

**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, 2019 to December 31, 2019



**FILED**

11/13/2020



## TABLE OF CONTENTS

| <u>Description</u>   | <u>Page</u> |
|--|-------------|
| Schedule of Officials .....  | 2           |
| Transmittal Letter .....   | 3           |
| <b>Finance Department:</b>   |             |
| <b>Audit Results and Comments:</b>                                       |             |
| Financial Transactions and Reporting .....                               | 6-9         |
| Overdrawn Cash Balances .....  | 9-10        |
| Temporary Transfer of Funds .....  | 10-13       |
| Motor Vehicle Highway (MVH) Restricted.....                              | 13-14       |
| Appropriations .....   | 14          |
| Errors on Claims .....   | 14-15       |
| Subsequent Events - Timeliness of Reconciliations and Transactions ..... | 16          |
| Gateway Uploads .....  | 16          |
| Official Response.....   | 17-21       |
| Exit Conference .....  | 22          |
| <b>Common Council:</b>   |             |
| <b>Audit Results and Comments:</b>                                       |             |
| Overdrawn Cash Balances .....  | 24-25       |
| Temporary Transfer of Funds .....  | 25-27       |
| Motor Vehicle Highway (MVH) Restricted.....                              | 28-29       |
| Appropriations .....   | 29          |
| Official Response.....   | 30-32       |
| Exit Conference .....  | 33          |
| <b>Sanitary District:</b>  |             |
| <b>Audit Results and Comments:</b>                                       |             |
| Delinquent Wastewater Accounts .....                                     | 36          |
| Insufficient Trash Collections .....                                     | 37          |
| Temporary Transfer of Funds .....  | 38          |
| Stormwater Utility Funds .....   | 39          |
| Official Response.....   | 40-41       |
| Exit Conference .....  | 42          |
| <b>Genesis Convention Center:</b>  |             |
| <b>Audit Results and Comments:</b>                                       |             |
| Penalties .....  | 44          |
| Fees and Records.....  | 44-45       |
| Official Response.....   | 46          |
| Exit Conference .....  | 47          |
| <b>Parks and Recreation Department:</b>                                  |             |
| <b>Audit Results and Comments:</b>                                       |             |
| Park Board - Approval of Claims.....                                     | 50-51       |
| Destruction of Records - Parking Collections .....                       | 51          |
| Hudson Campbell - Supporting Documentation and Fees .....                | 51-52       |
| Marquette Park - Supporting Documentation and Fees .....                 | 52-54       |
| Official Response.....   | 55-56       |
| Exit Conference .....  | 57          |

SCHEDULE OF OFFICIALS

| <u>Office</u>   | <u>Official</u>                    | <u>Term</u>                                  |
|---|------------------------------------|--|
| City Controller   | Angelia Hayes                      | 01-01-19 to 03-31-20                         |
|   | Arlene Colvin (interim)            | 04-01-20 to 12-31-20                         |
| Mayor   | Karen Freeman-Wilson               | 01-01-19 to 12-31-19                         |
|   | Jerome Prince                      | 01-01-20 to 12-31-20                         |
| President of the Board of<br>Public Works and Safety                          | Niquelle Allen Winfrey<br>(Vacant) | 01-01-19 to 02-06-19<br>02-07-19 to 02-26-19 |
|   | Dayna Bennett                      | 02-27-19 to 12-31-19                         |
|   | Trent McCain                       | 01-01-20 to 12-31-20                         |
|   |                                    |  |
| President of the Common Council   | Ronald G. Brewer, Sr.              | 01-01-19 to 12-31-19                         |
|   | Michael A. Brown                   | 01-01-20 to 12-31-20                         |
| Executive Director of the<br>Sanitary and Storm Water<br>Management Districts |                                    |  |
|   | Daniel F. Vicari                   | 01-01-19 to 12-31-20                         |
| President of the Boards of<br>Sanitary and Storm Water<br>Commissioners       |                                    |  |
|   | Tramel Raggs<br>Maurice Mabon      | 01-01-19 to 05-06-20<br>05-07-20 to 12-31-20 |



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2019 to December 31, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

October 20, 2020

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FINANCE DEPARTMENT  
CITY OF GARY

FINANCE DEPARTMENT  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

Similar comments also appeared in prior Reports B51381 and B53396.

*Condition and Context*

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, disbursements, 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 controls.

*Cash and Investments (Bank Reconciliations) - City*

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

As of September 22, 2020, six bank accounts, including the payroll account and the primary operating accounts, had not been reconciled for the entire year of 2019 or at December 31, 2019. We were unable to audit beginning cash and investments balances as the City's banks had also not been reconciled in total at December 31, 2018.

In reviewing the documentation provided, we noted the following items:

1. There were various items noted in the reconciliations that could not be identified, explained, or supported. The net value of the unidentified items was (\$47,122).
2. 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 \$8,537,924 in the documentation provided. As amounts owed between banks should net to zero, these items were not considered as reconciling items for audit purposes.
3. Outstanding checks detailed listings generated from the software system was determined to not be reliable for the operating bank accounts. The listings included electronic funds transfer (EFTs) and checks that were determined to have cleared the bank. Additional audit procedures were performed to determine an amount of outstanding checks at December 31, 2019. Based upon those additional audit procedures, it was determined that a series of checks/EFTs used to post monthly health insurance disbursements had not cleared the bank and resulted in a (\$2,105,460) outstanding check total.

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 variance of \$4,651,909 when compared to the ledger at December 31, 2019. The combined bank reconciliation of all bank accounts identified a \$2,296,268 variance when compared to the adjusted financial statement ending cash and investment balance.

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

*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 City Controller made all journal entries; however, there was no review process in place to ensure journal entries were posted accurately and timely.

1. Numerous journal entries were made and then reversed.
2. A journal entry to transfer \$4,093,996 between funds was posted. The journal entry posted the disbursement side of the transfer; however, the related receipt in the other fund was not posted.
3. The City sold the public safety facility to the Gary Building Corporation (Holding Corporation). The transactions of the sale were posted to the ledger via journal entries. Originally, the \$40,000,000 face value of the Holding Corporation's bond was recorded. However, the City was not entitled to the total bond proceeds sold by the Holding Corporation.

The Holding Corporation's bond proceeds were reduced for the payment of the issue, underwriters' discounts, and the cost of issuance, totaling \$5,069,550. Thus, the City should have only receipted \$34,930,450. An analysis of the City's original and adjusting entries to post this transaction determined that debt issuance cost of \$1,339,750 were erroneously included in the amount receipted to the City ledgers.

*Receipts*

The City had designed a process of review or oversight over receipts to ensure the accuracy, completeness, timeliness, and classification of the receipts posted. However, implementation of the process could not be verified.

*Payroll Withholdings and Health Insurance Disbursements*

An effective internal control system was not in place to ensure that monthly health insurance premium payments paid were recorded accurately and in the correct fund.

The Withholdings fund, which had a balance of \$1,546,884, was not reconciled at December 31, 2019. Of this balance, \$1,300,169 was determined to be the employee contributions for health insurance. This resulted in the City paying the monthly health insurance premium payments entirely out of operating funds.

Payments totaling \$10,310,892 to the City's health insurance provider for 2019 were verified clearing the bank throughout the year. However, the ledger only reported \$7,955,249 in health insurance costs. Additional audit procedures determined that an unusual check series was posted, which resulted in the health insurance costs to be underreported by \$2,355,643. Supporting documentation for the unusual check series entries, which included negative transactions, could not be provided. Therefore, we could not propose an adjustment to the financial statement.

