

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF HAMMOND

LAKE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
03/31/2021

*Reissued on April 19, 2021,
to correct the Schedule of
Expenditures of Federal
Awards and related reports.*

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 Statements 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	10-11
Notes to Schedule of Expenditures of Federal Awards.....	12
Schedule of Findings and Questioned Costs.....	13-19
Auditee-Prepared Documents:	
Summary Schedule of Prior Audit Findings.....	22-26
Corrective Action Plan	27-30
Other Reports.....	31

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay	01-01-19 to 01-16-20
	Megan Flores	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	01-01-19 to 01-16-20
	Kevin Margraf	01-17-20 to 12-31-21
President of the Common Council	Robert Markovich	01-01-19 to 12-31-19
	Dave Woerpel	01-01-20 to 12-31-21



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

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

We have audited, 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 statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hammond (City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We were also engaged to audit the financial statements of the governmental activities of the City. We have issued our report thereon dated March 11, 2021. The opinion on governmental activities was disclaimed because there was not sufficient appropriate audit evidence for capital assets net of accumulated depreciation for land and other capital assets of the City. As a result of this lack of supporting documentation, we were unable to audit the capital assets and accumulated depreciation. Our report includes a reference to other auditors who audited the financial statements of the Hammond Housing Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, 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 statements, 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 statements 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
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, 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 audit, 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.

City of Hammond's Response to Findings

The City's response to the findings 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 the financial statements, 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 audit performed 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

March 11, 2021



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 HAMMOND, LAKE COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the City of Hammond'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 have audited the financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2019, and the related notes to the financial statements. We were also engaged to audit the financial statements of the governmental activities of the City. Those collectively comprise the City's basic financial statements. We issued our report thereon dated March 11, 2021, which contained unmodified opinions on the financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information and a disclaimer of opinion on the financial statements of the governmental activities. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 basic financial statements. Because there was not sufficient appropriate audit evidence for capital assets net of accumulated depreciation for land and other capital assets of the City, 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, CPA
State Examiner

March 11, 2021

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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.

CITY OF HAMMOND
 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 Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants					
CDBG 2017	Direct grant	14.218	B-17-MC-18-0006	\$ -	\$ 209,771
CDBG 2018		14.218	B-18-MC-18-0006	-	1,800,097
CDBG 2019		14.218	B-19-MC-18-0006	-	95,216
Total - Community Development Block Grants/Entitlement Grants				-	2,105,084
Total - CDBG - Entitlement Grants Cluster				-	2,105,084
Emergency Solutions Grant Program					
Direct grant					
CDBG Emergency 2017		14.231	E-17-MC-18-0006	-	13,110
CDBG Emergency 2018		14.231	E-18-MC-18-0006	154,587	167,818
CDBG Emergency 2019		14.231	E-19-MC18-0006	25,403	32,676
Total - Emergency Solutions Grant Program				179,990	213,604
Home Investment Partnerships Program					
Direct grant					
Home 2013		14.239	M-13-MC-18-0204	-	165,792
Home 2014		14.239	M-14-MC-18-0204	-	43,501
Home 2016		14.239	M-16-MC-18-0204	-	211,247
Home 2017		14.239	M-17-MC-18-0204	-	76,276
Home 2018		14.239	M-18-MC-18-0204	-	71,630
Home 2019		14.239	M-19-MC-18-0204	-	47,246
Total - Home Investment Partnerships Program				-	615,692
Fair Housing Assistance Program_State and Local					
Fair Housing Assistance	Direct grant	14.401	FF205K195024	-	40,100
Total - Department of Housing and Urban Development				179,990	2,974,480
<u>Department of Justice</u>					
Equitable Sharing Program					
Federal Forfeiture Program	Direct grant	16.922	FY 2019	-	54,270
Total - Department of Justice				-	54,270
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction					
Indiana Department of Transportation					
INDOT Match		20.205	DES#1173428	-	28,986
INDOT Match		20.205	DES#1297017	-	338,533
INDOT Match		20.205	DES#1382659	-	48,760

