

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF GARY

LAKE COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
09/23/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Finance Department:	
Federal Findings:	
Finding 2018-001	
Financial Transactions and Reporting	6-9
Finding 2018-002	
Preparation of the Schedule of Expenditures of Federal Awards	9-12
Corrective Action Plan	13-15
Audit Results and Comments:	
Overdrawn Cash Balances	16
Temporary Transfer of Funds	17-19
Errors on Claims	19-20
Official Response.....	21-22
Exit Conference	23
Department of Commerce - Division of Community Development:	
Federal Finding:	
Finding 2018-003	
CDBG - Entitlement Grants Cluster - Reporting	26-27
Corrective Action Plan	28
Exit Conference	29
Common Council:	
Audit Results and Comments:	
Overdrawn Cash Balances	32
Temporary Transfer of Funds	33-35
Internal Controls - Pictorial Book Sale	35-36
Official Response.....	37-38
Exit Conference	39
Sanitary District:	
Audit Results and Comments:	
Errors on Claims	42
Delinquent Wastewater Accounts	42-43
Insufficient Trash Collections	43
Temporary Transfer of Funds	43-45
Official Response.....	46-52
Exit Conference	53

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	M. Celita Green Angelia Hayes	01-01-18 to 02-28-18 03-01-18 to 12-31-19
Mayor	Karen Freeman-Wilson	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Niquelle Allen Winfrey (Vacant) Dayna Bennett	01-01-18 to 02-06-19 02-07-19 to 02-26-19 02-27-19 to 12-31-19
President of the Common Council	Ronald G. Brewer, Sr.	01-01-18 to 12-31-19
Executive Director of the Sanitary and Storm Water Management Districts	Daniel F. Vicari	01-01-18 to 12-31-19
President of the Boards of Sanitary and Storm Water Commissioners	Charles W. Jackson, Jr. Tramel Raggs	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

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

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

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

August 20, 2019

(This page intentionally left blank.)

FINANCE DEPARTMENT
CITY OF GARY

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS

FINDING 2018-001

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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2017-001.

Condition

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

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

Cash and Investments (Bank Reconciliations)

City

Controls had not been developed to ensure that reconcilements of the accounting record balances to the bank depository balances were completed at least monthly, as required by state statute.

As of August 5, 2019, two bank accounts, including the payroll account, had not been reconciled at December 31, 2018.

Reconcilements provided for audit for the other City bank accounts were considered a work in progress and were not finalized as of August 5, 2019. The City engaged consultants to perform the reconciliations. In reviewing these reconciliations, we noted the following items:

1. A reconciling item "Deposits in Transit" for a Bank 10 account was overstated by \$593,917. This amount should have been a Due to Bank for another Bank 10 account, as it had already been receipted in the correct fund in the City's records.
2. There were various items noted in the reconciliations as unidentified items. A Bank 11 account had several "To be Resolved" amounts for each month in 2018, totaling \$2,019,200 as of December 31, 2018. These types of unidentified items were observed on other reconciliations as well. The net amount of unidentified items was negative \$2,417,205.
3. Some bank accounts owed amounts to other bank accounts and these amounts should have been transferred. The "transfers to banks" did not reconcile to the "transfers from banks" by \$5,903,202 in the reconciliations provided. A combined reconcilement across all bank accounts was not provided to ensure that the corresponding bank due to/from amounts agreed.

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

Consultants were engaged in 2019 to complete the 2018 bank reconciliations. The City's bank accounts have not been reconciled in total for December 31, 2018, as of August 5, 2019. A combined bank reconciliation of all bank accounts, without the amounts identified as due to/from other banks, which should net to zero, identified a \$2,488,732 variance when compared to the financial statement ending cash and investment balance.

Journal Entries

The City did not have an effective system of internal controls to ensure that journal entries were posted accurately and timely. There were no controls to ensure that records that supported adjustments, which required correction by journal entry, were retained and available for audit. One employee and the Controller made all journal entries; however, there was no review process in place to ensure journal entries were posted accurately and timely.

Receipts

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

Gaming State Distributions

State Distributions for Gaming Revenues were intercepted by a bank for monthly payments on the Tax Revenue Bonds, Series 2016. The intercepted amounts were used by the bank for the City's Debt Service payments for the bond issue. Any amounts remaining after the intercepted distributions were applied to the debt payments were remitted to the City. The amounts intercepted from the gaming distributions for debt payments should have been recorded in the City's financial system as receipts and disbursements, but were not.

1. Distribution amounts totaling \$861,681 intercepted by the bank for the months of June until December 2018 were not recorded in the City's financial system as receipts or disbursements.
2. Additionally, June and July distribution amounts remaining after the debt payment was intercepted were not recorded as receipts in the City's records, although the City had received these net distributions. A total of \$1,247,840 in receipts were not recorded in the City's financial accounting system.

The Controller provided the financial statement adjustment at the beginning of the audit and they are included in the financial statement.

Other State Distributions

Sixteen of the 2018 state distributions totaling \$385,076 were not recorded in the City's financial accounting system. Two of the sixteen distributions totaling \$155,356 were for federal grant reimbursements. These sixteen distributions were traced to the City's bank statements to confirm that they were received by the City.

Financial Reporting

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

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

Context

The lack of controls and noncompliance were systemic issues throughout the audit period.

Criteria

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

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

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

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

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

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

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

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

Management remediates identified issues. . . ."

