medical Trust	692,109
CZM Fedder Alley Improvements	19,569
Triangle Bus Project	79,104
AIP 20 Grant	53,836

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)

**LATE SUBMISSION OF ANNUAL FINANCIAL REPORT**

The City's Annual Financial Report for 2018 was not filed timely. The City filed the report 35 days past the due date.

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

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

***TRAINING AND CERTIFICATION ON INTERNAL CONTROL STANDARDS***

The City certified that all personnel defined by Indiana Code 5-11-1-27(c) received training concerning the internal control standards adopted by the City. However, the City failed to provide documented training for all newly hired park personnel in 2018.

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on July 29, 2019, with Richard Murphy, City Controller; Mary Lynn Wall, Deputy City Controller; Ron Meer, Mayor; Donald Przybylinski, President of the Common Council; Bryant Dabney, Common Council member; Sean Fitzpatrick, Common Council member; James Meyer, Council Attorney; and Amber Lapaich - Stalbrink, Corporation Counsel.

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SANITARY DISTRICT  
CITY OF MICHIGAN CITY

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

**FINDING 2018-001**

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

*Repeat Finding*

This is a repeat of Finding 2017-001 from the immediately prior audit report.

*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, receipts, disbursements, and financial reporting.

*Cash and Investments*

*City and Sanitary District*

The City and the Sanitary Department each had employees who were responsible for ensuring that their respective ledgers were reconciled with the bank depository balances. Effective controls were not in place to ensure that the depository reconciliements were performed accurately and timely. Reconciliements for 2018 were unperformed as of June 5, 2019. Officials completed the December 31, 2018 reconciliements on June 20, 2019, with the following variances:

Bank Account	Reconciled Depository Balance at 12-31-18	Cash Ledger Balance 12-31-18	Difference
City Operating	\$ 18,478,409	\$ 18,549,922	\$ (71,513)
Medical Trust	692,221	692,109	112
Department of Redevelopment	21,530,137	21,534,906	(4,769)
Port Authority Operating and Maintenance	4,742,332	4,741,256	1,076
Sanitary District Operating	2,331,020	2,287,455	43,565
Sanitary District Tax Levy	1,668,375	1,696,943	(28,568)
Water Transfer	2,378	2,611	(234)
Totals	<u>\$ 49,444,871</u>	<u>\$ 49,505,202</u>	<u>\$ (60,331)</u>

*Water*

The Water Department had employees who were responsible for ensuring that their ledgers were reconciled with the bank depository balances. Effective controls were not in place to ensure that the depository reconciliements were performed accurately and timely. All utility collections were deposited and subsequently disbursed from the Transfer Fund bank account into all other utility bank accounts and funds. The December 31, 2018 Transfer Fund bank reconciliation was not presented for audit. As of May 20, 2019, the bank reconciliation had not been completed.

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

*Receipts - City and Sanitary District*

The City had designed controls over the receipting process. The departments generated the individual receipts at the time of collection. One employee verified that the receipts entered into the software system were in agreement with a receipt listing from the department and with the deposits made to the bank before the receipts were recorded, but the control was inconsistent for the Sanitary District and City receipts. There was not always evidence of an oversight or approval process to ensure the accuracy and classification of the receipts.

As a result of the lack of effective controls, electronic fund transfers totaling \$173,880 deposited in 2018 were not recorded in the City and Sanitary District's ledgers as of July 2019.

*Receipts and Disbursements - Journal Entries*

Journal entries were made by one employee without evidence of a review, oversight, or approval process to ensure the accuracy and classification of the receipts and disbursements to the proper funds and accounts.

The City disbursed funds through electronic payments and posted the transactions via a journal entry. These payments were not approved by the fiscal officer or appropriate governing board at a public meeting.

*Financial Reporting*

*Water Department*

Annual financial data is entered into an Excel spreadsheet at the Water Department and sent to the City Controller's office for entry into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the financial statement. Adequate supporting documentation from the Water Department's point-of-sale software was not provided to the City for review to ensure the amounts were accurate. An oversight or review process was not documented at the Water Department or at the City for the amounts reported from the Water Department.

*City*

A consultant prepared the financial information for the Annual Financial Report (AFR) submitted through Gateway. The AFR was the source for the City's financial statement. The City had designed controls over the financial transactions regarding the financial report; however, no documentation was provided that controls had been properly implemented.

