

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HOBART

LAKE COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
09/20/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Longer	01-01-20 to 12-31-21
Mayor	Brian Snedecor	01-01-20 to 12-31-21
President of the Board of Public Works and Safety	Brian Snedecor	01-01-20 to 12-31-21
President Pro Tempore of the Common Council	Matthew Claussen	01-01-20 to 12-31-21



STATE OF INDIANA
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TO: THE OFFICIALS OF THE CITY OF HOBART, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Hobart (City), for the period from January 1, 2020 to December 31, 2020. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at www.in.gov/sboa/.

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

September 2, 2021

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CLERK-TREASURER
CITY OF HOBART

CLERK-TREASURER
CITY OF HOBART
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment appeared in prior Reports B50580, B52858, and B55413.

Condition and Context

The financial statement presented included the General and Motor Vehicle Highway funds with overdrawn cash balances of \$4,095,062 and \$556,307, respectively, at December 31, 2020.

Those funds with overdrawn cash balances due to the timing of reimbursements for expenditures were not included in this comment.

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)

CORONAVIRUS RELIEF FUND APPROPRIATIONS

Condition and Context

The City did not properly account for the COVID-19 - Coronavirus Relief Fund in accordance with the options outlined in State Examiner Directive 2020-3 (Directive).

The City issued a check from its CARES IFA grant fund to the General fund as outlined in the Directive for payroll expenses; however, the check was issued without the adoption of an ordinance or resolution.

The City issued a check from its CARES IFA grant fund to the fund that originally incurred non-payroll expenses instead of processing reversing entries. This caused the appropriation in the originating fund to not be reinstated.

Criteria

State Examiner Directive 2020-3 states in part:

"Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

CLERK-TREASURER
CITY OF HOBART
AUDIT RESULTS AND COMMENTS
(Continued)

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section. . . .

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020. . . .**

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . ."**

GENERAL AND MOTOR VEHICLE HIGHWAY FUNDS - APPROPRIATIONS

Condition and Context

Disbursements in the General and Motor Vehicle Highway (MVH) funds exceeded the budgeted appropriations by \$161,713 and \$570,312, respectively.

In determining the budgeted appropriations for comparison to the disbursements, the recorded appropriations were adjusted for the following:

1. The General and MVH funds budgets were increased by \$503,267 and \$3,880, respectively, for additional appropriations which was based on CARES reimbursements received. However, an additional appropriation had not been approved by the Common Council.

CLERK-TREASURER
CITY OF HOBART
AUDIT RESULTS AND COMMENTS
(Continued)

2. Appropriations can only be encumbered to the extent there are sufficient funds available. As of December 31, 2019, the MVH fund had \$75,659 of funds available. The City encumbered \$301,332 for a 2019 purchase order which increased the MVH 2020 budget. However, this resulted in \$225,673 increase of the 2020 budget that was not allowed by Indiana Code.

Criteria

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

". . . Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

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

Indiana Code 6-1.1-18-7.5 states:

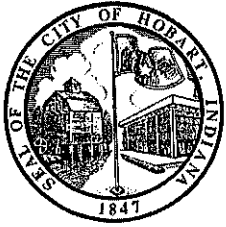
"Notwithstanding any other law, the appropriating body of a political subdivision may appropriate any funds received as a grant from the state or the federal government without using the additional appropriation procedures under section 5 of this chapter, if the funds are provided or designated by the state or the federal government as a reimbursement of an expenditure made by the political subdivision."

Unexpended and unobligated appropriations shall lapse at the close of the year.

Every effort should be made by the Clerk-Treasurer and other city or town officials to have bills and claims presented before the end of the year, so that such items shall be charged to the appropriation and disbursement account of the year in which the service or commodity was supplied.

A claim of a prior year may be paid in the following year if the prior year's appropriation is properly encumbered and there are sufficient funds available. In order for the prior year appropriation to be encumbered, there must be an outstanding purchase order or contract that supports each encumbered item.

The carry-over of a large amount of unencumbered and unpaid claims will necessitate getting an emergency appropriation for the specific purpose of paying prior years claims. It is emphasized statutes prohibit obligations being incurred prior to appropriations and funds being available! (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)



"The Friendly City"

The City of Hobart

414 Main Street · Hobart, Indiana 46342

Deborah A. Longer
Clerk-Treasurer

OFFICIAL RESPONSE

September 7, 2021

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

RE: Civil City of Hobart, Lake County Indiana 2020 Audit Results and Comments

A. Overdrawn Cash Balances

The audit report lists the General Fund and Motor Vehicle Highway Fund with an overdrawn cash balance as of December 31, 2020. This is partially a result of some reimbursable General Fund expenditures that were not received by December 31, 2020, in addition to a combination of a levy collection shortfall with tax distributions coming in at just under 80% which is not realized until late December when distributions are received from Lake County, coupled with the previous shortfalls that are not made up from past years. Plans are being formulated over the next 2-3 budget years to address the remaining deficit as it was carried over from prior years.