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

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

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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)

Cause

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

Effect

The failure to provide accurate and complete reconcilements of the bank account balances to the record balances prevented the determination of whether or not the cash and investment balance (financial position) of the City was fairly presented as of December 31, 2018.

The failure to establish a system of internal controls could have enabled material misstatements or irregularities to remain undetected for journal entries. The failure to establish a system of internal controls over receipts enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner.

Recommendation

We recommended that the City establish a system of internal controls to ensure that depository reconcilements will be accurately performed on a timely basis in accordance with state statute.

We recommended that the City's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting.

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 finding from the immediately prior audit. The prior audit finding number was 2017-001.

Condition

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

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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

Context

Due to the lack of controls, the SEFA presented for audit included the following errors:

1. The Summer Food Service Program for Children expenditures were overstated by \$590.
2. The Community Development Block Grants/Entitlement Grants expenditures of \$181,962 were reported as Section 108 loan expenditures in error.
3. The Community Development Block Grants/Entitlement Grants Section 108 loan expenditures were understated by \$404,546.
4. The Community Development Block Grants/Entitlement Grants program income expenditures of \$96,525 were omitted.
5. The Coastal Zone Management Administration Awards expenditures of \$6,237 were omitted.
6. The Home Investment Partnerships Program grant expenditures were understated by \$14,951.
7. The Crime Victim Assistance expenditures were understated by \$231,233.
8. The Victim of Crime Act expenditures were overstated by \$230,811.
9. The Crime Victim Compensation grant expenditures of \$427 were omitted.
10. The Equitable Sharing Program expenditures were overstated by \$49,808.
11. Various other grants had incorrect grant names or identifying numbers.

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.

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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

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

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

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

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.

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

The City's management failed to implement an effective system of internal controls that would have ensured proper reporting of the SEFA.

Effect

The failure to implement an effective internal control system enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Context*.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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



City Of Gary

Department of Finance

401 Broadway

Gary, Indiana 46402

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

www.gary.in.us

KAREN M. FREEMAN-WILSON

Mayor

DAYNA BENNETT

Chief of Staff

Angelia Hayes

Controller

CORRECTIVE ACTION PLAN

FINDING 2018-001

Financial Transactions and Reporting

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

Views of Responsible Official: The City concurs with the finding.

Description of Corrective Action Plan Bank Reconciliations:

The City has established an Internal Controls Committee in the Department of Finance led by the City's Internal Auditor. The Internal Control Committee developed the Bank Reconciliation Policy and Check List. The new Policy Check List will aid in improving the accuracy and timeliness of the bank reconciliations.

There are many challenges with performing the bank reconciliations. The majority of the banks had outstanding amounts due to or due from other banks. None of these transactions have been posted into the City's accounting system with some going as far back as 2007. As part of the reconciliation process, the City's consultants were working on identifying these transactions to allow for a more accurate bank reconciliation. To date, all but three of the City's thirty one banks have been reconciled to June, 2019. The corrections for these accounts are continually being identified as part of the bank reconciliation process. The completion date is November 30, 2019 to allow time to research and correct the outstanding due to or due from.

Description of Corrective Action Plan Receipts, Gaming State Distributions and Other State Distributions:

On March 1, 2018, a new Controller joined the City of Gary team who is in the process of implementing new processes and procedures to improve the Finance Departments performance. One of the new procedures is to implement a finance internal revenue working group to improve communication within the Finance Department and to ensure accuracy and timeliness for the posting of receipts. The completion date is September 20, 2019.

Description of Corrective Action Plan Journal Entries:

Part of the new procedure process is to develop and implement a journal entry policy. The new journal entry policy will include provisions of a review process and that the supporting documentation for the journal entry is retained for audit. The completion date to develop and implement the new policy is September 20, 2019.

Description of Corrective Action Plan Financial Reporting:

A check list will be developed and retained for audit to document the oversight of the information submitted into Gateway for Government Units financial reporting system. The completion date to develop and implement the check list is March 1, 2020 when the 2019 information is due in Gateway.



(Signature)

Controller

(Title)

8/20/19

(Date)



City Of Gary

Department of Finance

401 Broadway

Gary, Indiana 46402

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

www.gary.in.us

KAREN M. FREEMAN-WILSON

Mayor

DAYNA BENNETT

Chief of Staff

Angelia Hayes

Controller

CORRECTIVE ACTION PLAN

FINDING 2018-002

Preparation of the Schedule of Expenditures of Federal Awards

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

Views of Responsible Official: The City concurs with the finding.

Description of Corrective Action Plan

The City has established an Internal Controls Committee in the Department of Finance led by the City's Internal Auditor. The Internal Control Committee developed the Schedule of Expenditures of Federal Awards (SEFA) Policy. The new Policy includes a check list to aid in improving the accuracy of the SEFA.

On March 1, 2018, a new Controller joined the City of Gary team. New procedures are being developed to more accurately identify federal grant revenues and expenditures within the accounting software. Finance staff charged with preparing the SEFA will attend 2 CFR 200 training course. The corrective action plan is to be completed within 90 days for the software updates and the training.

Angelia Hayes

(Signature)

Controller

(Title)

8/20/19

(Date)

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in 13 prior reports, including the 3 most recent Reports B47523, B49191, and B51381.

