

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HAMMOND

LAKE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED

03/26/2021

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
City Controller:	
Audit Results and Comments:	
Financial Transactions and Reporting	6-9
Advance Payments	9
Overdrawn Cash Balances	9-10
Condition of Records - Loans Receivable.....	10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay Megan Flores	01-01-19 to 01-16-20 01-17-20 to 12-31-21
Mayor	Thomas M. McDermott, Jr.	01-01-19 to 12-31-21
President of the Board of Public Works and Safety	Heather Garay Kevin Margraf	01-01-19 to 01-16-20 01-17-20 to 12-31-21
President of the Common Council	Robert Markovich Dave Woerpel	01-01-19 to 12-31-19 01-01-20 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

This report is supplemental to our audit report of the City of Hammond (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 Statements Audit Report of the City, which provides our opinions on the City's financial statements. This report may be found at 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

March 11, 2021

(This page intentionally left blank.)

CITY CONTROLLER
CITY OF HAMMOND

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Reports B49726, B51340, and B53551, entitled *FINDING 2016-001, FINDING 2017-001, and FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting.

Financial Statements and Notes to the Financial Statements

The City contracted with a consultant to prepare the City's GAAP financial statements and note disclosures. The City Controller and the consultant conducted various verbal communications throughout the course of the financial statement preparation, in which the City Controller reviewed and approved various financial statement items and adjustments proposed by the consultant. However, evidence of the City Controller's review and approval of the financial statements, note disclosures, and other information was not documented.

Internal controls were ineffective and did not ensure that the financial statements were accurate and complete. Errors noted included the classification of fund type related to debt service funds and the restriction of assets. Adjustments were proposed, accepted by the City, and made to the financial statements by the City.

Internal controls were ineffective and did not ensure that the note disclosures were accurate and complete. Numerous errors were noted, including reporting incorrect amounts, or including items that did not apply to the City. Adjustments were proposed, accepted by the City, and made to the note disclosures by the City.

For some items in the financial statements, the City and the Port Authority did not have or could not locate policies approved by governance, such as a capital asset and depreciation policy or an allowance for doubtful accounts policy. Although the informal policies used for the preparation of the financial statements were approved by management, approval by governance was not obtained.

Cash and Investments (Bank Reconciliations) - City

The internal control over cash and investments and trust bank reconciliations was not effective and did not ensure that reconciling items in the bank reconciliations were corrected in a timely manner.

As of December 31, 2019, the City had accumulated reconciling adjustments to the payroll account, which had not been corrected or recorded timely. A \$16,065,281 bank transfer due from, and a \$19,661,766 due to the payroll bank account with the general bank account has been carried as a reconciling item since December 31, 2014. Additional reconciling items in the payroll account included accumulated balances, receipts and disbursements of payroll, and payroll withholding amounts totaling \$264,098,225, which is netted with the accumulation of gross payroll totaling \$263,612,231. The net effect of these reconciling items was a decrease in the balance of the payroll bank account of \$3,110,491.

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

Other adjustments carried on the bank reconciliations of other bank accounts involved transfers between bank accounts, which had not been recorded in the financial accounting software. Adjustments for errors noted in deposits and disbursements, dating as far back as 2014, continue to be used as reconciling items in the bank reconciliations.

In December 2019, the City made numerous adjusting entries to correct outstanding errors and adjustments, which were carried month to month. As of the February 2020 bank reconciliations, there were ten adjustments for the gross amount of \$187,122,529, and nine negative adjustments for the gross amount of (\$187,098,299) that were still being used as reconciling items on the bank reconciliations related to the end of year adjustments.

Capital Assets - City

There were no internal controls in place to ensure the accuracy of capital assets records. The City was unable to provide supporting documentation for beginning capital asset balances. As a result, we were unable to audit capital assets, accumulated depreciation, and depreciation expense for the City. The opinion of the Governmental Activities reflects this matter.