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

The lack of controls allowed errors on the financial statement to occur and not be detected as follows:

Fund	Receipts Overstatement (Understatement)	Disbursements Overstatement (Understatement)	Ending Balance Overstatement (Understatement)
General Fund	\$ 814,573	\$ 814,471	\$ 102
Local Road And Street	(26)	-	(26)
Redevelopment Operating	(63)	-	(63)
Aviation Operating	1,044	1,045	(1)
Riverboat Gaming	238,129	238,130	(1)
Golf	498	479	19
Cemetery Extension	2,000	-	2,000
Cemetery Flower Fund	(22,500)	(22,500)	-
Cemetery Dabbert Vault	(2,000)	(2,000)	-
Cemetery Lutz Vault	(2,800)	(2,800)	-
Aviation Fuel	(5,244)	(5,244)	-
Mayor's Special Events	2,000	1,980	20
MC Promise Scholarship Fund	1,500	1,500	-
Sewage Works Operating	(43,718)	(35,318)	(8,400)
Sewage Works - Indian Springs Proj	(71,172)	(71,172)	-
MCPA Operating	-	17	(17)
Security Deposit Fund	(31,200)	(31,200)	-
Sanitary District Special Revenue	508	508	-
Totals	<u>\$ 881,528</u>	<u>\$ 887,896</u>	<u>\$ (6,368)</u>

*Context*

The lack of controls related to cash and investments was a systemic issue, which occurred throughout the audit period. The noncompliance related to cash and investments was a systemic issue for the City and Sanitary District, but was isolated to the Transfer Fund bank account for the Water Department. The lack of controls and noncompliance related to receipts were isolated to the electronic funds transfers. The lack of controls and noncompliance related to journal entries were limited to transactions posted for transfers between funds and other electronic payments. The lack of controls over financial reporting was a systemic issue, which occurred 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 DISTRICT  
CITY OF MICHIGAN CITY  
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. . . .

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

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (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 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)

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

*Cause*

Management of the City had not established a proper system of internal controls that segregated key functions and would have ensured timely and accurate depository reconcilements, timely recording of electronic funds transfers, proper approval of disbursements, and accurate financial reporting.

*Effect*

Without a proper system of internal controls in place that operated effectively, noncompliance occurred and remained undetected as identified in the *Condition*. Additionally, the failure to establish controls over financial reporting could have enabled misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City establish a system of internal controls related to financial transactions and reporting. Additionally, we recommended that the City ensures that bank reconciliations will be performed accurately and timely for all bank accounts, all receipts, including EFTs, are posted at the time the transaction occurs, disbursements posted via a journal entry will be approved by the fiscal officer and appropriate governing board, and that accurate cash receipts and disbursements are submitted to the Gateway.

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

### **FINDING 2018-001**

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (219) 873-1404

Views of Responsible Official: We concur with finding.

### Description of Corrective Action Plan:

Due to our total financial software conversion that was implemented in 2018, personnel fell behind on bank reconciliations. For 2019, our action plan is to have all bank reconciliations completed in a timely manner effective September 30, 2019. This process will include a monthly review of bank reconciliations by a second person in the Controller's office. Going forward from September 30, 2019 the action plan is to have City, Water, and Sanitary bank reconciliations completed with 60 days following the end of the month.

A timely management of bank reconciliations will insure that all EFTs have been properly identified and recorded in the ledger.


Effective August 1, 2019, all journals prepared by the Controller's office will be reviewed and approved by another employee with approval rights prior to posting.

Effective August 1, 2019 all disbursed funds through EFTs will be posted through the accounts payable system thereby places on a claims docket and will be approved the appropriate governing board.

Effective September 1, 2019 the Water Department submits monthly financials to the Controller and includes the cycle receipts journal as a source document. The Controller confirms receipt, reviews financials, and files them on the shared City Drive. The Controller's office receives the annual CTAR report from the Water Department and enters data on Gateway. Controller's office reviews data and submits on Gateway. The Controller and Water Department meet quarterly to review and discuss financials.

Effective March 2019 with the preparation of the 2019 Annual Financial Report, all worksheets and supporting documentation will be provided in order to support the amounts included in the Annual Financial Report and will be reviewed and signed off by the Controller's office.

