

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, 2021 to December 31, 2021



FILED
07/15/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Longer	01-01-21 to 12-31-22
Mayor	Brian Snedecor	01-01-21 to 12-31-22
President of the Board of Public Works	Brian Snedecor	01-01-21 to 12-31-22
President Pro Tempore of the Common Council	Matthew Claussen	01-01-21 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2021 to December 31, 2021. 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

June 29, 2022

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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 four prior reports, including the three most recent, Reports B52858, B55413, and B57261.

Condition and Context

The financial statement presented included the General and Motor Vehicle Highway funds with overdrawn cash balances of \$2,817,211 and \$571,067, respectively, at December 31, 2021.

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, Chapter 1)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND DISBURSEMENTS

Condition and Context

The City created a Motor Vehicle Highway (MVH) Restricted sub-fund within the MVH fund and posted 50 percent of the state MVH distributions to the sub-fund as required. However, the City disbursed \$237,416 for plow repairs, salt, and other maintenance costs from the MVH Restricted fund. These disbursements were not for the construction, reconstruction, and preservation of the City's highways.

Criteria

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

GENERAL FUND APPROPRIATIONS

The same comment appeared in prior Report B57261.

Condition and Context

Disbursements in the General fund exceeded the budgeted appropriations by \$584,259. Additionally, interest paid on the tax anticipation warrant totaling \$33,256 was disbursed without an appropriation.

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

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 36-4-6-20(b)(2) and IC 36-5-2-12(a)(2) require loans to be evidenced by time warrants in terms designating the nature of the consideration, the time and place payable, and the revenues in anticipation of which the loans are issued and out of which the loans are payable. According to IC 6-1.1-20-7, if the rate of interest is greater than eight percent (8%), the approval of the Department of Local Government Finance must be secured.

A loan must be repaid from the fund to which the loan was received. The principal of a loan may be repaid without an appropriation, but an appropriation is required for payment of the interest on the temporary loan. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March 2015)

AMERICAN RESCUE PLAN ACT (ARPA) GRANT

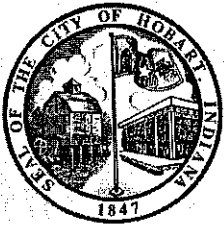
Condition and Context

The City paid "premium pay" to police officers and firefighters from the American Rescue Plant Act (ARPA) Grant. Premium pay was based on police officers and firefighters who worked during the pandemic for the time period of March 24, 2020 to May 1, 2020. The calculated hourly rate was based on 6 weeks at 40 hours per week for a total of 240 hours. The total amount paid to each police officer and firefighter was \$4,500, which resulted in an hourly rate of \$18.75 per hour. The hourly rate paid exceeded the maximum hourly rate allowed of \$13.00 per hour.

Criteria

Payments for premium pay are subject to certain limitations:

1. **Maximum.** "The ARPA recognizes this by defining premium pay to mean an amount up to \$13 per hour in addition to wages or remuneration the worker otherwise receives and in an aggregate amount not to exceed \$25,000 per eligible worker." (IFR, Federal Register Vol. 86 No. 93 p. 26798). (State Examiner Directive 2021-3)



"The Friendly City"

The City of Hobart

414 Main Street · Hobart, Indiana 46342

Deborah A. Longer
Clerk-Treasurer

OFFICIAL RESPONSE

July 5, 2022

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

RE: Civil City of Hobart, Lake County Indiana 2021 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, 2021. This is partially a result of some reimbursable General Fund expenditures that were not received by the end of December 2021, in addition to a combination of a levy collection shortfall with tax distributions coming in at only 84.3% of the total anticipated which was not realized until late December when distributions were received from Lake County, coupled with the previous shortfalls that are not able to be recovered from past years. While the deficit is declining, plans continue to be in place 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 continues to address 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. Motor Vehicle Highway (MVH) Restricted

Due to a decrease in MVH fund distributions and the need to continue to maintain and therefore preserve the streets in the winter months, the City used some MVH Restricted Funds for plow repairs, salt and other maintenance costs. While the Indiana Code requires that the MVH funds shall only be used for construction, reconstruction and preservation of the City's highways, it was also believed that salt and plowing and maintenance were intended to include preservation of the roads. The City will more closely consider the intended use of the MVH Restricted Funds in the future.

C. General Fund Appropriations

Disbursements exceeded the budgeted appropriations in the General Fund at the end of 2021 due to certain reimbursements not being received that could have been adjusted back into the appropriated line item before the end of the year. In the future, pending reimbursements that could be adjusted back into the appropriated lines will not be considered if not received before December 1st each year and 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.

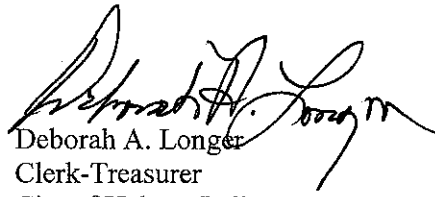
D. ARPA Grant

The City established a spending plan for the ARPA Grant funds including additional pay for those employees who had interactions with the public during the height of the pandemic in 2020 and adopted Ordinance 2021-25 to properly issue the pay. The Federal Government issued an Interim Final Rule that was used to determine how the pay was to be distributed which included the following language:

“The ARPA recognizes this by defining premium pay to mean an amount up to \$13 per hour in addition to wages **or** remuneration the worker otherwise receives and in an aggregate amount not to exceed \$25,000 per eligible worker.”
(emphasis added)

The City interpreted this statement to mean that the pay could be calculated either hourly OR in an aggregate amount not to exceed \$25,000 per employee and therefore issued the pay to police officer and firefighters within the scope of the allowable uses of the grant.

In late 2021, the Federal Government changed some of the rules as to the use and reporting of the ARPA Grant funds and in early 2022 issued the Final Rule regarding the use of ARP funds that would be permitted for any governmental purpose. The City shifted the reporting of all uses of the funds in compliance with the Federal Final Rule and reported same prior to the April 1, 2022 deadline. While the ARP spending plan for the City still delineates the various intended uses of the fund including premium pay for essential workers, the Federal reporting requirements will be shown as any governmental purpose in accordance with guidelines of the Final Rule.



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

CLERK-TREASURER
CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on June 29, 2022, with Deborah Longer, Clerk-Treasurer; Brian Snedecor, Mayor; Matthew Claussen, President Pro Tempore of the Common Council; P. Lino Maggio, Common Council member; Josh Huddlestun, Common Council member; Chris Wells, Common Council member; Dan Waldrop, Common Council member; and Heather McCarthy, City Attorney.