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2018. Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants require the City to expend funds and subsequently request reimbursement. The City funds with overdrawn cash balances at December 31, 2018, including the grant funds with no reimbursement received in January 2019, are listed below:

Fund	Amount Overdrawn
General	\$ 7,356,018
Equipment Fund	198,709
WCI/UCI Benefit	682,047
Maternal Child Health Infant Mortality	52,532
Tobacco	17,165
Building Community Trust	366
JAG Grant	29,710
TANF Summer Youth	21,125
Distracted Driving	2,937
Safe & Thriving Grant	19,923
Protective Services Grant I	1,023,534
Marquette Park	26,587
Gleason Golf Course	22,088
Emergency Shelter	688,040
Health And Human Services	465,042
Bioterrorism	4,057
Redevelopment Operating	19,389
Summer Jobs Training Program	15,158
Genesis Civic Center	39,876
Genesis Center Operating	45,503
Leased Properties - Gary Bldg Corp.	210,621
Alcohol And Drug Treatment	17,402
Mayor Donations	3,626
Baseball Maintenance	19,226
County Market Tif District	128,004

The General, Protective Services Grant I, and the Leased Properties - Gary Bldg Corp. funds have remained overdrawn for at least six years. The Protective Services Grant I did not have any receipts or disbursements in 2018.

The overdrawn cash balance of the General fund of \$7,356,018, included tax anticipation warrant proceeds of \$21,000,000 received on May 10, 2018, as well as outstanding temporary loans owed to other funds of \$17,637,127. Without the tax anticipation warrant proceeds and temporary loans, the overdrawn cash balance of the General fund would have been \$45,993,145.

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)

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

TEMPORARY TRANSFER OF FUNDS

The same comment appeared in 13 prior reports, including the 3 most recent Reports B47523, B49191, and B51381.

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2018:

Loan To	Loan From	Loans Outstanding January 1, 2018	Loans Made	Loans Repaid	Loans Outstanding December 31, 2018
General	Other City Funds (Excluding GSD Funds)	\$ 14,990,800	\$ 3,120,000	\$ 5,840,000	\$ 12,270,800
General Other City Funds (Excluding GSD Funds)	GSD Funds Other City Funds (Excluding GSD Funds)	5,357,127	-	300,000	5,057,127
		1,186,646	-	-	1,186,646
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>10,162,000</u>	<u>-</u>	<u>-</u>	<u>10,162,000</u>
	Totals	<u>\$ 31,696,573</u>	<u>\$ 3,120,000</u>	<u>\$ 6,140,000</u>	<u>\$ 28,676,573</u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Various GSD Funds	\$ 5,057,127	2006
General	Consolidated Area TIF District	608,800	2009
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	380,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
General	Media	600,000	2011
General	Consolidated Area TIF District	2,000,000	2011
General	Consolidated Area TIF District	300,000	2011
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
General	Consolidated Area TIF District	32,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
General	Lakefront TIF District	460,000	2013
GSD Solid Waste Disposal	GSD WWTP General Operating	3,490,000	2013

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

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Lakefront TIF District	2,550,000	2014
Blight Elimination Program	Midwest Center TIF District	200,000	2015
General	Lakefront TIF District	1,000,000	2015
General	Lakefront TIF District	1,200,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Park Nonreverting	5,000	2016
Blight Elimination Program	Midwest Center TIF District	300,000	2016
General Fund	Lakefront TIF	720,000	2017
General Fund	Wheel Tax Surtax	700,000	2017
Parks Fund	Wheel Tax	240,329	2017
Subtotal Outstanding Since 2017		<u>27,476,573</u>	
General Fund	Wheel Tax Road	<u>1,200,000</u>	2018
Total		<u>\$ 28,676,573</u>	

Included in the amounts above are temporary loans totaling \$10,162,000, which had been loaned to the GSD Solid Waste Disposal fund from the GSD WWTP General Operating fund in prior years. The Board of Commissioners adopted Resolution No. SD 17-15 to consolidate the GSD Solid Waste Disposal fund into the GSD WWTP General Operating fund, and the consolidation occurred in 2018. However, the Board of Commissioners did not adequately address the outstanding temporary loans.

Other deficiencies were noted regarding temporary transfers as follows:

1. A temporary transfer (loan) repayment of \$250,000 made in 2018 was recorded as a disbursement from the General fund and receipted into the Wheel Tax fund. However, the original loan in 2017 to the General fund and outstanding as of January 1, 2018, had been made from the Wheel Exc Surtax fund, not the Wheel Tax fund.
2. A temporary transfer (loan) of \$1,200,000 was approved by the Common Council and made in 2018 from the Wheel Tax Road fund to the General fund. The fund which made the temporary loan, the Wheel Tax Road fund, consists of bond proceeds authorized and restricted by City Ordinance 9076.

Page 2 of Ordinance 9076 states in part:

"Whereas, the City now desires to use Local Wheel Revenues to finance the construction and maintenance of, and improvements to, the City's Transportation System ("Projects");
..."

Section 10 of Ordinance 9076 states in part:

". . . The Controller is hereby authorized and directed to deposit the remaining proceeds of the Revenue Bonds in a separate fund ("Bond Proceeds Fund") to pay for: (1) the cost of the Projects; (2) all costs and expenses incurred in connection with the Projects; and (3) costs of issuance of the Revenue Bonds. Except as described in this Section, the Bond Proceeds Fund may not be used for any other purpose."