Anticipated Completion Date: See above for anticipated completion date for each item.

  
\_\_\_\_\_  
(Signature)  
City Controller  
\_\_\_\_\_  
(Title)  
7/29/2019  
\_\_\_\_\_  
(Date)

RON MEER – MAYOR

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on July 29, 2019, with Richard Murphy, City Controller; Mary Lynn Wall, Deputy City Controller; Ron Meer, Mayor; Donald Przybylinski, President of the Common Council; Bryant Dabney, Common Council member; Sean Fitzpatrick, Common Council member; Scott Kistler, Michigan City Sanitary District Financial Manager; James Meyer, Sanitary Board Attorney; and Amber Lapaich - Stalbrink, Corporation Counsel.

WATER UTILITY  
CITY OF MICHIGAN CITY

WATER UTILITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

**FINDING 2018-001**

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

*Repeat Finding*

This is a repeat of Finding 2017-001 from the immediately prior audit report.

*Condition*

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*Cash and Investments*

*City and Sanitary District*

The City and the Sanitary Department each had employees who were responsible for ensuring that their respective ledgers were reconciled with the bank depository balances. Effective controls were not in place to ensure that the depository reconciliements were performed accurately and timely. Reconciliements for 2018 were unperformed as of June 5, 2019. Officials completed the December 31, 2018 reconciliements on June 20, 2019, with the following variances:

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WATER UTILITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

*Receipts - City and Sanitary District*

The City had designed controls over the receipting process. The departments generated the individual receipts at the time of collection. One employee verified that the receipts entered into the software system were in agreement with a receipt listing from the department and with the deposits made to the bank before the receipts were recorded, but the control was inconsistent for the Sanitary District and City receipts. There was not always evidence of an oversight or approval process to ensure the accuracy and classification of the receipts.

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*Financial Reporting*

*Water Department*

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*City*

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WATER UTILITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

The lack of controls allowed errors on the financial statement to occur and not be detected as follows:

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Sanitary District Special Revenue	508	508	-
Totals	<u>\$ 881,528</u>	<u>\$ 887,896</u>	<u>\$ (6,368)</u>

*Context*

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*Criteria*

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

WATER UTILITY  
CITY OF MICHIGAN CITY  
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. . . .

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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 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)

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 5-11-1-4(a) states:

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WATER UTILITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

*Cause*

Management of the City had not established a proper system of internal controls that segregated key functions and would have ensured timely and accurate depository reconcilements, timely recording of electronic funds transfers, proper approval of disbursements, and accurate financial reporting.

*Effect*

Without a proper system of internal controls in place that operated effectively, noncompliance occurred and remained undetected as identified in the *Condition*. Additionally, the failure to establish controls over financial reporting could have enabled misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City establish a system of internal controls related to financial transactions and reporting. Additionally, we recommended that the City ensures that bank reconciliations will be performed accurately and timely for all bank accounts, all receipts, including EFTs, are posted at the time the transaction occurs, disbursements posted via a journal entry will be approved by the fiscal officer and appropriate governing board, and that accurate cash receipts and disbursements are submitted to the Gateway.

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

### **FINDING 2018-001**

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (219) 873-1404

Views of Responsible Official: We concur with finding.

### Description of Corrective Action Plan:

Due to our total financial software conversion that was implemented in 2018, personnel fell behind on bank reconciliations. For 2019, our action plan is to have all bank reconciliations completed in a timely manner effective September 30, 2019. This process will include a monthly review of bank reconciliations by a second person in the Controller's office. Going forward from September 30, 2019 the action plan is to have City, Water, and Sanitary bank reconciliations completed with 60 days following the end of the month.

A timely management of bank reconciliations will insure that all EFTs have been properly identified and recorded in the ledger.


Effective August 1, 2019, all journals prepared by the Controller's office will be reviewed and approved by another employee with approval rights prior to posting.

Effective August 1, 2019 all disbursed funds through EFTs will be posted through the accounts payable system thereby places on a claims docket and will be approved the appropriate governing board.

Effective September 1, 2019 the Water Department submits monthly financials to the Controller and includes the cycle receipts journal as a source document. The Controller confirms receipt, reviews financials, and files them on the shared City Drive. The Controller's office receives the annual CTAR report from the Water Department and enters data on Gateway. Controller's office reviews data and submits on Gateway. The Controller and Water Department meet quarterly to review and discuss financials.