For the City, one person entered the capital asset acquisition information into the financial accounting system. There was no review or approval process of the information entered.

Net Pension Liability

There were no documented internal controls to ensure:

- a. The accuracy of Public Employees Retirement Fund (PERF) Census Data for the City and the Port Authority.
- b. PERF wages reported in the City's and the Port Authority's payroll records agree to the wages reported to Indiana Public Retirement System (INPRS).
- c. The review had been performed by the Pension Secretaries and updated to the ERM portal by the Payroll Administrator for the 1925 Police and 1937 Fire Pension plans.
- d. That only those retirees and beneficiaries eligible for pension benefits under the 1925 Police and 1937 Fire Pension plans received those benefits.

Other Post-Employment Benefits (OPEB)

There were no documented internal controls to ensure:

- a. The accuracy and completeness of OPEB Census Data provided to the Actuary, for the City and the Port Authority.
 1. Differences were noted between the census data and the actuarial report. Review of a reconciliation provided by the actuary determined that there was a net difference of 24 members included in the actuarial valuation who should have not been included.
 2. The City of Hammond Housing Authority (HHA) employees also participated in the City's OPEB plan. Of the HHA participants, 15 were not reported to the actuary to be included in the actuarial valuation.

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

- b. That benefits were not provided to those who were no longer alive.

The City did not perform a crossmatch of retirees and surviving beneficiaries' social security numbers to verify whether any were deceased.

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. . . ."

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

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ADVANCE PAYMENTS

A similar comment also appeared in 14 prior Reports, including the 3 most recent Reports B49726, B51340, and B53551.

Condition and Context

Employee compensation, hours, and leave time were reported by the departmental payroll clerks to the City Controller's office on a biweekly Payroll Earnings Forecast (forecast). The forecasts were submitted for payroll processing by the Monday or Tuesday prior to the pay date, which was on the following Friday. Salaried employees were paid for the prior and current week, and, therefore, were paid in advance of performing the service. The pay also did not reflect leave time used for the period covered.

Criteria

Indiana Code 5-7-3-1(a) states: "Public officers may not draw or receive their salaries in advance."

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Report B53551.

Condition and Context

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 as of December 31, 2019, including the grant funds with no reimbursements received as of December 31, 2020, are listed below:

Fund	Amount Overdrawn
Oper Centipede	\$ 141,264
Fy2019 Ped/bcyc	120
19 Proj Save	893
FY19 OPO PDGmt	1,195
DUI Task Force	8,740
Pretrial Div Pg	578

CITY CONTROLLER
CITY OF HAMMOND
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)

CONDITION OF RECORDS - LOANS RECEIVABLE

Condition and Context

The records provided to support Loans Receivable contained multiple inconsistencies. It was determined that the software system used to track the loans did not allow for a user to run a report as of a previous date. The reports generated for December 31, 2018, and December 31, 2019, which were run in the system on June 17, 2019, and July 17, 2020, respectively, were not accurate for 2018 and 2019 year-end. These reports included current year activity. Additionally, there was a \$277,619 variance between the ending 2018 balance and beginning 2019 balance based on the reports provided.

The City also provided down payment assistance loans which were tracked manually. The City provided listings of down payment assistance loans that were made between the years 2015 and 2019. The manually maintained records provided did not agree with loans made per the City's expenditure ledgers from its financial accounting system and were determined to be inaccurate. Records prior to 2018 were not logical, hard to decipher, and contained multiple repeats. It was also determined that the down payment assistance loans were not considered in the calculation of loans receivable and allowance for doubtful accounts reported in the City's financial statements provided for audit.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CITY CONTROLLER
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on March 11, 2021, with Megan Flores, City Controller; Scott Rakos; Common Council member; Barry Tyler, Jr., Common Council member; Phil Taillon, Chief of Staff; Jessica Cooper, Budget and Reporting Administrator; William Sarb, Financial Consultant; and Rich Gaul, Financial Consultant.