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

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

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

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

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

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

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

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ERRORS ON CLAIMS

The following errors were noted in the testing of disbursements:

Debt (Bond and Lease) Payments

Of the 25 debt payments tested, the following deficiencies were noted:

- 1. The City debt payments forms were either not included or could not be found on an Accounts Payable Voucher Register, which would have documented the certification by the fiscal officer and approval by the legislative body as required by Indiana Code.
- 2. One City debt payment was not recorded in a timely manner.

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

3. The City usually paid debt payments electronically and prepared a wire transfer form for each payment. Three City debt payments did not have supporting documentation attached to the wire form.

Tax Anticipation Warrant (TAW) Payments

1. TAW repayments documented by a City wire transfer form were not included on an Accounts Payable Voucher Register, which would have documented the approval by the legislative body as required by Indiana Code.
2. Two payments documented by a journal entry were not included on an Account Payable Voucher Register, which would have documented the certification by the fiscal officer and approval by the legislative body as required by Indiana Code.
3. The Rollover Tax Anticipation Warrant Series 2017 repayment of \$9,000,000 was paid solely from the General fund. However, \$125,000 of this repayment should have been repaid from the Parks and Recreation fund and not the General fund.

Vendor and Payroll Benefits Claims

1. Two of the vendor claims tested were not able to be located; therefore, we were unable to determine if the fiscal officer certified the claim. Additionally, all payroll related benefits claims are prepared by an employee of the Controller's office and were not certified by the fiscal officer.
2. Six of the claims tested for payroll related benefits either did not have an approval by the Board of Public Works and Safety or the signed register could not be located for audit.

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. . . ."

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



City Of Gary

Department of Finance

401 Broadway

Gary, Indiana 46402

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

www.gary.in.us

KAREN M. FREEMAN-WILSON

Mayor

DAYNA BENNETT

Chief of Staff

Angelia Hayes

Controller

RESPONSES TO THE 2018 AUDIT

Overdrawn Cash Balances

The City acknowledges it has overdrawn cash balances. The City has created a financial recovery plan to increase the general fund projected revenues; reverse the increasing deficit; and stabilize the general fund with an ultimate goal of a positive financial position. A Freeze Committee has been established to monitor all spending, hiring and purchases. A three year deficit reduction plan has been formulated which will allow the City to continue services while addressing the deficit. See Note 12, "Plan to Address Financial Concerns" in the 2018 Audit Report.

Temporary Transfer of Fund

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

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

Errors on Claims

Debt (bond and Lease) Payments

The deficiencies noted in the audit were identified by the new Controller and finance staff and have been corrected. All payments are being approved and/or ratified by the fiscal officer and the Board of Public Works. Debt payments are posted timely. All electronic payments have the supporting documentation attached to the wire form.

Tax Anticipation Warrant (TAW) Payments

The deficiencies noted in the audit were identified by the new Controller and finance staff and have been corrected. All TAW payments are being approved and/or ratified by the fiscal officer and the Board of Public Works. The TAW Debt payments are posted timely and have the supporting documentation attached to the wire form. The 2017 Rollover TAW payment amount of \$125,000 will be repaid by the Parks and Recreation Fund.

Vendor and payroll benefits claims

The payroll benefit and vendor claims will be certified by the fiscal officer and submitted to the Board of Public Works for approval. All 2019 payroll benefit claims have been submitted to the Board of Public Works for approval and ratification.

August 30, 2019

Submitted by,

A handwritten signature in black ink that reads "Angelia Hayes". The signature is written in a cursive, flowing style.

Angelia Hayes

Controller

FINANCE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 20, 2019, with Angelia Hayes, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; Linda Barnes Caldwell, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Watt, Common Council member; Virgil Moore, Jr., Common Council Finance Advisor; and Curtis Whittaker, CPA, Financial Consultant.

The contents of this report were provided on August 20, 2019, to M. Celita Green, former Controller.

(This page intentionally left blank.)

DEPARTMENT OF COMMERCE -
DIVISION OF COMMUNITY DEVELOPMENT
CITY OF GARY

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

FINDING 2018-003

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): B08MN180005, B11MN180005,
B-14-MC-18-0005 (Section 108 Loan)
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Findings

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

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 or procedures to ensure that monthly reports for the Section 108 loan were substantially completed for the audit period. The City failed to prepare and submit the monthly reports for January through July 2018. Beginning in August 2018, the City prepared and submitted the required monthly reports for the remainder of the audit period.

The City had not designed or implemented adequate policies and procedures to ensure that the National Stabilization Program (NSP 1 & 3) quarterly reports were accurately prepared and submitted. There was no oversight, review, or monitoring process.

Context

The lack of controls and noncompliance over the Section 108 loan reports applied for the period January through July 2018, or 14 out of 24 reports. The lack of controls over the Neighborhood Stabilization Program reports was a systemic issue throughout the audit period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . .

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

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

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

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

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

6. Loan Repayment Account(b):

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

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

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

Cause

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

Effect

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

Views of Responsible Officials

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



KAREN FREEMAN-WILSON
Mayor

CITY OF GARY
DIVISION OF COMMUNITY DEVELOPMENT

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

ARLENE D. COLVIN
Director

E. NIKOLE RUMPH
Deputy Director

CORRECTIVE ACTION PLAN

FINDING 2018 - 003

Contact Person Responsible for Corrective Action: Arlene Colvin, Director
Contact Phone Number: 219-881-5075

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

A tracking system has been implemented for the 108 loan financial reports to ensure that these reports are submitted on or before the 15th of every month as required by the loan contract. Reports are up to date. Quarterly Neighborhood Stabilization Program (NSP) reports will continue to be accurately prepared and will be reviewed by the Director or Deputy Director before submission to HUD. Review will be evidenced by a sign-off document executed by the Director or the Deputy Director, as appropriate.