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

*Local Development Agreement Intercepts*

In December 2019, the Local Development Agreement (LDA) distributions from the casinos were deposited directly into a trust account to fund the City's lease payment to the Holding Corporation. Any amounts remaining after being applied to the debt payments were remitted to the City. However, the trust account disbursed \$350,000 for the City's lease payment, which was not recorded in the City's ledger.

*Sale Leaseback - Building Maintenance*

As part of the City's Sale Leaseback of its public safety facility to the Holding Corporation, the City was required to provide \$500,000 to the Holding Corporation to be held in trust for building maintenance. The City made a wire transfer of the \$500,000 in November 2019; however, did not record the disbursement to the ledger.

*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.

*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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties.

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. . . ."

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

"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)

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)

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

**OVERDRAWN CASH BALANCES**

The same comment also appeared in 14 prior reports, including the 3 most recent Reports B49191, B51381, and B53396.

*Condition and Context*

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2019. 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, 2019, including the grant funds with no reimbursement received in January 2020, are listed below:

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

| Fund                                   | Amount<br>Overdrawn |
|--|---------------------|
| National Civ Rights                    | \$ 4,950            |
| Self-Insurance                         | 267,261             |
| WCI/UCI Benefit                        | 846,105             |
| Maternal Child Health Infant Mortality | 49,775              |
| Tobacco                                | 41,920              |
| Building Community Trust               | 366                 |
| JAG Grant                              | 81,401              |
| TANF Summer Youth                      | 21,125              |
| Distracted Driving                     | 5,114               |
| Safe & Thriving Grant                  | 17,327              |
| Protective Services Grant I            | 1,023,534           |
| Emergency Shelter                      | 824,235             |
| Health And Human Services              | 470,744             |
| Bioterrorism                           | 10,691              |
| Summer Jobs Training Program           | 15,158              |
| Fair Housing Project                   | 9,790               |
| Leased Properties - Gary Bldg Corp.    | 206,221             |
| Social Services                        | 835                 |
| Salary Fee Judicial                    | 22,833              |

The Protective Services Grant I, Emergency Shelter, Health and Human Services, and the Leased Properties - Gary Bldg Corp. funds have remained overdrawn for at least thirteen years.

The General fund reported a positive cash and investment balance as of December 31, 2019, due to infusions of cash from two new debt issuances totaling \$48,963,175. The City's General fund receipted the proceeds from the sale-lease back of the public safety facility and the Taxable Tax Increment Revenue Bonds for \$32,679,091 and \$14,812,500, respectively.

The General fund's cash balance contained outstanding temporary loans owed to other funds of \$12,077,927. Without these temporary loans, the cash balance of the General fund would have been overdrawn by \$3,860,608.

*Criteria*

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

**TEMPORARY TRANSFER OF FUNDS**

The same comment also appeared in 14 prior reports, including the 3 most recent Reports B49191, B51381, and B53396.

*Condition and Context*

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

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

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2019:

| Loan To                                   | Loan From                                 | Loans<br>Outstanding<br>January 1,<br>2019 | Loans<br>Made       | Loans<br>Repaid     | Loans<br>Outstanding<br>December 31,<br>2019 |
|---|---|--|---------------------|---------------------|--|
| General                                   | Other City Funds<br>(Excluding GSD Funds) | \$ 12,270,800                              | \$ 22,700           | \$ 4,972,700        | \$ 7,320,800                                 |
| General                                   | GSD Equipment Replacement                 | 5,057,127                                  | -                   | 300,000             | 4,757,127                                    |
| Other City Funds<br>(Excluding GSD Funds) | Other City Funds<br>(Excluding GSD Funds) | 1,186,646                                  | 484,003             | 292,523             | 1,378,126                                    |
| GSD Funds                                 | GSD Funds                                 | -  | 2,000,000           | -                   | 2,000,000                                    |
| Totals                                    |   | <u>\$ 18,514,573</u>                       | <u>\$ 2,506,703</u> | <u>\$ 5,565,223</u> | <u>\$ 15,456,053</u>                         |

| Receiving Fund                  | Disbursing Fund                | Outstanding<br>Balance | Outstanding<br>Since |
|---------------------------------|--------------------------------|------------------------|----------------------|
| General                         | GSD Equipment Replacement      | \$ 4,757,127           | 2006                 |
| General                         | Media                          | 400,000                | 2010                 |
| General                         | Remote Encoding Center         | 500,000                | 2010                 |
| Parks and Recreation            | Consolidated Area TIF District | 380,000                | 2010                 |
| General                         | Media                          | 600,000                | 2011                 |
| General                         | Consolidated Area TIF District | 308,800                | 2011                 |
| General                         | Consolidated Area TIF District | 300,000                | 2011                 |
| General                         | Consolidated Area TIF District | 32,000                 | 2012                 |
| Lancaster Dusable TIF District  | Lakefront TIF District         | 40,317                 | 2012                 |
| General                         | Lakefront TIF District         | 2,010,000              | 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               | Parks and Recreation           | 5,000                  | 2016                 |
| Blight Elimination Program      | Midwest Center TIF District    | 300,000                | 2016                 |
| General                         | Lakefront TIF District         | 720,000                | 2017                 |
| General                         | Wheel Exc Surtax               | 250,000                | 2017                 |
| Parks and Recreation            | Wheel Tax                      | <u>240,329</u>         | 2017                 |
| Subtotal Outstanding Since 2018 |                                | <u>13,264,573</u>      |                      |
| Consolidated Area TIF District  | Midwest Center TIF District    | 191,480                | 2019                 |
| GSD WWTP General Operat         | GSD Equipment Replacement      | 800,000                | 2019                 |
| GSWMD                           | GSD Equipment Replacement      | <u>1,200,000</u>       | 2019                 |
| Total                           |                                | <u>\$ 15,456,053</u>   |                      |

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

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,757,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2024, these temporary transfers of funds are to be fully repaid.

Other deficiencies were noted regarding temporary transfers as follows:

1. Transfers outstanding as of December 31, 2019, were not approved by the Common Council to rollover to 2020. A temporary transfer of \$22,700 from General fund to Blight Elimination Program fund was made and repaid in 2019; however, the temporary transfer was not approved by the Common Council.
2. 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 made in 2017 to the General fund, had been from the Wheel Exc Surtax fund, not the Wheel Tax fund. A \$250,000 journal entry was recorded as a disbursement from the Wheel Tax fund in 2019, and receipted into the General fund. This entry resulted in reversing the loan repayment, and having the General fund still owing the Wheel Exc Surtax fund as of December 31, 2019. The \$250,000 disbursed by the Wheel Tax fund should have been receipted to the Wheel Exc Surtax fund to correct the error.
3. A temporary transfer (loan) repayment of \$59,200 made in 2017 was determined to be an overpayment. In 2019, the City Controller determined this overpayment would be applied to the Consolidated Area TIF District fund. However, the overpayment was applied to the General fund when the journal entry was recorded in the financial accounting system.

*Criteria*

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.

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

(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)

***MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED***

*Condition and Context*

On July 16, 2019, the Common Council adopted pending ordinance 2019-47. This ordinance created a new department (252) within the City's Motor Vehicle Highway (MVH) fund. The department served as the MVH Restricted sub-fund required by the State Examiner Directive 2018-2. However, the State Examiner Directive required a separate sub-fund MVH Restricted, fund 203, to be created, which when combined with the MVH fund, would constitute the total MVH fund.

Furthermore, the MVH Restricted fund activity was reported within the MVH fund on the City's Annual Financial Report. The State Examiner Directive required the MVH Restricted fund to be reported separately. The receipts, disbursements, and ending cash and investment balance of the MVH Restricted fund were \$1,727,971, \$1,399,755, and \$328,216, respectively.