CITY OF HAMMOND
 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
INDOT Match		20.205	DES#1500416	-	176,862
INDOT Match		20.205	DES#1500724	-	3,851
INDOT Match		20.205	DES#1601163	-	31,367
INDOT Match		20.205	DES#1601164	-	1,527
Total - Highway Planning and Construction				-	629,886
Total - Highway Planning and Construction Cluster				-	629,886
Highway Safety Cluster					
State and Community Highway Safety					
Indiana Criminal Justice Institute					
Hammond PD FY 2019 OPO		20.600	ICJI32487	-	81,467
Hammond PD Pedestrian/ Bicycle Safety Grant		20.600	69A37519300004020IN0	-	8,257
Hammond PD FY19 Project SAVE		20.600	69A37519300004020IN0	-	7,200
Total - State and Community Highway Safety				-	96,924
Total - Highway Safety Cluster				-	96,924
Total - Department of Transportation				-	726,810
Environmental Protection Agency					
Beach Monitoring and Notification Program Implementation Grants					
Indiana Department of Environmental Management					
2019 Beach Monitoring Grant		66.472	CU-08E73102	-	14,601
Total - Environmental Protection Agency				-	14,601
Department of Health and Human Services					
Maternal and Child Health Services Block Grant to the States					
Indiana Department of Health					
		93.994	FY 2019	-	1,078
Total - Department of Health and Human Services				-	1,078
Department of Homeland Security					
Assistance to Firefighters Grant					
Direct grant					
SHSG Fire Grant		97.044	EMW-2018-SS-00011	-	29,841
Total - Department of Homeland Security				-	29,841
Total federal awards expended				\$ 179,990	\$ 3,801,080

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

CITY OF HAMMOND
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.

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 HAMMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:

Name of Opinion Unit	Opinion Issued
Governmental Activities	Disclaimer
Business - Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Each Major Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	no

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

Name of Federal Program or Cluster	Opinion Issued
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.

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

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 controls 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 have been carried as reconciling items 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.

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 carried as reconciling items in the bank reconciliations.

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

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.
- b. That benefits were not provided to those who were no longer alive.
 1. The City did not perform a crossmatch of retirees and surviving beneficiaries' social security numbers to verify whether any were deceased.

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

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)

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)

Cause

Management of the City had not established a proper system of internal controls over financial transactions and reporting.

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

Effect

The failure to establish a system of internal controls enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

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

FINDING 2019-002

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

Condition and Context

The City had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's Schedule of Expenditures of Federal Awards (SEFA).

The City failed to properly review the federal grant information prepared and submitted in Gateway. Although one employee prepared and entered the federal award information into Gateway, and another employee reviewed and approved the information entered, the internal controls were not effective and did not detect and allow correction of errors prior to submission.

Due to the lack of effective internal controls, the SEFA presented for audit contained the following errors:

1. The CDBG - Entitlement Grants Cluster omitted program income, which understated expenditures by \$33,167.
2. The Home Investment Partnerships Program omitted program income, which understated expenditures by \$90,786.
3. Additional grants had individually immaterial errors or omissions that resulted in misstatements of expenditures of \$83,179, in total.
4. Other errors included incorrect program names, pass-through entities, and 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:

CITY OF HAMMOND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control . . ."

2 CFR 200.62 states in part:

"Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- (a) Transactions are properly recorded and accounted for, in order to:

- (1) Permit the preparation of reliable financial statements . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

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

2 CFR 200.510(b) states:

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

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

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

- (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

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 included 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

No matters are reportable.

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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.



Megan E. Flores
Controller

November 2, 2020

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-001 FINANCIAL TRANSACTIONS AND REPORTING

Fiscal year in which the finding initially occurred: 2016

Status of Audit Finding:

1. Cash and Investments:

a. **City:** New controls to further segregate duties in regards to bank and trust account reconciliation and reporting were implemented in June of 2019 and amended further in October 2019.

i. All bank and trust accounts are reconciled monthly as statements are received by the Bank and Trust Administrator.

ii. Trust Activity:

1. Upon receipt of the closing transcript and initial trust statements related to a new debt issued, the Controller or her designee creates the Bond Fund Schedule Summary detailing the funds/accounts that must be set-up on the financial system. The Summary provides information related to debt including closing dates, bank accounts linked and details on how each transaction should be booked on the system. Copies are given to staff involved in posting and reconciling trust activity.