Anticipated Completion Date: October 30, 2019 (Due date of next quarterly NSP report)

Arlene Colvin

(Signature)

DIRECTOR

(Title)

08/19/2019

(Date)

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

The contents of this report were discussed on August 20, 2019, with Arlene Colvin, Community Development Director; Angelia Hayes, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; Linda Barnes Caldwell, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Watt, Common Council member; Virgil Moore, Jr., Common Council Finance Advisor; and Curtis Whittaker, CPA, Financial Consultant.

(This page intentionally left blank.)

COMMON COUNCIL
CITY OF GARY

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in 13 prior reports, including the 3 most recent Reports B47523, B49191, and B51381.

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2018. Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants require the City to expend funds and subsequently request reimbursement. The City funds with overdrawn cash balances at December 31, 2018, including the grant funds with no reimbursement received in January 2019, are listed below:

Fund	Amount Overdrawn
General	\$ 7,356,018
Equipment Fund	198,709
WCI/UCI Benefit	682,047
Maternal Child Health Infant Mortality	52,532
Tobacco	17,165
Building Community Trust	366
JAG Grant	29,710
TANF Summer Youth	21,125
Distracted Driving	2,937
Safe & Thriving Grant	19,923
Protective Services Grant I	1,023,534
Marquette Park	26,587
Gleason Golf Course	22,088
Emergency Shelter	688,040
Health And Human Services	465,042
Bioterrorism	4,057
Redevelopment Operating	19,389
Summer Jobs Training Program	15,158
Genesis Civic Center	39,876
Genesis Center Operating	45,503
Leased Properties - Gary Bldg Corp.	210,621
Alcohol And Drug Treatment	17,402
Mayor Donations	3,626
Baseball Maintenance	19,226
County Market Tif District	128,004

The General, Protective Services Grant I, and the Leased Properties - Gary Bldg Corp. funds have remained overdrawn for at least six years. The Protective Services Grant I did not have any receipts or disbursements in 2018.

The overdrawn cash balance of the General fund of \$7,356,018, included tax anticipation warrant proceeds of \$21,000,000 received on May 10, 2018, as well as outstanding temporary loans owed to other funds of \$17,637,127. Without the tax anticipation warrant proceeds and temporary loans, the overdrawn cash balance of the General fund would have been \$45,993,145.

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)

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

TEMPORARY TRANSFER OF FUNDS

The same comment appeared in 13 prior reports, including the 3 most recent Reports B47523, B49191, and B51381.

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2018:

Loan To	Loan From	Loans Outstanding January 1, 2018	Loans Made	Loans Repaid	Loans Outstanding December 31, 2018
General	Other City Funds (Excluding GSD Funds)	\$ 14,990,800	\$ 3,120,000	\$ 5,840,000	\$ 12,270,800
General	GSD Funds	5,357,127	-	300,000	5,057,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	1,186,646	-	-	1,186,646
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>10,162,000</u>	<u>-</u>	<u>-</u>	<u>10,162,000</u>
	Totals	<u><u>\$ 31,696,573</u></u>	<u><u>\$ 3,120,000</u></u>	<u><u>\$ 6,140,000</u></u>	<u><u>\$ 28,676,573</u></u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Various GSD Funds	\$ 5,057,127	2006
General	Consolidated Area TIF District	608,800	2009
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	380,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
General	Media	600,000	2011
General	Consolidated Area TIF District	2,000,000	2011
General	Consolidated Area TIF District	300,000	2011
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
General	Consolidated Area TIF District	32,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
General	Lakefront TIF District	460,000	2013
GSD Solid Waste Disposal	GSD WWTP General Operating	3,490,000	2013

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

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Lakefront TIF District	2,550,000	2014
Blight Elimination Program	Midwest Center TIF District	200,000	2015
General	Lakefront TIF District	1,000,000	2015
General	Lakefront TIF District	1,200,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Park Nonreverting	5,000	2016
Blight Elimination Program	Midwest Center TIF District	300,000	2016
General Fund	Lakefront TIF	720,000	2017
General Fund	Wheel Tax Surtax	700,000	2017
Parks Fund	Wheel Tax	<u>240,329</u>	2017
Subtotal Outstanding Since 2017		<u>27,476,573</u>	
General Fund	Wheel Tax Road	<u>1,200,000</u>	2018
Total		<u>\$ 28,676,573</u>	

Included in the amounts above are temporary loans totaling \$10,162,000, which had been loaned to the GSD Solid Waste Disposal fund from the GSD WWTP General Operating fund in prior years. The Board of Commissioners adopted Resolution No. SD 17-15 to consolidate the GSD Solid Waste Disposal fund into the GSD WWTP General Operating fund, and the consolidation occurred in 2018. However, the Board of Commissioners did not adequately address the outstanding temporary loans.

