

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

FEDERAL COMPLIANCE AUDIT 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
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance with <i>Government Auditing Standards</i> .....	3-4
Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance .....	5-7
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards .....	11-13
Notes to Schedule of Expenditures of Federal Awards.....	14
Schedule of Findings and Questioned Costs.....	15-23
Auditee-Prepared Documents:	
Summary Schedule of Prior Audit Findings.....	26-28
Corrective Action Plan .....	29-31
Other Reports.....	32

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 Public Works and Safety	Niquelle Allen Winfrey (Vacant)	01-01-19 to 02-06-19 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 Sanitary and Storm Water Management Districts	Daniel F. Vicari	01-01-19 to 12-31-20
President of the Boards of Sanitary and Storm Water Commissioners	Tramel Raggs	01-01-19 to 05-06-20
	Maurice Mabon	05-07-20 to 12-31-20



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of Gary (City), for the year ended December 31, 2019, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated October 20, 2020, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America. We were unable to obtain sufficient competent evidential matter concerning the ending cash balances reported in the financial statement. The City's records do not permit the application of other auditing procedures to ascertain if the financial statement is fairly stated.

***Internal Control over Financial Reporting***

In connection with our engagement to audit the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Compliance and Other Matters***


In connection with our engagement to audit the financial statement of the City, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statement, other instances of noncompliance or other matters may have been identified and reported herein.

***City of Gary's Response to Findings***

The City's response to the findings identified in our engagement is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the engagement to audit the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

October 20, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

**Report on Compliance for the Major Federal Program**

We have audited the City of Gary's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2019. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

***Opinion on the Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2019-003, that we consider to be significant deficiencies.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We were engaged to audit the financial statement of the City, as of and for the year ended December 31, 2019, and have issued our report thereon dated October 20, 2020. However, the scope of our audit of the financial statement was not sufficient to enable us to express an opinion because we were unable to obtain sufficient competent evidential matter concerning the ending cash balances reported in the financial statement. The City's records do not permit the application of other auditing procedures to ascertain if the financial statement is fairly stated and accordingly, we did not express an opinion on the financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Because of the significance of the matter discussed above, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards referred to above.

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

October 20, 2020

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

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CITY OF GARY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Child Nutrition Cluster					
Summer Food Service Program for Children	Indiana Department of Education	10.559			
Summer Food Service Program for Children			#71818IN109942SF	\$ -	\$ 45,637
Total - Child Nutrition Cluster				-	45,637
Total - Department of Agriculture				-	45,637
<u>Department of Commerce</u>					
Economic Development Cluster					
Investments for Public Works and Economic Development Facilities	Direct Grant	11.300			
Investments for Public Works and Economic Development Facilities			06-01-06008	-	329,611
Total - Economic Development Cluster				-	329,611
Coastal Zone Management Administration Awards	Indiana Department of Natural Resources	11.419			
Lake Michigan Coastal Program			CZ656	-	8,240
Total - Department of Commerce				-	337,851
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct Grant	14.218			
Community Development Block Grant			B15MC180005	-	3,350
Community Development Block Grant			B16MC180005	-	22
Community Development Block Grant			B17MC180005	2,500	1,018,645
Community Development Block Grant			B18MC180005	50,000	1,663,039
Community Development Block Grant			B19MC180005	-	267,806
Community Development Block Grant			B14MC180005 (Section 108 Loan)	-	1,720,409
Community Development Block Grant			B14MC180005 (Section 108 Loan)	-	360,330
Community Development Block Grant			B08MN180005	-	4,828
Community Development Block Grant			B11MN180005	-	23,089
Total - Community Development Block Grants/Entitlement Grants				52,500	5,061,518
Total - CDBG - Entitlement Grants Cluster				52,500	5,061,518
Emergency Solutions Grant Program	Direct Grant	14.231			
Emergency Solutions Grants Program			E-16-MC-180005	16,691	16,691
Emergency Solutions Grants Program			E-17-MC-180005	80,298	88,071
Emergency Solutions Grants Program			E-18-MC-180005	82,763	92,955
Total - Emergency Solutions Grant Program				179,752	197,717