Audit adjustments were proposed, approved by the City, and made to the financial statement to report the MVH Restricted separately from MVH fund.

The ordinance adopted by the Common Council included budget for employee compensation and related benefit costs for the restricted department 252. The City Controller's office made a journal entry dated December 31, 2019, which reclassified employee compensation and related benefit disbursements from the MVH fund to the MVH Restricted department, totaling \$284,429. The departments that the disbursements were transferred from the General Services (Dept. 222) and Traffic (Dept. 223) Departments. The disbursement amounts transferred consisted of disbursements occurring on September 27, 2019 through December 31, 2019, for Department 222 and occurring on August 2, 2019 through December 31, 2019, for Department 223. Compliance with Indiana Code 8-14-1-5 could not be determined for these reclassified disbursements to the MVH Restricted fund.

*Criteria*

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to create a new sub-fund within the MVH fund to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. . . .

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows: . . .

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

Cities and Towns

Fund 201     MVH  
Fund 203     MVH Restricted

**Together, MVH and MVH Restricted shall constitute the total MVH Fund.** *MVH and MVH Restricted will be shown separately on the Annual Financial Report . . . (State Examiner Directive 2018-2)*

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

**APPROPRIATIONS**

*Condition and Context*

The City did not have a legally adopted budget for the Riverboat and LDA Casino funds for 2019. Therefore, all disbursements from these funds were made without the required appropriation. The City disbursed \$5,560,136 and \$6,342,809, from the Riverboat and LDA Casino funds, respectively.

*Criteria*

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Indiana Code 36-4-8-2 states in part:

"Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted; . . ."

**ERRORS ON CLAIMS**

A similar comment also appeared in prior Report B53396.

*Condition and Context*

The following errors were noted in the testing of disbursements:

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

1. Disbursements for transfers were not properly supported by an Accounts Payable Voucher (APV) as required by law. Additional audit procedures were performed to substantiate the amounts. Disbursements totaling \$3,614,319 for transfers were not certified by the fiscal officer or approved by the governing board either on an APV or register of APVs.
2. Nine of forty-nine claims tested were either not included or could not be found on an APV Register, which would have documented the certification by the fiscal officer and approval by the appropriate governing body as required by Indiana Code.
3. Nine of forty-nine claims tested, primarily electronic funds transfer (EFT) or debt payments, while having other supporting documentation, did not have an APV to support the disbursement.
4. All payroll related benefits claims were prepared by an employee of the City Controller's office and none were certified by the fiscal officer either on an APV or APV register.
5. All payroll related benefits claims paid by the City between January 4, 2019 and August 16, 2019, were not approved by the Board of Works until its August 21, 2019 meeting.
6. A transfer was made from the CEDIT fund to the General fund on February 14, 2019. Ordinance 2948, adopted by the Common Council on February 20, 2019, regarding this transfer stated in part: "This ordinance shall be in affect after its passage by the City of Gary Common Council in compliance with [I.C. 6-3.6-10-2\(11\)](#). . ." The ordinance did not state that it was retroactive in application.

*Criteria*

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. . . ."

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)

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

**SUBSEQUENT EVENTS - TIMELINESS OF RECONCILIATIONS AND TRANSACTIONS**

*Condition and Context*

As of October 1, 2020, the City had not performed monthly bank reconciliations for several of the City's primary operating bank accounts for 2020.

As of September 9, 2020, the City had not yet receipted \$1,908,398 of Local Development Agreement (LDA) distributions received in January 2020 to the LDA Casino fund. Failure to record these transactions timely would also impact the bank reconciliation process.

*Criteria*

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)

**GATEWAY UPLOADS**

*Condition and Context*

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, approved board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The City did not comply with the directive and failed to upload any of the monthly or annual files on the Indiana Gateway for Government Units (Gateway) financial reporting system for 2019, except for monthly bank reconciliations. However, many of the bank reconciliations were not uploaded timely, that is, no later than the 15<sup>th</sup> day of the second succeeding month required by the directive. Additionally, the City did not upload reconciliations for all of its bank accounts.

*Criteria*

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Beginning with July 2018 files, which will be due September 15, 2018, all cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. (State Examiner Directive 2018-1)



## CITY OF GARY

OFFICE OF THE CHIEF OF STAFF

ARLENE D. COLVIN  
Chief of Staff

JEROME A. PRINCE  
Mayor

401 Broadway, Suite 203  
Gary, IN 46402  
(219) 881-1302 ~ Email: acolvin@ci.gary.in.us

### OFFICIAL RESPONSE

October 29, 2020

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

#### **Re: Responses to Finance Department Audit Comments**

##### ***Financial Transactions and Reporting***

Views of Responsible Official: We concur with the finding. The large number of city bank accounts proper controls not being in place to ensure bank transfers were timely recorded, and proper controls not being in place to ensure that adjusting journal entries were timely prepared, reviewed and posted caused even more issues within the city's financial reporting system.

##### Description of Corrective Action Plan:

Subsequent to the completion of this audit, the City plans to work with its consultant's and software vendor to adjust City bank statement balances with its accounting software balances, which may include adjusting balances to determined balances at December 31, 2019.

The City will summarize the prior year's bank accounts owed to other bank accounts and determine whether funds exist to make the necessary transfers or what alternative steps will be needed.

Once bank account balances have been reconciled to the City's accounting software balances as of December 31, 2019, the City will begin reconciling bank accounts on a monthly basis going forward.

The City will review and evaluate the balances in the Withholdings fund and transfer those funds to the funds that made the health insurance premium payments.

The City will establish procedures to determine the responsible persons to prepare, review and post adjusting journal entries. The City will also review its system of internal controls to ensure adequate segregation of duties are in place.

The City will also review its existing bank accounts and funds and determine which bank accounts and funds can be closed in order to simplify the financial reporting system.

Anticipated Completion Date:

The City anticipates having the reconciliation of its bank statement balances with its accounting software balances be brought current by the end of 2021. This is a large task due to the sheer number of bank accounts, large number and amount of prior bank transfers not properly made and the number of transactions that have occurred, it will take time to do.

The review of its system of internal controls and implement new procedures, we anticipate should be completed by March 31, 2022.

### ***Overdrawn Cash Balances***

The City acknowledges it has overdrawn cash balances in its funds. In 2019 the Gary Building Corporation issued \$40,000,000 Lease Rental Revenue Bonds, Series 2019, the primary purpose of this issuance was to pay outstanding liabilities, debts, overdrawn cash balances and provide funds to repay interfund loans. As of December 31, 2019, the overdrawn cash balances as noted were not replenished.

The City plans to charge these overdrawn balances to the general fund in 2020, at least to the extent there is available fund balance in the general fund.

### ***Temporary Transfer of Funds***

The City has not been able to repay the temporary internal fund transfers in accordance with the statute. In 2019 the Gary Building Corporation issued \$40,000,000 Lease Rental Revenue Bonds, Series 2019, the primary purpose of this issuance was to pay outstanding liabilities, debts, overdrawn cash balances and provide funds to repay interfund loans. As of December 31, 2019, many of the interfund transfers still remain outstanding.

In 2018, the City entered into an agreement that provides loan repayment terms with the Gary Sanitary District. Payments are due on each January 31 for the next five years to repay the \$4,747,127 amount due.

The City is considering its options on how to handle the remaining fund transfers, for many that have been outstanding since 2010.

### ***Motor Vehicle Highway (MVH) Restricted***

The City concurs with the finding that a separate MVH Restricted Fund needs to be established instead of transactions being recorded in a separate department of MVH (non-restricted). The City plans to establish a separate MVH Restricted Fund in 2020 and transfer the ending cash and investment balance of \$328,216 into this fund.