Other deficiencies were noted regarding temporary transfers as follows:

1. A temporary transfer (loan) repayment of \$250,000 made in 2018 was recorded as a disbursement from the General fund and receipted into the Wheel Tax fund. However, the original loan in 2017 to the General fund and outstanding as of January 1, 2018, had been made from the Wheel Exc Surtax fund, not the Wheel Tax fund.
2. A temporary transfer (loan) of \$1,200,000 was approved by the Common Council and made in 2018 from the Wheel Tax Road fund to the General fund. The fund which made the temporary loan, the Wheel Tax Road fund, consists of bond proceeds authorized and restricted by City Ordinance 9076.

Page 2 of Ordinance 9076 states in part:

"Whereas, the City now desires to use Local Wheel Revenues to finance the construction and maintenance of, and improvements to, the City's Transportation System ("Projects");
. . ."

Section 10 of Ordinance 9076 states in part:

". . . The Controller is hereby authorized and directed to deposit the remaining proceeds of the Revenue Bonds in a separate fund ("Bond Proceeds Fund") to pay for: (1) the cost of the Projects; (2) all costs and expenses incurred in connection with the Projects; and (3) costs of issuance of the Revenue Bonds. Except as described in this Section, the Bond Proceeds Fund may not be used for any other purpose."

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

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

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

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

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

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

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

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

INTERNAL CONTROLS - PICTORIAL BOOK SALE

The City did not have a documented oversight or review process in place over the inventory, sale, remittance of collections, and the issuance of receipts for the sale of City Pictorial books. A log sheet was kept based on the total number of boxes of books, location of the boxes, and the balance of remaining boxes. An inventory and sales report indicating how many books were actually sold and the remaining balance of books by location was not maintained.

Additionally, the rate charged for the books for the fundraiser was not approved by the governing board. Also, the City donated a box of books to a foundation and several individuals without governing board approval. The donated books were inventory, which is unaccounted inventory without governing board approval for the donation.

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

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."

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the unit. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Units which conduct fund raising events must have the express permission of the governing body for conducting the fund raiser as well as procedures in place concerning the internal controls and the responsibility of employees or officials. The Ghost Employment law [IC 35-44.1-1-3] should be considered when conducting a fundraiser. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

GARY COMMON COUNCIL



City of Gary

August 30, 2019

RESPONSES TO THE 2018 AUDIT

Overdrawn Cash Balances

The City acknowledges it has overdrawn cash balances. The City has created a financial recovery plan to increase the general fund projected revenues; reverse the increasing deficit; and stabilize the general fund with an ultimate goal of a positive financial position. A Freeze Committee has been established to monitor all spending, hiring and purchases. A three year deficit reduction plan has been formulated which will allow the City to continue services while addressing the deficit. The City team is optimistic about the ability to eliminate the general fund deficit by 2021. A new City Administration will begin in January, 2020. The Council will work with the new Administration to continue the work on of the City's financial recovery. See Note 12, "Plan to Address Financial Concerns" in the 2018 Audit Report.

Temporary Transfer of Fund

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

The Council is working with the Administration to repay the \$1,200,000 from the Wheel Tax Bond with funds being received from other financing sources.

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

Pictorial Book Sale

The Council will present an Ordinance that will establish the book purchase fees and the process for donating the books and ratify prior book donations.

Page 2

RESPONSES TO THE 2018 AUDIT

An inventory will be taken and maintained of the remaining books in the Council's possession. A report will be maintained noting books sold or donated and balanced to the number of books on hand. Invoices will be generated by Finance for any books that leave City's possession with the exception of books that are donated. The money received for sold books will be submitted to Finance for receipt and deposit.

August 30, 2019

Submitted by,

A handwritten signature in black ink that reads "Ron Brewer". The signature is written in a cursive style with a large, sweeping initial "R".

Ronald G. Brewer, Sr.

Gary Common Council President

COMMON COUNCIL
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 20, 2019, with Angelia Hayes, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; Linda Barnes Caldwell, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Watt, Common Council member; Virgil Moore, Jr., Common Council Finance Advisor; and Curtis Whittaker, CPA, Financial Consultant.

(This page intentionally left blank.)

SANITARY DISTRICT
CITY OF GARY

SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

ERRORS ON CLAIMS

Three debt payments totaling \$2,702,637 were not recorded in a timely manner.

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)

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in five prior reports, including the three most recent Reports B47523, B49191, and B51381.

Delinquent wastewater fees and penalties have not been certified to the County Auditor since 2009. The delinquent fees have been recorded with the County Recorder more frequently, but not certified to the County Auditor. The wastewater accounts receivable at December 31, 2018, was \$11,632,108. Wastewater fees and penalties outstanding for over 1 year as of December 31, 2018, totaled \$7,692,598. Of the amounts outstanding for over one year, \$5,739,213 (75 percent) of the outstanding amounts have been outstanding for over 3 years.

Indiana Code 36-9-25-11(g) states:

"Except as otherwise provided in subsection (h) or in an ordinance provision described in subsection (l), fees assessed against real property under this section also constitute a lien against the property assessed. The lien attaches at the time of the filing of the notice of lien in the county recorder's office. The lien is superior to all other liens except tax liens, and shall be enforced and foreclosed in the same manner as is provided for liens under [IC 36-9-23-33](#) and [IC 36-9-23-34](#)."

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder. . . .

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

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

INSUFFICIENT TRASH COLLECTIONS

A similar comment also appeared in prior Reports B47523, B49191, and B51381, entitled *FUND SOURCES AND USES*.