2. The Deputy Controller creates new funds and accounts on the financial system as directed by the Summary.

3. Copies of the paper trust statements are given to the Bank and Trust Administrator when received. The originals are added to the bond binder by accounts by the Assistant/Compliance Clerk. The Bank and Trust Administrator reviews the statements and indicates the activity to be booked either as revenue or an expense.

a. The Receipt Clerk will receipt in debt proceeds received into the appropriate fund/account.

b. A claim is created by the Deputy Controller for cash debits, cost of issuance expenses, or any other related expenditure activity and is submitted to the Hammond City Council for approval through the claims process. Once approved, the expense is booked on the financial software by the Purchasing Administrator.

iii. The Controller meets with the Bank and Trust Administrator monthly to review and sign off on all Bank and trust account reconciliations and their supporting documentation. Forms are signed by both parties before the account reconciliations are uploaded by the Assistant/Compliance Clerk onto the Indiana Gateway.

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Megan E. Flores
Controller

CITY OF HAMMOND

- iv. If adjustments are necessary, an amended bank reconciliation is prepared, reviewed, signed, and submitted.
 - v. Payroll Bank Account-
 1. Non-expenditure transfers were booked during year end clean up to correct these outstanding balances within the Payroll Bank as well as any other banks that had outstanding balances that required clean up.
 - vi. Overstatement of City's Ledger Balance
 1. A journal entry was booked on 12/31/19 to General Fund-Cash In Bank at year end in the amount of \$2,900,000 to correct the overstatement.
 - vii. Although these controls were implemented, the City acknowledges that the issue has not been completely resolved. The City is continuing to review this process and implement additional controls to completely resolve the issue.
2. Receipts, Disbursements, and Financial Reporting
- a. City:
 - i. Timeliness of Transactions-
 1. To my understanding, the untimeliness of the receipting of the Sportsplex Bond Proceeds in the amount of \$6,000,000 was due to a delay in creating the proper fund/accounts for the bond.
 - a. Corrective action plan implemented in February of 2020:
 - i. Within 30-days from the closing of any debt issuance, the Controller will provide the Deputy Controller with the Bond Fund Schedule summary detailing the funds/accounts that must be set up on the financial system.
 - ii. The Deputy Controller will create these funds/accounts and provide them to the Bank and Trust Administrator as well as the Receipt Manger.
3. Journal Entries
- a. City:
 - i. Corrected: October 2019
 1. Journal entries are no longer used to book trust activity.
 - a. Debt proceeds are receipted into the proper funds/accounts.
 - b. Debt payments were processed on an Accounts Payable Voucher and approved through the claims process by the Common Council.
 - i. A Transfer Form is now completed by the Deputy Controller and reviewed and approved by the Controller before the transaction takes place.

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4. Transfers

a. City:

- i. Controls were updated in late 2019.
 1. A transfer request is created by the Deputy Controller and reviewed/approved by the Controller.
 2. All transfers are submitted via claim to the Council for approval.
 - a. With the exception of the end of year transfers which are approved through the Clean Up Ordinance.
- ii. Although these controls were implemented, the City acknowledges that the issue has not been completely resolved. The City is continuing to review this process and implement additional controls to completely resolve the issue.

5. Receipts, Disbursements, and Financial Reporting

a. Sanitary District

- i. The receipts and disbursements of Refunding Bond Series 2018A were not reported on the regulatory financial statement of the Sanitary District funds due to the Sanitary District never having possession of the funds and following GASB Implementation Guide 2015-1 (2.15.3.). This error was corrected with the required audit adjustments given at the conclusion of the audit. In the future, the Sanitary District will request a trustee statement and record all bond transactions properly on the regulatory financial statement of the Sanitary District funds.
 1. Although these controls have been implemented, the City and Sanitary District acknowledge that the issue has not been completely resolved and are actively working towards identifying and implementing additional controls to resolve the issue in its entirety.