Effective March 2019 with the preparation of the 2019 Annual Financial Report, all worksheets and supporting documentation will be provided in order to support the amounts included in the Annual Financial Report and will be reviewed and signed off by the Controller's office.

Anticipated Completion Date: See above for anticipated completion date for each item.

  
\_\_\_\_\_  
(Signature)  
City Controller  
\_\_\_\_\_  
(Title)  
7/29/2019  
\_\_\_\_\_  
(Date)

RON MEER – MAYOR

WATER UTILITY  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on July 29, 2019, with Richard Murphy, City Controller; Mary Lynn Wall, Deputy City Controller; Ron Meer, Mayor; Donald Przybylinski, President of the Common Council; Bryant Dabney, Common Council member; Sean Fitzpatrick, Common Council member; Christopher Wolfe, Accountant; Randall Russell, Superintendent of the Water Utility; Kenneth Behrendt, President of the Water Utility Board of Directors; James Meyer, Council Attorney; and Amber Lapaich - Stalbrink, Corporation Counsel.

COMMON COUNCIL  
CITY OF MICHIGAN CITY

COMMON COUNCIL  
CITY OF MICHIGAN CITY  
AUDIT RESULT AND COMMENT

**TRAINING AND CERTIFICATION ON INTERNAL CONTROL STANDARDS**

The City certified that all personnel defined by Indiana Code 5-11-1-27(c) received training concerning the internal control standards adopted by the City. However, the City failed to provide documented training for all newly hired park personnel in 2018.

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

COMMON COUNCIL  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on July 29, 2019, with Richard Murphy, City Controller; Mary Lynn Wall, Deputy City Controller; Ron Meer, Mayor; Donald Przybylinski, President of the Common Council; Bryant Dabney, Common Council member; Sean Fitzpatrick, Common Council member; James Meyer, Council Attorney; and Amber Lapaich - Stalbrink, Corporation Counsel.

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PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS

***FINDING 2018-004***

Subject: CDBG - Entitlement Grants Cluster - Special Tests and Provisions - Required Certification and HUD Approvals, Special Tests and Provisions - Rehabilitation

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-16-MC-180022,  
B-17-MC-18022,  
B-18-MC-18022

Compliance Requirements: Special Tests and Provisions - Required Certification and HUD Approvals, Special Tests and Provisions - Rehabilitation

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 following compliance requirements:

*Special Tests and Provisions - Required Certification and HUD Approvals*

The City had not designed or implemented adequate policies and procedures in order to ensure that the request for release of funds was submitted for each grant year before funds were expended or that the determination was made in writing for each activity or project that was exempt and met the conditions specified for such exemptions.

Administrative and management expenditures were exempt from the required certification and HUD approvals, but the City did not document in writing that those expenditures were exempt and that they met the conditions specified for the exemption.

*Special Tests and Provisions - Rehabilitation*

The City had not designed or implemented adequate policies and procedures in order to ensure that rehabilitation work was properly completed according to the contractual specifications. The rehabilitation projects completed during the audit period did not have verification that work was properly completed according to the contract specifications.

*Context*

The lack of controls over required certifications and HUD approval requirements was a systemic issue throughout the audit period. The noncompliance was isolated to the administrative and management expenditures. The lack of controls and noncompliance over Special Tests and Provisions - Rehabilitation were systemic issues throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
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). . . ."

24 CFR 58.22(a) states:

"Neither a recipient nor any participant in the development process, including public or private nonprofit or for-profit entities, or any of their contractors, may commit HUD assistance under a program listed in § 58.1(b) on an activity or project until HUD or the state has approved the recipient's RROF and the related certification from the responsible entity. In addition, until the RROF and the related certification have been approved, neither a recipient nor any participant in the development process may commit non-HUD funds on or undertake an activity or project under a program listed in § 58.1(b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives."

24 CFR 58.34 states in part:

"(a) Except for the applicable requirements of § 58.6, the responsible entity does not have to comply with the requirements of this part or undertake any environmental review, consultation or other action under NEPA and the other provisions of law or authorities cited in § 58.5 for the activities exempt by this section or projects consisting solely of the following exempt activities:  
. . .