The City established separate user charges for funding the operation and maintenance of the wastewater treatment plant and the collection and disposal of trash, garbage, and solid waste.

In December 2017, the Board of Commissioners approved Resolution No. SD17-15 to close out and consolidate the GSD Solid Waste Disposal fund into the GSD WWTP General Operating fund as a separate department. Beginning in 2018, both of these user charges and the related disbursements were recorded in the GSD WWTP General Operating fund - Solid Waste Disposal Department.

For 2018, the GSD WWTP General Operating fund - Solid Waste department disbursements exceeded the trash revenues by \$2,248,869.

Explanation	Amount
Trash fees collected	\$ 3,625,301
Less: Trash disbursements	5,874,170
Insufficient collections	\$ (2,248,869)

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

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

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

TEMPORARY TRANSFER OF FUNDS

The same comment appeared in 13 prior reports, including the 3 most recent Reports B47523, B49191, and B51381.

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

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2018:

Loan To	Loan From	Loans Outstanding January 1, 2018	Loans Made	Loans Repaid	Loans Outstanding December 31, 2018
General (City)	GSD Equipment Replacement	\$ 3,857,127	\$ -	\$ 300,000	\$ 3,557,127
General (City)	GSD Capital Improvement	1,500,000	-	-	1,500,000
GSD Solid Waste Disposal	GSD WWTP General Operating	10,162,000	-	-	10,162,000
Totals		<u>\$ 15,519,127</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 15,219,127</u>

All of the amounts outstanding were not repaid by December 31, 2018, and had been outstanding since 2013 or prior as noted below:

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General (City)	GSD Equipment Replacement	\$ 3,557,127	2006
General (City)	GSD Capital Improvement	1,500,000	2006
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>3,490,000</u>	2013
Total		<u>\$ 15,219,127</u>	

Included in the amounts above are temporary loans totaling \$10,162,000, which had been loaned to the GSD Solid Waste Disposal fund from the GSD WWTP General Operating fund in prior years. The Board of Commissioners adopted Resolution No. SD 17-15 to consolidate the GSD Solid Waste Disposal fund into the GSD WWTP General Operating fund, and the consolidation occurred in 2018. However, the Board of Commissioners did not adequately address the outstanding temporary loans.

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

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

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

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

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

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



Mayor Karen Freeman-Wilson
Special Administrator

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

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

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

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

Tramel R. Raggs
President

Maurice G. Mabon
Vice President

Ola V. Morris
Secretary/Treasurer

Charles W. Jackson, Jr.
Member

Jewell Harris, Jr., Attorney

Website:
www.garysanitary.com

Gary Sanitary District **2018 Audit Comment Responses (Page 1.)**

Errors on Claims

We concur with the finding. All transactions are now being entered on a timely basis.

September 5, 2019

Submitted by,

Ms. Vern E. White
Director of Administration
Gary Sanitary District
Gary Storm Water Management District
vern@garysan.com
219.944.0595 Ext. 1813
219.944.0250 Fax. No.

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

Vern White

From: communications@sboa.in.gov <noreply+e2b63186c7a0cae7@formstack.com>
Sent: Thursday, September 05, 2019 4:31 PM
To: Vern White
Subject: SBOA Corrective Action Plan_5207



Formstack Submission For: [SBOA Corrective Action Plan_5207](#)
Submitted at 09/05/19 5:31 PM

Unit Name (i.e. Town of __, __ County, etc.):	Gary Sanitary District
County:	Lake
Report period beginning date::	01/01/18
Report period ending date::	12/31/18
Title of result and comment::	Delinquent Wastewater Accounts
Contact person Responsible for Corrective Action::	Vern White
Contact's Phone Number::	(219) 944-0595
Contact's Email Address::	vern@garysan.com
Views of Responsible Official::	This section of the Audit Results and Comments refers to Ind. Code 36-9-23-33 for its requirement that delinquent wastewater fees be certified to the County Auditor. Respectfully, however, GSD notes that it is not

Code 36-9-23) refers to a municipal sanitation department. GSD is not the sanitation department of the City of Gary, but rather is a special taxing district and a political subdivision of the State of Indiana. Therefore, GSD is governed by Ind. Code 36-9-25, which, according to GSD's initial review, does not contain an analogous requirement of certification to the County Auditor.

GSD will further research the interaction between Ind. Code 36-9-23 and 36-9-25 in this regard, in order to determine whether it has the authority to certify fees to the County Auditor. In the meantime, however, GSD does employ the collection method described in Ind. Code 36-9-25-11.5 of cooperating with the local water utility to disconnect water service in residences with delinquent sewer accounts. Additionally, GSD acknowledges that it can be more proactive with regard to the recording of sewer liens against delinquent properties. GSD further employs a collections attorney in furtherance of the authority to collect delinquent fees via civil lawsuits pursuant to Ind. Code 36-9-25-11. Finally, GSD is in the process of implementing a new billing software system to automate the sewer lien process and to enhance the certification and recording process.

Description of Corrective Action Plan::

GSD will further research the interaction between Ind. Code 36-9-23 and Code 36-9-25 in this regard, in order to determine whether it has authority to certify fees to the County Auditor.

Anticipated Completion Date::

Jan 01, 2020

If applicable: Document reason issue will NOT be corrected within 6 months::

Copyright © 2019 Formstack, LLC. All rights reserved. This is a customer service email.