CITY OF GARY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Home Investment Partnerships Program	Direct Grant	14.239			
Home Investment Partnerships Program			M-14-MC-180203	-	281,689
Home Investment Partnerships Program			M-17-MC-180203	-	44,565
Home Investment Partnerships Program			M-19-MC-180203	-	14,716
Home Investment Partnerships Program			M-15-MC-180203	-	(10,351)
Total - Home Investment Partnerships Program				-	330,619
Total - Department of Housing and Urban Development				232,252	5,589,854
<u>Department of Justice</u>					
Community-Based Violence Prevention Program Safe and Thriving Grant	Direct Grant	16.123	2017-MU-MU-K007	-	26,619
Crime Victim Assistance Crime Victim Assistance	Indiana Criminal Justice Institute	16.575	D3-17-11444	-	39,064
Violence Against Women Formula Grants STOP Grant	Indiana Criminal Justice Institute	16.588	STOP-2019-00052	-	45,344
Bulletproof Vest Partnership Program Protective Services Grant	Direct Grant	16.607	BVP-FY2017	-	7,657
Equitable Sharing Program Equitable Sharing Program	Direct Grant	16.922	DEA-FY2019	-	1,515
Total - Department of Justice				-	120,199
<u>Department of Transportation</u>					
Highway Safety Cluster State and Community Highway Safety Operation Pull Over	Indiana Criminal Justice Institute	20.600	OPO-2019-00069	-	55,990
National Priority Safety Programs Distracted Driving	Indiana Criminal Justice Institute	20.616	D3-18-12006	-	19,715
Total - Highway Safety Cluster				-	75,705
Total - Department of Transportation				-	75,705
<u>Equal Employment Opportunity Commission</u>					
Employment Discrimination Title VII of the Civil Rights Act of 1964 Equal Employment Opportunity Commission	Direct Grant	30.001	EEC-45017C0056	-	34,537
Total - Equal Employment Opportunity Commission				-	34,537

CITY OF GARY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Environmental Protection Agency</u>					
State Indoor Radon Grants State Indoor Radon Grants (SIRG)	Indiana State Department of Health	66.032	FY2019	-	1,118
Beach Monitoring and Notification Program Implementation Grants Beach Monitoring and Notification Program Implementation Grants	Indiana Department of Environmental Management	66.472	FY2019	-	29,526
Total - Environmental Protection Agency				-	30,644
<u>Department of Health and Human Services</u>					
Immunization Cooperative Agreements Childhood Immunization	Indiana State Department of Health	93.268	H23IP000723	-	21,274
Public Health Emergency Preparedness Public Health Emergency Preparedness (PHEP) Cooperative Agreement	Indiana State Department of Health	93.069	6 NU90TP922052-01-01	-	16,310
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements Bioterrorism-CRI	Indiana State Department of Health	93.074	U90TP000521	-	40,592
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	Indiana State Department of Health	93.539	FY2019	-	52,146
Social Services Block Grant Social Services Block Grant/SSBG Grant	Indiana Criminal Justice Institute	93.667	2019INSOSR	-	8,000
HIV Care Formula Grants HIV Care Formula Grants	Indiana State Department of Health	93.917	X08HA00033	-	192,305
Total - Department of Health and Human Services				-	330,627
<u>Department of Homeland Security</u>					
Emergency Food and Shelter National Board Program Lake Area United Way EFSP FEMA	Direct Grant	97.024	LRO 271600-005	-	2,250
Total - Department of Homeland Security				-	2,250
Total federal awards expended				\$ 232,252	\$ 6,567,304

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Summary of Significant Accounting Policies**

*A. Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

*B. Other Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Note 2. Indirect Cost Rate**

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Disclaimer of opinion
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	yes
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
CDBG - Entitlement Grants Cluster	Unmodified
Dollar threshold used to distinguish between Type A and Type B programs: \$750,000	
Auditee qualified as low-risk auditee?	no

**Section II - Financial Statement Findings**

**FINDING 2019-001**

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2018-001.

*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 internal controls to ensure the accuracy and timeliness of the recordkeeping and reporting functions.

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

In addition, the City had no process to identify or communicate corrective actions to improve internal 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*

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

As of 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 bank accounts had also not been reconciled in total at December 31, 2018.

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

- 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).
- 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. Amounts owed between banks should net to zero; therefore, these items were not considered as reconciling items for audit purposes.
- The outstanding checks detailed listings generated from the software system were determined to be unreliable for the operating bank accounts. The listings included electronic funds transfers (EFTs) and checks that had 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.