6. Disbursements

a. Sanitary District

- i. A second payroll clerk position was created and the payroll process has been modified as of May 2019. The Payroll Clerk enters all hours and rates into the accounting system. The Lead Payroll Clerk verifies all pay distribution to the proper funds and cost centers as reflected on the employee's timesheets compared to our accounting system's daily work window. The software does not contain a report that can print this information at this time. Once this review is completed, the Payroll Clerk proceeds with calculating checks and prints the edit register report. The Lead Payroll Clerk then reviews the edit register report and timesheets for accuracy prior to the pay vouchers being printed and payroll upload being

ii.

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Controller

CITY OF HAMMOND

sent to the bank. Once the Payroll Clerk posts all payroll transactions, the Lead Payroll Clerk reviews the payroll summary and compares it to the check history register and the post checks to general ledger report from the accounting software for accuracy.

The Lead Payroll Clerk then initials the payroll summary and turns it in to the Business Manager for final review and bank transfer. We are working on a method of verifying the payroll entries to the general ledger posted entries.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-002

Fiscal year in which the finding initially occurred: 2018

Contact Person Responsible for Corrective Action Plan: Africa Tarver, Director of Planning and Development

Status of Audit Finding: Corrected as of 6/5/2020.

HUD REQUIRED ACTION: The City must submit a copy of one of the SAM verification pages showing two signatures.

CORRECTIVE ACTION TAKEN: CDBG staff are required to verify that all policies and procedures have been followed by verifying all SAM's documents with two signatures and/or initials to ensure that vendors are not debarred or suspended. Documentation of each procurement is retained in project folders.

FINDING 2018-003

Fiscal year in which the finding initially occurred: 2018

Contact Person Responsible for Corrective Action Plan: Africa Tarver, Director of Planning and Development

Status of Audit Finding: Corrected as of 6/5/2020.

HUD REQUIRED ACTION: The Community Development Division worked closely with HUD representatives during the application and implementation stages of the Section 108 loan. Upon notification from the HUD representative in 2019 that these filings needed to be submitted, the department submitted all bank reconciliation reports to the document trustee and 108Reports@hud.gov. As all of the 108 funds have been disbursed and all transfers were completed as of October 31, 2018, the City notified the HUD Section 108 office that the associated bank was now closed.

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(Signature)
Controller

(Title)
2-23-2021

(Date)



Megan E. Flores
Controller

CITY OF HAMMOND

CORRECTIVE ACTION PLAN

FINDING 2019-001

Contact Person Responsible for Corrective Action: Megan Flores, City Controller
Contact Phone Number: 219-853-6324

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

1. Financial Transactions and Reporting

- a. Financial Statements and Notes to the Financial Statements
 - i. The City is continuing to work to identify and implement internal controls to help detect, prevent, and reduce potential risks, errors, and fraud. The Controller's Office Staff is working towards creating a formal policy and procedure manual that would detail the segregation of duties involved in the various duties/tasks performed in the office.
 - ii. The City and our contracted consultant have discussed and will better document the review and approval processes of financial statement items and adjustments. This will be documented in a form format and/or in the form of email communications. The City and Port Authority are currently working on identifying policies that exist and require update, as well as identifying policies that should be adopted by the governance.

Anticipated Completion Date: September 2021

2. Cash and Investments (Bank Reconciliations)- City

- a. The City is currently working with its financial software company RDS to correct the issues occurring with the "Payroll Sweep" function. This function should be sweeping the 01-01P transfers automatically. For year-end 2020, a transfer was manually made from 01P to 01. Until RDS fixes the issue on their end, the City will identify the transfer necessary from 01P to 01 before closing each month. This will go through the regular transfer procedure for approval.

Anticipated Completion Date: June 2021

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Controller

CITY OF HAMMOND

- b. Prior to the previous Controller's departure, efforts were made to clean up outstanding bank issues/activity that were noted in previous audits. The City acknowledges that this activity is still being carried on the bank reconciliations. The City plans to work with their contracted consultants to correct these issues.