(3) Administrative and management activities; . . .

(b) A recipient does not have to submit an RROF and certification, and no further approval from HUD or the State will be needed by the recipient for the drawdown of funds to carry out exempt activities and projects. However, the responsible entity must document in writing its determination that each activity or project is exempt and meets the conditions specified for such exemption under this section."

24 CFR section 570.506 states in part:

"Each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part. At a minimum, the following records are needed: . . .

(b) Records demonstrating that each activity undertaken meets one of the criteria set forth in 570.208. Such records shall include the following information: . . .

(9) For each residential rehabilitation activity determined to aid in the prevention or elimination of slums or blight in a slum or blighted area:

(i) The local definition of 'substandard;'

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

- (ii) A pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated; and
- (iii) Details and scope of CDBG assisted rehabilitation, by structure. . . ."

*Cause*

The City's management had not developed an effective system of internal controls that would have ensured compliance with the grant agreement and the compliance requirements listed above.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements listed above 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 a system of internal controls to ensure compliance and comply with the grant agreement and the Special Tests and Provisions - Required Certification and HUD Approvals and Special Tests and Provisions - Rehabilitation compliance requirements.

*Views of Responsible Officials*

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

***FINDING 2018-005***

Subject: CDBG - Entitlement Grants Cluster - Activities Allowed  
or Unallowed, Allowable Costs/Cost Principles

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-16-MC-180022,  
B-17-MC-18022,  
B-18-MC-18022

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

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 compliance requirements listed above.

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

The City had not designed or implemented adequate policies and procedures to ensure that payroll disbursements were only for program costs and that appropriate supporting documentation was available and agreed to the payroll disbursements.

Personal services amounts were reported on the drawdown vouchers and reimbursed as follows:

1. The City claimed a portion of an employee's gross pay over nine payrolls totaling \$1,902. It did not meet the program objectives and is considered a questioned cost.
2. The City claimed one employee's portion of the gross pay totaling \$1,495 over 13 payrolls, without any supporting documentation for the time spent on program activities.
3. The time records for two employees did not agree with the number of hours paid, which resulted in overpayments of \$133 and \$459, respectively.
4. An incorrect pay rate was used for the gross pay of one employee, which resulted in an underpayment of \$80.
5. The City claimed one employee's portion of gross pay using the incorrect pay rate, which resulted in the City's reimbursement being \$35 lower than the amount paid to the employee.

The errors resulted in known questioned costs of \$3,874.

*Context*

The lack of internal controls and noncompliance over payroll disbursements was a systemic issue, which occurred throughout the audit period. There were errors in every payroll submitted for reimbursement.

*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). . . ."

24 CFR 570.207 states in part:

"The general rule is that any activity that is not authorized under the provisions of §§ 570.201–570.206 is ineligible to be assisted with CDBG funds. This section identifies specific activities that are ineligible and provides guidance in determining the eligibility of other activities frequently associated with housing and community development.

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

(a) The following activities may not be assisted with CDBG funds: . . .

- (2) *General government expenses.* Except as otherwise specifically authorized in this subpart or under 2 CFR part 200, subpart E, expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance under this part. . . ."

2 CFR 200.430 states in part:

"(a) *General.* Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in § 200.431 Compensation - fringe benefits. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- (3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable. . . ."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Cause*

The City had not developed a system of internal controls that would have ensured compliance with the grant agreement and the compliance requirements listed above.

*Effect*

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

*Questioned Costs*

Known questioned costs of \$3,873.62 were identified, as detailed in the *Condition*.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and comply with 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 2018-006**

Subject: CDBG - Entitlement Grants Cluster - Suspension and Debarment

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-16-MC-180022,  
B-17-MC-18022,  
B-18-MC-18022

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Modified Opinion

*Condition*

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

The City had not designed or implemented a system of internal controls to ensure that vendors were not suspended or debarred from participation in federal programs.

*Context*

The lack of controls and noncompliance were isolated to one vendor. The contracted vendor represented 24 percent of program disbursements.

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*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 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

*Cause*

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

*Effect*

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

*Views of Responsible Officials*

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

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

***FINDING 2018-007***

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 Numbers and Years (or Other Identifying Numbers): B-16-MC-180022,  
B-17-MC-18022,  
B-18-MC-18022

Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*Condition*

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

The City had not designed or implemented adequate policies and procedures to ensure that the quarterly SF-425 Federal Financial Report and annual HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons (Annual Report) were accurately prepared and reviewed prior to submission. The City failed to submit the Annual Report as required.