### ***Appropriations***

The City concurs with the finding that an adopted budget for the Riverboat and LDA Casino funds for 2019, however, the funds where the Riverboat and LDA Casino funds were transferred to had adopted budgets. For 2021 the City have adopted budget for the Riverboat and LDA Casino funds.

### ***Errors on Claims***

The City concurs with the finding that not all claims were included on a Accounts Payable Voucher or approved by the fiscal officer. The City plans to reiterate that all claims be submitted on Accounts Payable Voucher and approved by the fiscal officer and the Board of Public Works.

### ***Subsequent Events – Timeliness of Reconciliations and Transactions***

The city concurs with the finding that the City had not performed monthly bank reconciliations for several of it City's primary operating bank accounts for 2020. Due to numerous reporting errors that have occurred in the past and outstanding issues with the transfers between banks, the City has not reconciled several of its primary operating bank accounts. The City is working with its consultants and staff to rectify these issues. Please see the planned action plan under "Financial Transactions and Reporting" above.

### ***Gateway Uploads***

The City concurs with the finding that the City had not timely uploaded into the State Board of Accounts (SBOA) Gateway portal, its monthly bank reconcilements, bank statements, approved board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund and some cases these items had not been uploaded.

The City will put procedures in place to have a staff member whose responsibility it is to timely upload its documents to the SBOA Gateway beginning in 2021. We do anticipate that it will take longer to upload the bank reconciliations, since it will be later in 2021 until all bank reconciliations will be completed.

Respectfully Submitted,



Arlene Colvin, Chief of Staff/Interim City Controller

## OFFICIAL RESPONSE

October 20, 2020

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

Re: Response to 2019 City of Gary Audit

### Financial Transactions and Reporting

Challenges still exist performing bank reconciliations. Transactions that occurred prior to my employment, I will refer to as "historic". Historic transactions totaling in the millions of dollars dating as far back as 2007, were not recorded in the City's accounting system by previous staff. My staff and I were working to resolve these issues while researching the historic transactions to post or to present to the Council as interfund loans. During this time, historic due to/due from noted on the bank reconciliations did not balance. These historic issues were presented to the State Examiner's Office of the Board of Accounts in February 2020.

Some of the challenges encountered while working to resolve these historic transactions were, the original documents supporting the due to/due from could not be located. Research was required using available resources with assistance from the banks. As these transactions go back years, this was a slow and tedious process. The historic bank reconciliations appear to only be reconciled annually by an outside contractor.

To begin correcting these issues, I instituted several changes. I updated the wire transfer process. One person created the wire, second person entered the information into the bank, and the third person confirmed the wire in the bank. All wires were required to have the back-up documentation attached and kept for audit.

The interfund transfer process was created to correct money received into the wrong bank account and transferred and recorded in the correct bank account. This process corrects the prior process of receipting the money into the correct bank and moving it without documentation. This made the bank reconciliation process more difficult. The auditors noted that these transfers were not supported by an Accounts Payable Voucher or approved by the governing board. I was in the process of eliminating the unnecessary bank accounts and requesting the depositor to send the money to the correct bank account.

With the City's numerous bank accounts and historic issues, a new full-time position was created and filled to perform bank reconciliations. Outside contractors were hired to assist with the process.

One bank's due to/due from was posted in December and then reversed. It was determined that all historic transactions had to be posted at the same time as not to wrongly report the impacted fund balances. This information was saved both electronically in the bank reconciliation folder and in paper form with the other bank reconciliations none of which were presented to the auditors.

In 2019, the City changed health insurance providers. For years, the City paid for health insurance at the end of the month. The new health insurance provider required payment by the 10<sup>th</sup> of each month. Since health insurance payments were made prior to the employee withholding, the general fund paid the majority of the health insurance premium. Transactions were reversed to eliminate outstanding payroll payable as negative transactions per the advice of the City's software provider. Due to reasons out of my control, the accounting system was not updated to process employee withholdings differently.

The auditors noted several times within the audit report that something could not be located. I was not contacted by the auditors or City employees for assistance. Had I been contacted; I would have assisted.

#### Motor Vehicle Highway (MVH) Restricted

The sub fund for the MVH restricted fund was not set up properly in the accounting system. When the annual information was uploaded into Gateway, the information was not separated as required.

The budget for the restricted department was determined with the prior administration with assistance from the legal department. The amount of employee compensation and related benefit costs were determined by the percent of the work performed by these employees. The guidance received and used to determine these percentages, did not specify that documentation was required to support these activities or be retained for audit.

#### Gateway Uploads

Staff and I worked hard to perform bank reconciliations and post them in Gateway. Due to the major challenges already mentioned, this was a monumental task. The State does not specify which board minutes are to be uploaded. The City has numerous boards, are they all required? If so, a new internal process will need to be created to ensure compliance across the City.

In closing, I wanted to bring a level of due diligence to ensure processes were done appropriately. I disclosed all the issues that I found that predated me by years to the administration including the monumental problem with bank reconciliations and unrecorded transitions including the situation with Fund 224.

I wish the new administration well as they address the many challenges ahead.

Sincerely,

Angelia Hayes  
Former City Controller

FINANCE DEPARTMENT  
CITY OF GARY  
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2020, with Arlene Colvin, interim City Controller; Jerome Prince, Mayor; Linda Barnes-Caldwell, Common Council member; Ronald G. Brewer, Sr., Common Council member; William Godwin, Common Council member; Karl Cender, Financial Advisor; and Angelia Hayes, former City Controller.

COMMON COUNCIL  
CITY OF GARY

COMMON COUNCIL  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The same comment also appeared in 14 prior reports, including the 3 most recent Reports B49191, B51381, and B53396.

*Condition and Context*

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2019. 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, 2019, including the grant funds with no reimbursement received in January 2020, are listed below:

| Fund                                   | Amount<br>Overdrawn |
|--|---------------------|
| National Civ Rights                    | \$ 4,950            |
| Self-Insurance                         | 267,261             |
| WCI/UCI Benefit                        | 846,105             |
| Maternal Child Health Infant Mortality | 49,775              |
| Tobacco                                | 41,920              |
| Building Community Trust               | 366                 |
| JAG Grant                              | 81,401              |
| TANF Summer Youth                      | 21,125              |
| Distracted Driving                     | 5,114               |
| Safe & Thriving Grant                  | 17,327              |
| Protective Services Grant I            | 1,023,534           |
| Emergency Shelter                      | 824,235             |
| Health And Human Services              | 470,744             |
| Bioterrorism                           | 10,691              |
| Summer Jobs Training Program           | 15,158              |
| Fair Housing Project                   | 9,790               |
| Leased Properties - Gary Bldg Corp.    | 206,221             |
| Social Services                        | 835                 |
| Salary Fee Judicial                    | 22,833              |

The Protective Services Grant I, Emergency Shelter, Health and Human Services, and the Leased Properties - Gary Bldg Corp. funds have remained overdrawn for at least thirteen years.

The General fund reported a positive cash and investment balance as of December 31, 2019, due to infusions of cash from two new debt issuances totaling \$48,963,175. The City's General fund receipted the proceeds from the sale-lease back of the public safety facility and the Taxable Tax Increment Revenue Bonds for \$32,679,091 and \$14,812,500, respectively.

The General fund's cash balance contained outstanding temporary loans owed to other funds of \$12,077,927. Without these temporary loans, the cash balance of the General fund would have been overdrawn by \$3,860,608.

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

*Criteria*

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

**TEMPORARY TRANSFER OF FUNDS**

The same comment also appeared in 14 prior reports, including the 3 most recent Reports B49191, B51381, and B53396.