The City of Hobart utilizes inter-fund borrowing as needed to meet the obligations for all funds. At the end of the fiscal year, the inter-fund borrowing is paid back to the appropriate funds as required which results in the possibility that certain funds will end the year with a negative cash balance, showing a true picture of funds not received. Additionally, the City uses a "pooled cash" approach so that it will not overdraw individual funds while waiting for reimbursements or tax distributions. The overdrawn funds noted in the audit are neither an indicator of serious financial problems nor of any inappropriate diversion of funds. The Administration is addressing the shortfall by limiting spending from the General Fund and Motor Vehicle Highway Fund and shifting some operational costs to other funds appropriate for this use and exploring other funding opportunities and cost-saving measures in the future.

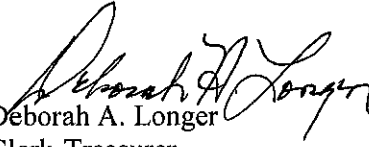
B. Coronavirus Relief Fund Appropriations

Throughout the 2020 COVID-19 pandemic, expenses including purchasing of masks and other safety equipment to address the safety issues associated with the pandemic were paid and tracked within the Public Safety Income Tax Fund. When the Coronavirus Relief Fund (CRF) was made available through the CARES Act, the City applied and received reimbursement for some of the items purchased and for some payroll expenses. The original expenditures to address the pandemic were appropriated in the public safety fund and payroll funds and properly reimbursed. As the CRF guidelines were issued and modified throughout the year, the City did not properly appropriate the reimbursements received within the CARES Act Fund but did properly track the funds and reimbursement the public safety and payroll funds accordingly.

At the end of 2020, the CARES fund was required to show a zero (-0-) balance as evidence of all monies received being reimbursed to the proper funds. This was accomplished and did not permit the City to go back and ratify the actions of the appropriations during the 2020 Audit (June-Sept 2021) as the fund was depleted per the requirements. During 2020, the pandemic brought many new and challenging issues to the City including the accounting and tracking of specific COVID related expenses and the ever-changing regulations associated with the reimbursement of those expenses under the CARES Act. By the end of 2020, the Indiana Finance Authority had determined that the City had met all of the requirements of eligible expenses to be reimbursed by the CARES Act Coronavirus Relief Fund and approved each of the City's requests for reimbursement and the City had reimbursed the funds originally used for the COVID-19 expenses as intended by the CARES Act.

C. General and Motor Vehicle Highway Funds Appropriations

Disbursements exceed the budgeted appropriations in the General Fund and Motor Vehicle Highway Fund at the end of 2020 due to CARES Act reimbursements not being considered as there was no additional appropriation approved as outlined in B. above. Additionally, there was a miscommunication regarding encumbered funds and their uses and once it was discovered the year had been closed and remedies could not be accomplished. In the future, end of the year claims will be considered only if presented by mid-December and will be held over to the following year to avoid current year appropriations being exceeded.


Deborah A. Longer
Clerk-Treasurer
City of Hobart, Indiana

CLERK-TREASURER
CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on September 2, 2021, with Deborah Longer, Clerk-Treasurer; Brian K. Snedecor, Mayor; Matthew Claussen, President Pro Tempore of the Common Council; Josh Huddlestun, Common Council member; Christopher Wells, Common Council member; and Heather McCarthy, City Attorney.

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REDEVELOPMENT COMMISSION
CITY OF HOBART

REDEVELOPMENT COMMISSION
CITY OF HOBART
AUDIT RESULT AND COMMENT

TAX INCREMENT FINANCING (TIF) ALLOCATION FUND USES

Condition and Context

The establishment of a Redevelopment General Fund is authorized by Indiana Code 36-7-14-28(c). A redevelopment commission has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition development, and disposal of property in "areas needing redevelopment." The powers granted to a redevelopment commission in Indiana Code 36-7-14-12.2 allow the redevelopment commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

Operating expenses of the Redevelopment Commission (RDC), consisting of the items noted below, were disbursed from TIF allocation collections, which were not allowed within the restricted uses authorized in Indiana Code 36-7-14-39(b)(3):

1. A percentage of the Redevelopment Director's salary.
2. Attorney fees not directly related to the uses authorized by Indiana Code.
3. Membership dues and travel expenses for seminars.
4. The recording of the 2020 Redevelopment Authority Bonds.