*Context*

The lack of internal controls was a systemic issue, which occurred throughout the audit period. The noncompliance was isolated to the Annual Report.

*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 200.328(b)(1) states in part:

"The non-Federal entity must submit performance reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes. Annual reports must be due 90 calendar days after the reporting period; . . ."

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Cause*

The City's management had not developed an effective system of internal controls that would have ensured compliance with the grant agreement and the Reporting compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the 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 a system of internal controls to ensure compliance 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.



# MICHIGAN CITY INDIANA

## CORRECTIVE ACTION PLAN

### **FINDING 2018-004**

Contact Person Responsible for Corrective Action: Sherry Wilson  
Contact Phone Number: 219-873-1419

Views of Responsible Official: We concur with finding

### Description of Corrective Action Plan:

Internal Control will be corrected to alleviate risk related to achieving the defined objectives of the CDBG Grant. The City will prepare the Request for Release of Funds for the CDBG Grant Award. If necessary, the City will include the NEPA Form 3 (see attached) in the administrative files for any projects that require a categorical exclusion.

The City will coordinate with the Inspection Department to issue a final inspection report after rehabilitation work has been performed at each site. An inspection report will be included in the unit file to certify rehabilitation activities.

This will ensure that the City establishes internal controls that are in compliance with the grant agreement and rehabilitation compliance requirements.

Anticipated Completion Date: July 29, 2019

  
(Signature)

City Controller  
(Title)

July 29, 2019

RON MEER – MAYOR

**This project is CATEGORICALLY EXCLUDED (24 CFR Part 58.35) and NOT Subject to 24 CFR Part 58.5 (CENST) as indicated below:**

Project Name	
Project Description	
Funding Amount \$	Name of Recipient

**Check one or more below as applicable and place in the Environmental Review Record:** Categorical exclusions not subject to Sec. 58.5. The City/Town/County has determined that the following categorically excluded activities would not alter any conditions that would require a review or compliance determination under the Federal law and authorities cited in Se. 58.5. When the following kinds of activities are undertaken, the responsible entity does not have to publish a NOI/RROF or execute a certification and the recipient does not have to submit a RROF to HUD (or the State) except in the circumstances described in paragraph (c) of this section. Following the award of the assistance, no further approval from HUD or the State will be needed with respect to environmental requirements, except where paragraph (c) of this section applies. The recipient remains responsible for carrying out any applicable requirements under Sec. 58.6.

1.  Tenant-based rental assistance;
2.  Supportive service including but not limited to; healthcare, housing services, permanent housing placement, daycare, nutritional services, short-term payments for rent/mortgage/utility cost, and assistance in gaining access to local, State, and Federal government benefits and services;
3.  Operating costs including maintenance, security operation, utilities, furnishing, equipment, supplies, staff training, and recruitment and other incidental costs;
4.  Economic development activities including but not limited to; equipment purchase, inventory financing, interest subsidy, operating expenses and similar cost not associated with construction or expansion of existing operations;
5.  Activities to assist homebuyer to purchase existing dwelling units or dwelling units under construction, including closing costs and down payment assistance, interest buy downs, and similar activities that result in the transfer of title;
6.  Affordable housing pre-development costs including; legal, consulting, development and other costs related to obtaining site options, project financing, administrative costs and fees for loan commitments, zoning approvals, and other related activities which do not have a physical impact;
7.  Approval of supplemental assistance (including insurance or guarantee) to project previously approved under this part, if the approval is made by the same responsible entity that conducted the environmental review on the original project and re-evaluation of the environment findings is not required under Sec. 58.47.

Signature of Responsible Entity Certifying Official Name & Title	Date
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# MICHIGAN CITY INDIANA

## CORRECTIVE ACTION PLAN

### **FINDING 2018-005**

Contact Person Responsible for Corrective Action: Sherry Wilson  
Contact Phone Number: 219-873-1419



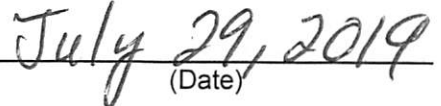
Views of Responsible Official: We concur with finding

### Description of Corrective Action Plan:

Internal Control will be corrected to alleviate risk related to achieving the defined objectives of the Community Development Block Grant. The City will establish internal controls to ensure compliance with activities allowed, disallowed and allowable cost(s) principals that are in compliance with federal grant requirements. The City will ensure all supporting documents are included with each voucher request and the appropriate files are maintained.