*Condition and Context*

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 2019:

| Loan To                                   | Loan From                                 | Loans<br>Outstanding<br>January 1,<br>2019 | Loans<br>Made       | Loans<br>Repaid     | Loans<br>Outstanding<br>December 31,<br>2019 |
|---|---|--|---------------------|---------------------|--|
| General                                   | Other City Funds<br>(Excluding GSD Funds) | \$ 12,270,800                              | \$ 22,700           | \$ 4,972,700        | \$ 7,320,800                                 |
| General                                   | GSD Equipment Replacement                 | 5,057,127                                  | -                   | 300,000             | 4,757,127                                    |
| Other City Funds<br>(Excluding GSD Funds) | Other City Funds<br>(Excluding GSD Funds) | 1,186,646                                  | 484,003             | 292,523             | 1,378,126                                    |
| GSD Funds                                 | GSD Funds                                 | -  | 2,000,000           | -                   | 2,000,000                                    |
|   | Totals                                    | <u>\$ 18,514,573</u>                       | <u>\$ 2,506,703</u> | <u>\$ 5,565,223</u> | <u>\$ 15,456,053</u>                         |

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

| Receiving Fund                  | Disbursing Fund                | Outstanding<br>Balance | Outstanding<br>Since |
|---------------------------------|--------------------------------|------------------------|----------------------|
| General                         | GSD Equipment Replacement      | \$ 4,757,127           | 2006                 |
| General                         | Media                          | 400,000                | 2010                 |
| General                         | Remote Encoding Center         | 500,000                | 2010                 |
| Parks and Recreation            | Consolidated Area TIF District | 380,000                | 2010                 |
| General                         | Media                          | 600,000                | 2011                 |
| General                         | Consolidated Area TIF District | 308,800                | 2011                 |
| General                         | Consolidated Area TIF District | 300,000                | 2011                 |
| General                         | Consolidated Area TIF District | 32,000                 | 2012                 |
| Lancaster Dusable TIF District  | Lakefront TIF District         | 40,317                 | 2012                 |
| General                         | Lakefront TIF District         | 2,010,000              | 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               | Parks and Recreation           | 5,000                  | 2016                 |
| Blight Elimination Program      | Midwest Center TIF District    | 300,000                | 2016                 |
| General                         | Lakefront TIF District         | 720,000                | 2017                 |
| General                         | Wheel Exc Surtax               | 250,000                | 2017                 |
| Parks and Recreation            | Wheel Tax                      | <u>240,329</u>         | 2017                 |
| Subtotal Outstanding Since 2018 |                                | <u>13,264,573</u>      |                      |
| Consolidated Area TIF District  | Midwest Center TIF District    | 191,480                | 2019                 |
| GSD WWTP General Operat         | GSD Equipment Replacement      | 800,000                | 2019                 |
| GSWMD                           | GSD Equipment Replacement      | <u>1,200,000</u>       | 2019                 |
| Total                           |                                | <u>\$ 15,456,053</u>   |                      |

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,757,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2024, these temporary transfers of funds are to be fully repaid.

Other deficiencies were noted regarding temporary transfers as follows:

1. Transfers outstanding as of December 31, 2019, were not approved by the Common Council to rollover to 2020. A temporary transfer of \$22,700 from General fund to Blight Elimination Program fund was made and repaid in 2019; however, the temporary transfer was not approved by the Common Council.

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

2. 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 made in 2017 to the General fund, had been from the Wheel Exc Surtax fund, not the Wheel Tax fund. A \$250,000 journal entry was recorded as a disbursement from the Wheel Tax fund in 2019, and receipted into the General fund. This entry resulted in reversing the loan repayment, and having the General fund still owing the Wheel Exc Surtax fund as of December 31, 2019. The \$250,000 disbursed by the Wheel Tax fund should have been receipted to the Wheel Exc Surtax fund to correct the error.
3. A temporary transfer (loan) repayment of \$59,200 made in 2017 was determined to be an overpayment. In 2019, the City Controller determined this overpayment would be applied to the Consolidated Area TIF District fund. However, the overpayment was applied to the General fund when the journal entry was recorded in the financial accounting system.

*Criteria*

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)

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

**MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED**

*Condition and Context*

On July 16, 2019, the Common Council adopted pending ordinance 2019-47. This ordinance created a new department (252) within the City's Motor Vehicle Highway (MVH) fund. The department served as the MVH Restricted sub-fund required by the State Examiner Directive 2018-2. However, the State Examiner Directive required a separate sub-fund MVH Restricted, fund 203, to be created, which when combined with the MVH fund, would constitute the total MVH fund.

Furthermore, the MVH Restricted fund activity was reported within the MVH fund on the City's Annual Financial Report. The State Examiner Directive required the MVH Restricted fund to be reported separately. The receipts, disbursements, and ending cash and investment balance of the MVH Restricted fund were \$1,727,971, \$1,399,755, and \$328,216, respectively.

Audit adjustments were proposed, approved by the City, and made to the financial statement to report the MVH Restricted separately from MVH fund.

The ordinance adopted by the Common Council included budget for employee compensation and related benefit costs for the restricted department 252. The City Controller's office made a journal entry dated December 31, 2019, which reclassified employee compensation and related benefit disbursements from the MVH fund to the MVH restricted department, totaling \$284,429. The departments that the disbursements were transferred from the General Services (Dept. 222) and Traffic (Dept. 223) Departments. The disbursement amounts transferred consisted of disbursements occurring on September 27, 2019 through December 31, 2019, for Department 222 and occurring on August 2, 2019 through December 31, 2019, for Department 223. Compliance with Indiana Code 8-14-1-5 could not be determined for these reclassified disbursements to the MVH Restricted fund.

*Criteria*

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to create a new sub-fund within the MVH fund to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. . . .

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows: . . .

Cities and Towns

Fund 201 MVH  
Fund 203 MVH Restricted

**Together, MVH and MVH Restricted shall constitute the total MVH Fund.** MVH and MVH Restricted will be shown separately on the Annual Financial Report . . . (State Examiner Directive 2018-2)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

**APPROPRIATIONS**

*Condition and Context*

The City did not have a legally adopted budget for the Riverboat and LDA Casino funds for 2019. Therefore, all disbursements from these funds were made without the required appropriation. The City disbursed \$5,560,136 and \$6,342,809, from the Riverboat and LDA Casino funds, respectively.

*Criteria*

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Indiana Code 36-4-8-2 states in part:

"Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted; . . ."



## CITY OF GARY

OFFICE OF THE CHIEF OF STAFF

ARLENE D. COLVIN  
Chief of Staff

JEROME A. PRINCE  
Mayor

401 Broadway, Suite 203  
Gary, IN 46402  
(219) 881-1302 ~ Email: acolvin@ci.gary.in.us

### OFFICIAL RESPONSE

October 29, 2020

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

#### **Re: Responses to Council Audit Comments**

##### ***Financial Transactions and Reporting***

Views of Responsible Official: We concur with the finding. The large number of city bank accounts proper controls not being in place to ensure bank transfers were timely recorded, and proper controls not being in place to ensure that adjusting journal entries were timely prepared, reviewed and posted caused even more issues within the city's financial reporting system.

##### Description of Corrective Action Plan:

Subsequent to the completion of this audit, the City plans to work with its consultant's and software vendor to adjust City bank statement balances with its accounting software balances, which may include adjusting balances to determined balances at December 31, 2019.

The City will summarize the prior year's bank accounts owed to other bank accounts and determine whether funds exist to make the necessary transfers or what alternative steps will be needed.