*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 internal controls in place 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. The journal entries prepared by the City contained the following errors:

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- Numerous journal entries were made and then reversed.
- A journal entry to transfer \$4,093,996 between funds was recorded. The journal entry recorded the disbursement side of the transfer; however, the corresponding receipt in the other fund was not recorded.
- The City sold their public safety facility to the Gary Building Corporation (Holding Corporation). The transactions of the sale were recorded 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 and 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 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 related to 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.

*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.

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*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, they 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. . . ."

"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. . . .

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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)

*Cause*

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

*Effect*

The failure to provide accurate and complete reconciliations of the bank account balances to the record balances prevented the determination of whether the cash and investment balance (financial position) of the City was fairly presented as of December 31, 2019.

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

*Views of Responsible Officials*

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

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2019-002***

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2018-002.

*Condition and Context*

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

The City did not properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA. One employee prepared the grant information for the federal awards without a system of oversight or review to detect and correct errors before submission.

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

1. The Economic Development Cluster was omitted from the SEFA, which understated the federal expenditures by \$329,611.
2. The Coastal Zone Management Administration Awards expenditures were understated by \$584.
3. The Community Development Block Grants/Entitlement Grants Neighborhood Stabilization Program expenditures were understated by \$27,917.
4. The Community Development Block Grants/Entitlement Grants expenditures passed through to subrecipients were overstated by \$925,372.
5. The Community Development Block Grants/Entitlement Grants Section 108 Loan expenditures were understated by \$398,846.
6. The Crime Victim Assistance expenditures were overstated by \$9,455.
7. The Violence Against Women Formula Grants expenditures were understated by \$15,381.
8. The State and Community Highway Safety expenditures were overstated by \$45.
9. The State Indoor Radon Grants expenditures were overstated by \$373.
10. The Beach Monitoring and Notification Program Implementation Grants program was omitted from the SEFA, which understated the federal expenditures by \$29,526.
11. The PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds grant was omitted from the SEFA, which understated the federal expenditures by \$52,146.
12. The Immunization Cooperative Agreements expenditures were overstated by \$52,146.

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

13. The HIV Care Formula Grants expenditures were understated by \$54,055.

14. Various other grants had incorrect program titles, federal grantor agency names, cluster titles, or identifying numbers.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

*Criteria*

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

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

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

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

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

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

2 CFR 200.508 states in part:

"The auditee must: . . .

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

2 CFR 200.510(b) states:

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

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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

*Cause*

The City's management had not established a system of internal controls that would have ensured proper reporting of the SEFA.

*Effect*

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

*Views of Responsible Officials*

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

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2019-003**

Subject: CDBG - Entitlement Grants Cluster - Reporting  
Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Number and Year (or Other Identifying Number): B14MC180005 (Section 108 Loan)  
Compliance Requirement: Reporting  
Audit Finding: Significant Deficiency

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2018-003.

*Condition and Context*

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

The City had not designed or implemented adequate policies or procedures to ensure that monthly reports for the Section 108 Loan program were accurately prepared and submitted. The City prepared and submitted the required monthly reports without an oversight, review, or approval process.

The lack of internal controls was isolated to the Section 108 Loan program monthly reports.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

*Cause*

The City's management had not developed a system of internal controls to ensure compliance with the grant agreement and reporting requirements.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and reporting requirements.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish a system of internal controls to ensure compliance with the grant agreement and the Reporting compliance requirement.

*Views of Responsible Officials*

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

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#### AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.



## CITY OF GARY

OFFICE OF THE CHIEF OF STAFF

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Mayor

ARLENE D. COLVIN  
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### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

#### ***FINDING 2018-001***

Fiscal year in which the finding initially occurred :2017  
Contact Person Responsible for Corrective Action: Arlene Colvin  
Contact Phone Number: (219) 881-1363

#### Status of Audit Finding:

The City of Gary's Internal Audit Team worked with the Finance Department staff to develop a new Bank Reconciliation Policy. The policy includes guidelines for Best Practices for Bank Reconciliations and internal controls, a monthly manual checklist for bank reconciliations to be signed and dated by the preparer and approver upon completion, and an electronic monthly checklist that requires entry by the preparer and approver. The electronic checklist spreadsheet also provides information on the upload of the bank reconciliations into Gateway. While the bank reconciliation process has improved, there are several bank reconciliations for 2018 and 2019 that are still in progress. The new policies and procedures, as well as electronic spreadsheets, are currently being used and are maintained in the Bank Reconciliation file of the Finance Folder

New policies and procedures relating to journal entries, receipts and financial reporting continue to be a work in progress. New procedures have not been fully implemented in 2019 due to staff changes as well as insufficient time for training staff due to a shut-down relating to the Governor's order to shelter at home and the need to telework to ensure social distancing due to the COVID -19 pandemic.