This will ensure that the City adheres to accurate accounting principles and remains in compliance with the applicable OMB Circular cost principles and the CDBG agreement requirements.

Anticipated Completion Date: July 29, 2019

  
\_\_\_\_\_  
(Signature)  
  
\_\_\_\_\_  
(Title)  
  
\_\_\_\_\_  
(Date)

RON MEER – MAYOR



# MICHIGAN CITY INDIANA

Planning Department ~ Craig A. Phillips, AICP, Planning Director ~ ph: 219-873-1419 ~ fax: 219-873-1580 ~ [cphillips@emichigancity.com](mailto:cphillips@emichigancity.com)

## CORRECTIVE ACTION PLAN

### FINDING 2018-006

**Contact Person Responsible for Corrective Action:** Sherry Wilson

**Contact Phone Number:** 219-873-1419

**Views of Responsible Official:** We concur with the finding.

### Description of Corrective Action Plan:

Internal Control will be corrected to alleviate risk related to achieving the defined objectives of the Community Development Block Grant. The City will coordinate with inter departments to include Systems for Award Management verifications and/or issuance of a suspension & debarment certification page (see attached) for contractor signature requirement as part of the pre-bid award procedure.

This will ensure that the City does not contract with a disbarred contractor and meets the requirements of internal control as established by "The Standards for Internal Control in Federal Government".

**Anticipated Completion Date:** July 29, 2019

Community Development Block Grant Administrator

July 19, 2019

**RON MEER – MAYOR**

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ ph: 219-873-1400 ~ fax: 219-873-1515  
web: [emichigancity.com](http://emichigancity.com) ~ e-mail: [mayor@emichigancity.com](mailto:mayor@emichigancity.com)

**Michigan City, Indiana Community Development Block Grant Program  
Contractor Debarment Check**

**Legal Name of Contractor:** \_\_\_\_\_

**Contractor's Address:** \_\_\_\_\_

**Date Debarment Check Completed:** \_\_\_\_\_

**CERTIFICATE SIGNATURE:**

**SIGNATURE:** By signing this Debarment and Suspension Certification Page – The contractor (or vendor, or consultant, depending on the transaction) certifies to the best of its knowledge and belief that it and its principals are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any Federal department or agency.

**Grantee Name:** \_\_\_\_\_

**Program Name: Community Development Block Grant  
Residential Exterior Community Appeal Program (RECAP)**

**Chief Elected Official or Designee:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

*(Signed Certifications are to be kept in CDBG project files)*



# MICHIGAN CITY INDIANA

## CORRECTIVE ACTION PLAN

### **FINDING 2018-007**

Contact Person Responsible for Corrective Action: Sherry Wilson  
Contact Phone Number: 219-873-1419

Views of Responsible Official: We concur with finding

### Description of Corrective Action Plan:

Internal Control will be corrected to alleviate risk related to achieving the defined objectives of the Community Development Block Grant. The CDBG department will review the quarterly SF-425 prepared by the Controller's office prior to submitting the SF-425 Federal Financial Report to HUD. The required CDBG annual reports will be reviewed by the Controller's office prior to submittal to HUD.

This will ensure the City maintains authorizations/permissions to Secure Systems and all other applicable federal grant reporting agencies to ensure compliance with the grant agreement and the reporting compliance requirement.

Anticipated Completion Date: July 29, 2019

  
(Signature)  
  
(Title)  
  
(Date)

RON MEER – MAYOR

PLANNING AND REDEVELOPMENT - COMMUNITY DEVELOPMENT  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on July 29, 2019, with Richard Murphy, City Controller; Mary Lynn Wall, Deputy City Controller; Ron Meer, Mayor; Donald Przybylinski, President of the Common Council; Bryant Dabney, Common Council member; Sean Fitzpatrick, Common Council member; James Meyer, Council Attorney; and Amber Lapaich - Stalbrink, Corporation Counsel.