Once bank account balances have been reconciled to the City's accounting software balances as of December 31, 2019, the City will begin reconciling bank accounts on a monthly basis going forward.

The City will review and evaluate the balances in the Withholdings fund and transfer those funds to the funds that made the health insurance premium payments.

The City will establish procedures to determine the responsible persons to prepare, review and post adjusting journal entries. The City will also review its system of internal controls to ensure adequate segregation of duties are in place.

The City will also review its existing bank accounts and funds and determine which bank accounts and funds can be closed in order to simplify the financial reporting system.

Anticipated Completion Date:

The City anticipates having the reconciliation of its bank statement balances with its accounting software balances be brought current by the end of 2021. This is a large task due to the sheer number of bank accounts, large number and amount of prior bank transfers not properly made and the number of transactions that have occurred, it will take time to do.

The review of its system of internal controls and implement new procedures, we anticipate should be completed by March 31, 2022.

### ***Overdrawn Cash Balances***

The City acknowledges it has overdrawn cash balances in its funds. In 2019 the Gary Building Corporation issued \$40,000,000 Lease Rental Revenue Bonds, Series 2019, the primary purpose of this issuance was to pay outstanding liabilities, debts, overdrawn cash balances and provide funds to repay interfund loans. As of December 31, 2019, the overdrawn cash balances as noted were not replenished.

The City plans to charge these overdrawn balances to the general fund in 2020, at least to the extent there is available fund balance in the general fund.

### ***Temporary Transfer of Funds***

The City has not been able to repay the temporary internal fund transfers in accordance with the statute. In 2019 the Gary Building Corporation issued \$40,000,000 Lease Rental Revenue Bonds, Series 2019, the primary purpose of this issuance was to pay outstanding liabilities, debts, overdrawn cash balances and provide funds to repay interfund loans. As of December 31, 2019, many of the interfund transfers still remain outstanding.

In 2018, the City entered into an agreement that provides loan repayment terms with the Gary Sanitary District. Payments are due on each January 31 for the next five years to repay the \$4,747,127 amount due.

The City is considering its options on how to handle the remaining fund transfers, for many that have been outstanding since 2010.

### ***Motor Vehicle Highway (MVH) Restricted***

The City concurs with the finding that a separate MVH Restricted Fund needs to be established instead of transactions being recorded in a separate department of MVH (non-restricted). The City plans to establish a separate MVH Restricted Fund in 2020 and transfer the ending cash and investment balance of \$328,216 into this fund.

### ***Appropriations***

The City concurs with the finding that an adopted budget for the Riverboat and LDA Casino funds for 2019, however, the funds where the Riverboat and LDA Casino funds were transferred to had adopted budgets. For 2021 the City have adopted budget for the Riverboat and LDA Casino funds.

### ***Errors on Claims***

The City concurs with the finding that not all claims were included on a Accounts Payable Voucher or approved by the fiscal officer. The City plans to reiterate that all claims be submitted on Accounts Payable Voucher and approved by the fiscal officer and the Board of Public Works.

### ***Subsequent Events – Timeliness of Reconciliations and Transactions***

The city concurs with the finding that the City had not performed monthly bank reconciliations for several of it City’s primary operating bank accounts for 2020. Due to numerous reporting errors that have occurred in the past and outstanding issues with the transfers between banks, the City has not reconciled several of its primary operating bank accounts. The City is working with its consultants and staff to rectify these issues. Please see the planned action plan under “Financial Transactions and Reporting” above.

### ***Gateway Uploads***

The City concurs with the finding that the City had not timely uploaded into the State Board of Accounts (SBOA) Gateway portal, its monthly bank reconcilements, bank statements, approved board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund and some cases these items had not been uploaded.

The City will put procedures in place to have a staff member whose responsibility it is to timely upload its documents to the SBOA Gateway beginning in 2021. We do anticipate that it will take longer to upload the bank reconciliations, since it will be later in 2021 until all bank reconciliations will be completed.

Respectfully Submitted,



Arlene Colvin  
Chief of Staff/Interim City Controller

COMMON COUNCIL  
CITY OF GARY  
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2020, with Arlene Colvin, interim City Controller; Jerome Prince, Mayor; Linda Barnes-Caldwell, Common Council member; Ronald G. Brewer, Sr., Common Council member; William Godwin, Common Council member; and Karl Cender, Financial Advisor.

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SANITARY DISTRICT  
CITY OF GARY

SANITARY DISTRICT  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS

**DELINQUENT WASTEWATER ACCOUNTS**

The same comment also appeared in six prior Reports, including the three most recent Reports B49191, B51381, and B53396.

*Condition and Context*

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, 2019, was \$11,715,013. Wastewater fees and penalties outstanding for over one year as of December 31, 2019, totaled \$7,460,005. Of the amounts outstanding for over one year, \$5,921,893 (79 percent) of the outstanding amounts have been outstanding for over three years.

*Criteria*

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 . . .

(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. . . ."

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

**INSUFFICIENT TRASH COLLECTIONS**

The same comment also appeared in prior Report B53396.

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

*Condition and Context*

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 Boards of Sanitary and Storm Water 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 2019, the GSD WWTP General Operating fund - Solid Waste department disbursements exceeded the trash revenues by \$2,305,487.

| Explanation               | Amount         |
|---------------------------|----------------|
| Trash fees collected      | \$ 3,765,525   |
| Less: Trash Disbursements | 6,071,012      |
| Insufficient collections  | \$ (2,305,487) |

Furthermore, a test of billings determined that the monthly service fee rate charged by the Sanitary District to its customers, per City Ordinance 8659, has remained unchanged since 2017.

*Criteria*

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. . . ."

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

**TEMPORARY TRANSFER OF FUNDS**

Similar comments also appeared in 14 prior reports, including the 3 most recent Reports B49191, B51381, and B53396.

*Condition and Context*

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,757,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2024, these temporary transfers of funds are to be fully repaid.

Various temporary transfers between certain funds of the Sanitary and Storm Water Management District (District) were made and not repaid within the time frame permitted by statute. The temporary transfers outstanding of \$2,000,000, as of December 31, 2019, were not repaid until January 7th and 8th of 2020. The Boards of Sanitary and Storm Water Commissioners did not declare an emergency or pass a resolution to extend the prescribed period for repayment.

*Criteria*

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."

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

**STORMWATER UTILITY FUNDS**

*Condition and Context*

The Gary Storm Water Management District (GSWMD) fund disbursed \$2,040,486 in 2019 for the following projects that did not directly or totally relate to the purpose or operations of the GSWMD:

1. Disbursed \$798,219 for a green roof on City Hall, which is not owned by the GSWMD.
2. Disbursed \$300,000 to the City's Redevelopment Department for the demolition of unsafe structures.
3. Disbursed \$742,267 towards the complete reconstruction of a City road, including light poles, guard rails, signal detectors, and pavement markings.

*Criteria*

Indiana Code 8-1.5-5-6 states in part:

"The board has the powers and duties prescribed by [IC 8-1.5-3-4\(a\)](#). In addition, the board may: . . .

- (3) install, maintain, and operate a storm water collection and disposal system;
- (4) make all necessary or desirable improvements of the grounds and premises under its control . . ."

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

MAYOR JEROME A. PRINCE



DANIEL F. VICARI, P.E., BCEE  
Executive Director

AN EQUAL OPPORTUNITY EMPLOYER

[www.garysanitary.com](http://www.garysanitary.com)

**TO:** Ms. Arlene Colvin  
**FROM:** Jerome Carl Foster II  
**CC:** Mr. Daniel Vicari  
Mr. Steve Dolton  
Mr. Karl Cender  
**DATE:** 10.30.2020  
**SUBJECT:** GSD Response to SBOA Comments

**TEMPORARY TRANSFER OF FUNDS**

In 2018, the Gary Sanitary District (“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 payments to GSD on or before the 31<sup>st</sup> 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.