Formstack, 11671 Lantern Road, Suite 300, Fishers, IN 46038



Mayor Karen Freeman-Wilson
Special Administrator

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

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

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

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

Tramel R. Raggs
President

Maurice G. Mabon
Vice President

Ola V. Morris
Secretary/Treasurer

Charles W. Jackson, Jr.
Member

Jewell Harris, Jr., Attorney

Website:
www.garysanitary.com

Gary Sanitary District **2018 Audit Comment Responses (Page 2.)**

Insufficient Trash Collections

While we agree that the collections are insufficient, there is another revenue source, entered into the accounting system as miscellaneous revenue that is used to offset the insufficient collections. There were approximately \$2 million of miscellaneous revenue received in 2018. Thus, the insufficient collections are approximately (\$250,000). The district is looking at ways to reduce expenses for services provided as well as increase miscellaneous revenue.

September 5, 2019

Submitted by,

Ms. Vern E. White
Director of Administration
Gary Sanitary District
Gary Storm Water Management District
vern@garysan.com
219.944.0595 Ext. 1813
219.944.0250 Fax. No.

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

Vern White

From: communications@sboa.in.gov <noreply+e2b63186c7a0cae7@formstack.com>
Sent: Thursday, September 05, 2019 4:53 PM
To: Vern White
Subject: SBOA Corrective Action Plan_5207



Formstack Submission For: **SBOA Corrective Action Plan_5207** Submitted at 09/05/19 5:53 PM

Unit Name (i.e. Town of __, __ County, etc.): Gary Sanitary District

County: Lake

Report period beginning date:: 01/01/18

Report period ending date:: 12/31/18

Title of result and comment:: Temporary Transfer of Funds

Contact person Responsible for Corrective Action:: Vern White

Contact's Phone Number:: (219) 944-0595 ext. 1813

Contact's Email Address:: vern@garysan.com

Views of Responsible Official:: GSD acknowledges the existence of and concurs with the amounts stated by SBOA in reference to the outstanding loan balance between the City of Gary and the Gary Sanitary District (GSD). The City of Gary has made

GSD has continued to extend the loan and declare it as an emergency situation via the approval of semi-annual resolutions by the Board of Commissioners in accordance with the requirements of Ind. Code 36-1-8-4. The last such resolution, No. SD18-08, was passed by the Board of Commissioners on December 3, 2018.

In 2018, GSD entered into a Consent Decree with the Department of Justice that provided the repayment terms of the outstanding loan between the City of Gary and GSD. The Loan amount at 12/31/17 was \$5,357,127. The repayment terms listed in the Consent Decree are as follows:

- The City of Gary will make the first payment of \$300,000 by no later than September 19, 2018;
- The City of Gary will make payments to GSD on or before the 31st of year over the next 6 years as follows:
 - o 2019 - \$300,000
 - o 2020 - \$500,000
 - o 2021 - \$600,000
 - o 2022 - \$750,000
 - o 2023 - 1,000,000
 - o 2024 - \$1,900,000

The City of Gary made the first loan payment for \$300,000 on September 19, 2018 and a payment of \$300,000 on January 19, 2019 leaving a balance due of \$4,757,127.

Between 2010 and 2013, the Gary Sanitary District made inter-fund loans between its General Operating Fund (670) and Solid Waste Fund (672) in the aggregate amount of \$10,162,000. The inter-fund loans were required to cover the costs of solid waste expenses due to the low solid waste collection rate. In December 2017, the Board of Commissioners passed resolution No. SD17-15, approving the close out of GSD Solid Waste Fund (672) into the GSD General Operating Fund (670).

As Fund (672) is now a separate department within Fund (670) and no longer a separate fund, there is no longer a need to transfer revenue between funds. Going forward, like it does with all of its departments, GSD will ensure that there is sufficient dollars budgeted for this new department. As a result of resolution No. 17-15, GSD does not have an outstanding internal balance of \$10,162,000 as the fund that had an outstanding balance (672) was closed and folded into the fund that it had an outstanding balance with (Fund 670). Therefore, the GSD Commissioners will no longer have to approve a rollover resolution related to this balance.

The initial loan was forgiven with the passage of the resolution and we believe this is no longer an issue going forward.

As it relates to the City of Gary outstanding balances, please note that there is an agreement in place that satisfies the entire balance over the next five (5) years.

**Corrective Action
Plan::**

**Anticipated
Completion Date::**

**If applicable:
Document reason issue
will NOT be corrected
within 6 months::**

Copyright © 2019 Formstack, LLC. All rights reserved. This is a customer service email.

Formstack, 11671 Lantern Road, Suite 300, Fishers, IN 46038

SANITARY DISTRICT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 20, 2019, with Daniel F. Vicari, Executive Director of the Sanitary and Storm Water Management Districts; Charles W. Jackson Jr., Sanitary and Storm Water Commissioner; Maurice Mabon, Sanitary and Storm Water Commissioner; Ola Morris, Sanitary and Storm Water Commissioner; Vern E. White, Director of Administration; Jerome Foster, Staff Accountant; Nick Snow, Attorney; and Curtis Whittaker, CPA, Financial Consultant.

The contents of this report were discussed on August 20, 2019, with Angelia Hayes, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; Linda Barnes Caldwell, Common Council member; Lavetta Sparks-Wade, Common Council member; Rebecca Watt, Common Council member; and Virgil Moore, Jr., Common Council Finance Advisor.