In addition, the RDC entered into an agreement whereby it agreed to reimburse the City annually over the life of a lease financing agreement for the purchase of a fire truck. The City was reimbursed \$92,857 in 2020 for the fire truck lease from the Redevelopment 61st Avenue TIF allocation fund.

Criteria

Indiana Code 36-7-14-39(b)(3) states in part:

"Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivision (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

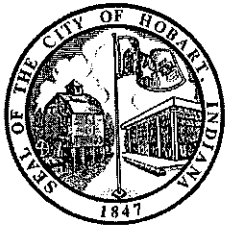
- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.
- (D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.
- (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

REDEVELOPMENT COMMISSION
CITY OF HOBART
AUDIT RESULT AND COMMENT
(Continued)

- (F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.
- (G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.
- (H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.
- (I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. . . .
- (J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.
- (K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:
 - (i) in the allocation area; and
 - (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .
- (L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. . . .
- (M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

The allocation fund may not be used for operating expenses of the commission. . . ."

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)



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414 Main Street · Hobart, Indiana 46342

Deborah A. Longer
Clerk-Treasurer

OFFICIAL RESPONSE

September 7, 2021

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

RE: Redevelopment Commission, City of Hobart, Lake County Indiana 2020 Audit Results and Comments

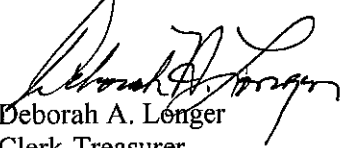
Tax Increment Financing (TIF) Allocation Fund Uses:

The Hobart Redevelopment Commission (RDC) administers three large tax increment financing (TIF) allocation areas within the City: (1) State Road 130-Greater Downtown allocation area; (2) 61st Avenue allocation area; and most recently, (3) the US 30 and 69th Avenue allocation area. All three of these allocation areas has seen development activity over the years of differing types. The RDC's focus on different projects include development, infrastructure, façade replacement, street and parking acquisitions and improvements and coordination of efforts with other City Departments including Planning/Zoning, Engineering, Building, Public Works, Public Safety and Parks and helping to guide developers through the Boards and Commissions required to achieve economic growth within the community. Every effort is taken to delineate the projects within each TIF area for accounting and reporting purposes. The prior Director of Development resigned her position in December 2020 and no clear records showing which allocation area received her services was obtained from her. The current Director of Development understands the importance of designating the specific hours served for each area and will continue to do so in 2021 and beyond.

While the RDC meets regularly once per month, all three TIF areas are discussed as needed at each meeting. The RDC has properly allocated and appropriated the payment of certain items related to projects out of each respective allocation area (funds 406, 410 and 412 respectively) in order to support the projects within each area. Included in those allocations are a portion of the Director of Development's salary, Attorney fees and contractual services for services related to each area and membership, training and travel expenses to enhance and expand the toolbox of incentives and ideas central to the mission of the RDC and relevant to the particular projects for each area. Internally, future reporting of these expenses will be delineated to be more clearly specific to each allocation area.

As to the RDC assisting in the acquisition of a fire truck to serve the 61st Avenue allocation area, the RDC properly considered and adopted Resolution 2019-02 prior to the purchase of the firetruck with the RDC reimbursing the public safety funds in an amount annually over 5 years through 2023 for the firetruck to service the 61st Avenue allocation area. The language of I.C. §36-7-14-39(B(3)(J) authorizes payment of "expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or servicing the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter." It is clear that to the extent these expenditures legitimately address the payment of project related expenses in each of the allocation areas, they are proper. Funds are not used for ongoing maintenance of redeveloped property.

The Redevelopment Commission will continue to develop heightened documentation regarding expenditures of TIF funds directly associated with specific allocation projects and areas to assure transparency and in accordance with the eligible uses of the funds.


Deborah A. Longer
Clerk-Treasurer
City of Hobart, Indiana

REDEVELOPMENT COMMISSION
CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on September 2, 2021, with Deborah Longer, Clerk-Treasurer; Brian K. Snedecor, Mayor; Matthew Claussen, President Pro Tempore of the Common Council and Redevelopment Commission member; Josh Huddlestun, Common Council member; Christopher Wells, Common Council member; and Heather McCarthy, City Attorney; and Beth Jacobson, Director of Development.