GDS will ensure the Board of Commissioners DOES declare an emergency or pass a resolution to extend the prescribed period for repayment each year.

**INSUFFICIENT TRASH COLLECTIONS**

GSD recognizes the current monthly service fee rate creates deficit spending; however, our Board has approved a rate increase and has forward it to the City Common Council for resolution. The Gary City Common Council is currently reviewing the recommendations and we have asked that they approve within the next 6 months.

**ADMINISTRATIVE OFFICE**

3600 West 3<sup>rd</sup> Avenue, Gary, IN 46406  
Tel: 219-944-0595 | Fax: 219-977-8318

**CUSTOMER SERVICE OFFICE**

504 Broadway, Suite 103, Gary, IN 46402  
Tel: 219-883-1027 | Fax: 219-883-1029

MAYOR JEROME A. PRINCE



DANIEL F. VICARI, P.E., BCEE  
*Executive Director*

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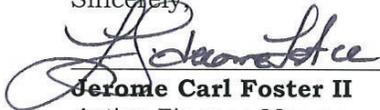
**DELINQUENT WASTEWATER ACCOUNTS**

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. However, GDS has forwarded the certify fees to the County Auditor as of 10/29/2020. The new billing software is projected to come online in the fall of 2021.

**Stormwater Utility Funds**

GSD recognizes errors in classification and future transactions will be processed accordingly.

Sincerely,



---

**Jerome Carl Foster II**  
*Acting Finance Manager*

Ph: 219-944-1211 x1817  
Fax: 219-949-6885

**ADMINISTRATIVE OFFICE**  
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SANITARY DISTRICT  
CITY OF GARY  
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2020, with Daniel F. Vicari, Executive Director of the Sanitary and Storm Water Management Districts; Maurice Mabon, President of the Boards of Sanitary and Storm Water Commissioners; Ola Morris, Board member; Jerome Foster, acting Finance Manager; Arlene Colvin, interim City Controller; Jerome Prince, Mayor; Linda Barnes-Caldwell, Common Council member; Ronald G. Brewer, Sr., Common Council member; William Godwin, Common Council member; Tai Adkins, Common Council member; and Karl Cender, Financial Advisor.

GENESIS CONVENTION CENTER  
CITY OF GARY

GENESIS CONVENTION CENTER  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS

**PENALTIES**

*Condition and Context*

The Genesis Convention Center (GCC) Board had its Incorporation reinstated in 2019 with the Indiana Secretary of State's office. As part of the reinstatement process, GCC was required to file for-profit tax returns going back to 2011 with the Indiana Department of Revenue (IDOR). Due to the lapse in the incorporation status, the GCC had been required to file normal tax returns as a regular business rather than as a non-profit. The IDOR assessed a late penalty for each year the returns had not been filed as required. The GCC Board approved and the City's finance paid \$2,450 from the GCC funds for the penalties related to the late tax returns in 2019:

| <u>Year of<br/>Return</u> | <u>Penalty<br/>Amount</u> |
|---------------------------|---------------------------|
| 2011                      | \$ 352.50                 |
| 2012                      | 352.50                    |
| 2013                      | 352.50                    |
| 2014                      | 352.50                    |
| 2015                      | 352.50                    |
| 2016                      | 407.50                    |
| 2017                      | <u>280.00</u>             |
| Total                     | <u>\$ 2,450.00</u>        |

*Criteria*

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**FEES AND RECORDS**

A similar comment also appeared in prior Report B53314, entitled *GENESIS CENTER RENTAL CONTRACTS*.

*Condition and Context*

The Genesis Convention Center (GCC) generates revenues from the leasing of the facilities and food and beverage sales related to those leases. Lease contracts are prepared for the various events and the GCC - User Guidelines are an extension of the lease agreements. The following were noted during the review of the leases:

1. Several event folders (four of twenty-five events), used to account for facility rental and related food and beverage sales, were not provided for audit.

GENESIS CONVENTION CENTER  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

2. Five of twenty-five events tested were not charged sales tax. The event folders for those events did not contain sales tax certificates, nor were certificates provided upon request.
3. Three events were provided a room rate discount and one event was provided a discount on the Electrician Rate. These discounts were not covered by the approved rate schedule and board approval of these discounts was not provided.
4. One event was conducted on a Sunday, but was charged at the Friday/Saturday rate with the fee for one room waived. This resulted in the leasee being overcharged for facility room usage.
5. GCC payment policy requires all charges to be paid prior to an event date.
  - a. Two events had food or beverage amounts paid for by the leasee after the event. This resulted in the 18 percent gratuity charge and sales taxes not being charged or collected from the lease.
  - b. Three events involving organizations or a City Department paid for their rentals after the rental date. Payments were received ranging from 2 months to 15 months after the event.

*Criteria*

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



## CITY OF GARY

OFFICE OF THE CHIEF OF STAFF

401 Broadway, Suite 203

Gary, IN 46402

(219) 881-1302 ~ Email: acolvin@ci.gary.in.us

JEROME A. PRINCE  
Mayor

ARLENE D. COLVIN  
Chief of Staff

### OFFICIAL RESPONSE

October 29, 2020

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

#### **Re: Responses to Genesis Convention Center Audit Comments**

#### ***PENALTIES***

Views of Responsible Official: We concur with the finding. Due to staff turnovers, the tax filing issue was not brought to the attention of the board and its attorney in a timely manner resulting in the outlined penalties. As was indicated in the comment, GCC's tax filing status has been corrected. Procedures for ensuring that there is not a repetition of this situation are currently being put into place.

#### ***FEES AND RECORDS***

We concur with this finding. The Board is working on a corrective action plan that addresses the issues raised in this comment. In general, the Board will review and correct its fee policy as needed and will develop and implement policies and procedures that will ensure proper recordkeeping. We intend to submit a detailed corrective action plan to address this area.

Respectfully Submitted,

Arlene Colvin  
Chief of Staff/Interim Controller

GENESIS CONVENTION CENTER  
CITY OF GARY  
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2020, with Shanta Mack, Genesis Convention Center Board President; Janice White, Board member; Robyn Johnson, Executive Director; Arlene Colvin, interim City Controller; Jerome Prince, Mayor; Linda Barnes-Caldwell, Common Council member; Ronald G. Brewer, Sr., Common Council member; William Godwin, Common Council member; Tai Adkins, Common Council member; and Karl Cender, Financial Advisor.

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PARKS AND RECREATION DEPARTMENT  
CITY OF GARY

PARKS AND RECREATION DEPARTMENT  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS

**PARK BOARD - APPROVAL OF CLAIMS**

*Condition and Context*

After its June 12, 2019 meeting, the Park Board only conducted two more meetings through the end of calendar year 2019. Of the two meetings conducted, the Park Board only approved claims and payroll at the August 14, 2019 meeting for June and July. No meetings were conducted in the months of July, September, November, or December, and its June 26, 2019 meeting was cancelled due to a lack of a quorum.

Payroll and vendor claims for disbursements of funds after July 2019 were not approved or ratified by the Park Board. The minutes in 2020 did not mention that August through December 2019 payroll and vendor claims were subsequently ratified as required by Indiana Code.

*Criteria*

Indiana Code 36-10-4-7(f) states:

"Money received by the board shall immediately be paid into the city treasury and credited to the department. All expenditures relating to the parks, parkways, public grounds, public ways, and other places of the city under the control of the department shall be provided for by a special levy of taxes. The money shall be paid from the city treasury when ordered by the board."