It is anticipated that a new City Controller will be hired by the end of the year and with a Deputy Controller to be hired in the new year, the leadership will be in place in the department to ensure that the policies and procedures needed will be put in place.



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### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

#### ***FINDING 2018-002***

Fiscal year in which the finding initially occurred: 2017  
Contact Person Responsible for Corrective Action: Arlene Colvin  
Contact Phone Number (219) 881-1233

#### Status of Audit Finding:

The Internal Controls Committee in the Finance Department, along with the Internal Auditor worked to develop policies and procedures for the Schedule of Expenditures of Federal Awards (SEFA). The new policy includes guidelines to assure better communications between the Finance Department and external city departments that are grantees, to provide more accurate SEFA reporting.

Also, included in the policy are Best Practices for the preparation of the Schedule of Expenditures of Federal Awards, as well as, a SEFA Completion Checklist.

The work continues to ensure that the Schedule is properly prepared and that information is generated from the departments and provided to the Finance Department in an accurate and timely manner. In order to ensure that SEFA reporting improves, quarterly meetings between the Grants Administrator and the departments will be instituted to catch deficiencies early on so that they can be corrected.



JEROME PRINCE  
Mayor

**CITY OF GARY**  
**DEPARTMENT OF COMMUNITY DEVELOPMENT**

**E. NIKOLE RUMPH**  
Director

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

***FINDING 2018-003***

Fiscal year in which the finding initially occurred :2017

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: U.S. Department of Housing and Urban Development

Contact Person Responsible for Corrective Action: Nikole Rumph, Interim Director

Contact Phone Number: 219-881-5075

Status of Audit Finding:

This audit finding relating to the NSP program has been resolved. No further action is required.

All 108 loan reports are up to date. However, the review sheets were not completed as it was anticipated that the project would be closed shortly after the new audit period would have begun. Since the project is still open, the review process will begin immediately with the Interim Director of the Department signing off as a part of the review process.



## CITY OF GARY

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### CORRECTIVE ACTION PLAN

#### ***FINDING 2019-001***

Contact Person Responsible for Corrective Action: Arlene Colvin, Chief of Staff and Interim City Controller  
Contact Phone Number: (219) 881-1235

Views of Responsible Official: We concur with the finding. The large number of city bank accounts and proper controls not being in place to ensure bank transfers were timely recorded and 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 consultants 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.



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### CORRECTIVE ACTION PLAN

#### **FINDING 2019-002**

Contact Person Responsible for Corrective Action: Arlene Colvin, Chief of Staff and Interim City Controller  
Contact Phone Number: (219) 881-1235

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

The Internal Controls Committee in the Finance Department, along with the Internal Auditor worked to develop policies and procedures for the Schedule of Expenditures of Federal Awards (SEFA). The new policy includes guidelines to assure better communications between the Finance Department and external city departments that are grantees, to provide more accurate SEFA reporting. Also, included in the policy are Best Practices for the preparation of the Schedule of Expenditures of Federal Awards, as well as, a SEFA Completion Checklist.

The work continues to ensure that the Schedule is properly prepared and that information is generated from the departments and provided to the Finance Department in an accurate and timely manner. In order to ensure that SEFA reporting improves, quarterly meetings between the Grants Administrator and the departments will be instituted to catch deficiencies early on so that they can be corrected.

Anticipated Completion Date: The plan will begin to be implemented during the last quarter of 2020. Plan implementation will continue through the first quarter of 2021 and should be complete by the end of that quarter.



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### CORRECTIVE ACTION PLAN

#### ***FINDING 2019-003***

Contact Person Responsible for Corrective Action: Arlene Colvin, Interim City Controller  
Contact Phone Number: 219-881-1235

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The sheets indicating that the reports had been reviewed were not completed because it was anticipated that the project would be closed before the beginning of the new audit period. Since the project is still open, the review process will begin immediately with the Interim Director of the Department signing off as a part of the review process.

Anticipated Completion Date: The anticipated completion date is December 31, 2020.

## OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.