Anticipated Completion Date: June 2021

3. Capital Assets- City

- a. The City plans to contract consultants to assess their capital assets. The City will also be looking at amending our current Capital Asset Policies and updating our threshold amounts.

Anticipated Completion Date: June 2021

- b. City- once the capital assets have been assessed, each department will receive a listing of their capital assets annually. Department heads will then be required to confirm all existing assets. Department heads will also be required to fill out an "Asset Form" and submit this along with supporting documentation to the Controller's office in a timely manner for any newly acquired assets. Jennifer Ibarra, Bank and Trust Administrator will then enter the asset(s) into the financial system. Jessica Cooper, Budget and Reporting Administrator will then review the information that was entered into the system for its accuracy.

Anticipated Completion Date: June 2021

4. Net Pension Liability

- a. PERF
 - i. Currently, the Controller's Office Payroll Administrator, Rashida Roger uploads a report created by the RDS Financial Software into the ERM to report the contributions. The Deputy Controller, Kim Fabris verifies the total amounts in the ERM by comparing them to the EFTs amounts in the RDS Financial Software. Kim then removes the EFTs after verifying. The City will update our documentation to incorporate and reflect these controls. The City will continue to reevaluate the process and controls surrounding the process of communication to both PERF and INPRS and will update controls as deemed necessary.
 - ii. The City will reevaluate the current processes and controls surrounding the administration of the 1925 and the 1937 Police and Fire plans and will add appropriate controls where determined necessary.

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CITY OF HAMMOND

- iii. The City has registered to begin using www.ssa.gov/employer/ssnv.htm to begin checking PERF eligibility on a quarterly basis. This verification process will be performed by the Insurance Administrator Amy Smith and will be cross checked by the Office Administrator Tinisha Greenwell. The searches will be documented for future audits.

Anticipated Completion Date: June 2021

5. **Other Post-Employment Benefits (OPEB)**

- a. Accuracy and Completeness of OPEB Census Data provided to the Actuary, for the City and the Port Authority.
 - i. The City contracted Nyhart to perform its actuarial valuation of the Other Post-Employment Benefits. To insure the accuracy of the report, once the actuarial valuation is complete, the City will request that Nyhart provide them with the listing of employees that they identified as a part of the valuation. The City will then review the listing for its accuracy. Any discrepancies will then be addressed before the report is finalized.
 - ii. The City of Hammond Housing Authority's (HHA) fifteen employees that participated in the City's OPEB Plan were left out of the valuation in 2019. If the Hammond Housing Authority (HHA) maintains its status as a component unit in the future, their eligible employees will be included in the valuation.
- b. Verification that benefits were not provided to those who were no longer alive.
 - i. The City has registered to begin using www.ssa.gov/employer/ssnv.htm to begin checking OPEB eligibility on a quarterly basis. This verification process will be performed by the Insurance Administrator Amy Smith. The searches will be documented for future audits.

Anticipated Completion Date: June 2021

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Megan E. Flores
Controller

CORRECTIVE ACTION PLAN

FINDING 2019-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Megan Flores , City Controller

Contact Phone Number: 219-853-6324

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

Description of Corrective Action Plan:

The Planning and Development Finance Manager, Caryn Janiga is now required to provide summary reports from the IDIS-HUD web portal that reflects the details of collection/expenditure amounts for the CDBG and HOME grants. The Finance Manager, Caryn Janiga in combination with the Community Development Director, Owana Miller will also be required to submit the SAM's verification pages, which will be referenced when confirming the program names, pass-through entities, and identifying numbers. These reports and documentation are provided to the Controller's Office- Office Administrator, Tinisha Greenwell for review, approval, and entry into the Gateway reporting system. Once the data has been entered into Gateway, the reports are then provided to the Controller's Office- Budget and Reporting Administrator, Jessica Cooper for final review. The City Controller, Megan Flores officially submits the report in the Gateway.

Moving forward, the Office Administrator, Tinisha Greenwell will monitor these grants on a quarterly basis.

Anticipated Completion Date: March 2021

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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/>.