Indiana Code 36-10-4-16 states in part:

". . . (c) The board may expend on behalf of the city all sums of money collected from:

- (1) taxes;
- (2) the sale of privileges in the parks of the city;
- (3) the sale of bonds of the city for park purposes; and
- (4) any other source.

All gifts, donations, or payments that are given or paid to the city for park purposes belong to the general park fund, the special nonreverting operating fund, or the special nonreverting capital fund to be used by the board as provided by this chapter. Warrants for expenditures shall be drawn by the city fiscal officer upon a voucher of the board signed by the president or vice president and secretary. . . .

(g) The city legislative body may establish by ordinance upon request of the board:

- (1) a special nonreverting operating fund for park purposes from which expenditures may be made as provided by ordinance, either by appropriation by the board or by the city legislative body; or
- (2) a special nonreverting capital fund for the purpose of acquiring land or making specific capital improvements from which expenditures may be made by appropriation by the city legislative body.

PARKS AND RECREATION DEPARTMENT  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The city legislative body shall designate the fund or funds into which the city fiscal officer shall deposit fees from golf courses, swimming pools, skating rinks, or other major facilities requiring major expenditures for management and maintenance. Money received from fees other than from major facilities or received from the sale of surplus property shall be deposited by the city fiscal officer either in the special nonreverting operating fund or in the nonreverting capital fund, as directed by the board. However, if neither fund has been established, money received from fees or from the sale of surplus property shall be deposited in the general park fund. Money from either special fund may be disbursed only on approved claims allowed and signed by the president and secretary of the board. . . ."

***DESTRUCTION OF RECORDS - PARKING COLLECTIONS***

This same comment also appeared in a Management Letter addressed to the Mayor, Park Board, and Park Department of the City for the audit period ending December 31, 2018.

A similar comment also appeared in the prior two Reports B47523, entitled *RECEIPT ISSUANCE AND FEES*, and B49191, entitled *RECEIPT ISSUANCE, FEES, AND RECORDS*.

*Condition and Context*

The Park Department did not retain documentation (tickets) to substantiate daily parking collections; therefore, we could not determine if the proper rates were charged or if all collections were received.

*Criteria*

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

***HUDSON CAMPBELL - SUPPORTING DOCUMENTATION AND FEES***

A similar comment also appeared in a Management Letter addressed to the Mayor, Park Board, and Park Department of the City for the audit period ending December 31, 2018.

A similar comment also appeared in the prior Report B47523, entitled *RECEIPT ISSUANCE AND FEES*, and B49191, entitled *RECEIPT ISSUANCE, FEES, AND RECORDS*.

*Condition and Context*

The fees charged for the Racquetball room at the Hudson Campbell park facility were not included in the Park Board approved rate schedule.

PARKS AND RECREATION DEPARTMENT  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The City did not have controls to ensure that fees collected for Physical Fitness were properly documented. The City Controller's receipts for Hudson Campbell Sports and Fitness Center collections did not agree to daily sales reports from the facility's point-of-sale system. We were unable to determine if fees were properly charged as proper supporting documentation was not provided. In a test of seven days of receipts, the variance between the amount received by the City Controller's office and daily sales reports from the point-of-sale system was \$3,757.80. One of the seven receipts could not be located for audit.

*Criteria*

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)

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. . . ."

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

**MARQUETTE PARK - SUPPORTING DOCUMENTATION AND FEES**

A similar comment also appeared in the prior Report B51019, entitled *INTERNAL CONTROL DEFICIENCIES*.

*Condition and Context*

There were deficiencies noted in the internal controls regarding the handling of Pavilion rentals and remittance of the rental collections to the City Controller. Adequate documentation was not always maintained. Receipts were not always remitted timely.

PARKS AND RECREATION DEPARTMENT  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The Marquette Park (Park) Pavilion was available to the public to rent for special occasions, such as weddings, reunions, corporate events, etc. The rental fees varied depending on the type of event, space rented within the Pavilion, and additional services provided by Park personnel. Fees for a rental were supported by a rental agreement between the Park and the lessee and a deposit was required upon signing of the agreement. The following issues were noted in a test of nineteen receipts:

1. Four events tested were not charged the proper rate for facility rental. For one of these events, the Park Board approved to waive the renting organization's facility rental fees due to their volunteer hours during the year. The organization was charged \$1,200 for security and maintenance. The rates are typically included as part of the facility rental fee and were not on the Park Board approved rate schedule as separate charges.
2. One event tested was not charged the \$500 refundable security deposit fee as required by the rental agreement.
3. For three of the events tested, taxes and gratuity were not calculated correctly which appeared to be due to a formula error. This resulted in \$3,667 not collected for taxes and gratuity.
4. For one event, how the food charges were calculated could not be determined due to a personalized menu instead of the approved menu.
5. For three events, the food and/or drink charges were miscalculated and not charged according to the rate schedule (menu).
6. A child's meal rate was charged for various events; this rate was not on the approved rate schedule (menu).
7. One event had a cash bar; however, there was no charge for bartenders.
8. Three events contained chair upgrade charges. The customers were charged a rate of \$8 per chair while the rate schedule contained a rate of \$8 per table.
9. One event was not collected in full prior to the event in accordance with Park policy; the final payment was made three days after the event.
10. Ten of the nineteen City receipts tested were not remitted timely to the City Controller based upon the date of the park receipt. Days between collection and deposit ranged from two to fifteen days.

*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:

PARKS AND RECREATION DEPARTMENT  
CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

"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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties."

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-13-6-1(d) states in part: ". . . a city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds . . ."

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



## CITY OF GARY

OFFICE OF THE CHIEF OF STAFF

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Gary, IN 46402

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JEROME A. PRINCE  
Mayor

ARLENE D. COLVIN  
Chief of Staff

### OFFICIAL RESPONSE

October 29, 2020

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

#### **Re: Responses to Park Audit Comments**

##### ***PARK BOARD – APPROVAL OF CLAIMS***

We concur with the finding. The Park Department is now in the process of ensuring that past claims are ratified. Additionally, procedures are being developed to ensure that claim ratification occurs on a monthly basis.

##### ***DESTRUCTION OF RECORDS – PARKING COLLECTIONS***

The Park Department is working on its internal control processes to ensure that records are safeguarded for the statutory period. Records will be destroyed in accordance with statutory requirements.

##### ***HUDSON CAMPBELL – SUPPORTING DOCUMENTATION AND FEES***

The City's Internal Auditor will work with Hudson Campbell staff to assist in developing forms and procedures to ensure that all fees are approved by the Park Board, and that the proper fee per activity is charged and documented for all users of the facility. A detailed corrective action plan will be submitted to address this area.

**MARQUETTE PARK - SUPPORTING DOCUMENTATION AND FEES**

Additional internal control measures will be implemented to ensure that Marquette Park rentals are handled in accordance with documented policies and procedures and that funds collected are properly remitted to the Controller. A detailed corrective action plan will be submitted to address this area.

Respectfully Submitted,



Arlene Colvin, Chief of Staff/Interim City Controller

PARKS AND RECREATION DEPARTMENT  
CITY OF GARY  
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2020, with Eric Reeves, Executive Director; Juanita Jackson, Park Board member; Dwight Gardner, President of the Park Board; Arlene Colvin, interim City Controller; Jerome Prince, Mayor; Linda Barnes-Caldwell, Common Council member; Ronald G. Brewer, Sr., Common Council member; William Godwin, Common Council member; Tai Adkins, Common Council member; and Karl Cender, Financial Advisor.