

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF GARY

LAKE COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
09/21/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Angelina Hayes	01-01-20 to 03-31-20
	Arlene Colvin (interim)	04-01-20 to 03-28-21
	Mileak Harper	03-29-21 to 12-31-22
Mayor	Jerome Prince	01-01-20 to 12-31-22
President of the Board of Public Works and Safety	Trent A. McCain	01-01-20 to 12-31-22
President of the Common Council	Michael A. Brown	01-01-20 to 12-31-20
	William G. Godwin	01-01-21 to 12-31-22
Executive Director of the Sanitary and Storm Water Management Districts	Daniel F. Vicari	01-01-20 to 01-12-22
	Charles Peller Jr.	01-13-22 to 12-31-22
President of the Board of Sanitary and Storm Water Commissioners	Tramel Raggs	01-01-20 to 05-06-20
	Maurice Mabon	05-07-20 to 01-21-22
	Daniel F. Vicari	01-22-22 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Gary (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.

Beth Kelley, CPA, CFE
Deputy State Examiner

August 30, 2022

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FINANCE DEPARTMENT
CITY OF GARY

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Reports B51381, B53396, and B56040.

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting. There was a lack of segregation of duties as the City had not separated incompatible activities related to cash and investments, journal entries, receipts, and disbursements. There were no documented internal controls to ensure the accuracy and timeliness of the recordkeeping.

In addition, the City had no process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal controls.

Cash and Investments (Bank Reconciliations) - City

Internal controls had not been developed to ensure that reconcilements of the accounting record balances to the bank depository balances were completed at least monthly, as required by state statute. Furthermore, a process was not in place to ensure a combined summary monthly bank reconciliation was prepared to ensure that individual bank reconcilements in total agreed to the ledger and financial statement balance.

As of December 2021, the City had not reconciled a majority of the bank accounts as of December 31, 2019 or 2020. The City was provided additional time to prepare the required monthly reconcilements. Additional audit procedures were performed to test the December 31, 2019 and 2020 reconcilements provided.

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

1. Some bank accounts owed amounts to other bank accounts, and these amounts should have been transferred and should net to zero. However, the "transfers to banks" did not reconcile to the "transfer from banks" by \$108,963 and \$246,528 as of December 31, 2019 and 2020, respectively. The financial statement was not adjusted for these variances.
2. Outstanding check detailed listings generated from the software system were determined to not be reliable for the operating bank accounts. The listings included electronic funds transfers (EFTs) and checks that had cleared the bank. Additional audit procedures were performed to determine the accuracy of the listings.

A combined bank reconciliation of all bank accounts, without the amounts identified as due to/from other banks, which should net to zero, identified a variance of \$69,359 and \$65,361 at December 31, 2019 and 2020, respectively, when compared to the ledger and financial statement. The financial statement was not adjusted for these variances.

Journal Entries

The City did not have an effective system of internal controls to ensure that journal entries were posted accurately and timely. One employee and the City Controller made all journal entries; however, there was no review process in place to ensure journal entries were posted accurately and timely.

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Receipts

The City had designed a process of review or oversight over receipts to ensure the accuracy, completeness, timeliness, and classification of the receipts posted. However, implementation of the process could not be verified.

There were no internal controls in place to ensure that distributions received from the State of Indiana were recorded timely. Various state distributions received in 2020 totaling \$747,784 were not timely recorded in the ledger or reported in the financial statement. Of that total, \$541,321 were not recorded until a year after received and \$206,463 were still not recorded by the end of 2021. The financial statement was not adjusted for these distributions received and not timely posted.

Additionally, no internal controls were in place to ensure that pledged revenues were recorded timely to pay debt timely. The Economic Development Revenue Bonds Series 2007 A, B, C (Dalton Arms Project) debt is paid from pledged revenues. Pledged revenues of \$303,248 were received in 2020, but not recorded until March 2021 with a receipt date of December 31, 2020, at which point the funds were used to make the debt payment.

Payroll Withholdings and Health Insurance Disbursements

An effective internal control system was not in place to ensure that monthly health insurance premium payments paid were recorded accurately.

Disbursements for payroll withholdings for health insurance benefits for 2020 totaling \$1,288,394 were posted in November and December 2020 and not monthly at the time of transaction.

Payments totaling \$9,936,894 to the City's health insurance provider for 2020 were verified clearing the bank throughout the year. However, the ledger reported \$11,123,777 in health insurance costs, which resulted an overstatement of disbursements totaling \$1,186,883. The City voided the overstated disbursements in 2021 without an adjustment made to the 2020 financial statement.

The Withholdings fund, which had an overdrawn balance of \$530,667, was not reconciled at December 31, 2020.

Local Development Agreement Intercepts

The Local Development Agreement (LDA) distributions from the casinos were deposited directly into a trust account to fund the City's lease payment to the Holding Corporation. Any amounts remaining after being applied to the debt payments were remitted to the City. However, for the City's September to December 2020 lease payments, the trust account disbursed \$1,149,333, which was not recorded in the City's ledger. The financial statement was not adjusted for the late posting of lease payments.

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:

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

The same comment also appeared in 15 prior reports, including the 3 most recent Reports B51381, B53396, and B56040.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2020. 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 at December 31, 2020, including the grant funds with no reimbursements received in January 2021, are listed below:

Fund	Amount Overdrawn
Riverboat	\$ 67,698
National Civ Rights	4,950
Self-Insurance	472,845
COVID-19 General	52,506
WCI/UCI Benefit	1,961,097
Maternal Child Health Infant Mortality	28,088
Tobacco	31,436
BUILDING COMMUNITY TRUST	366
MOTORCYCLE GRAN	1,553
JAG Grant	29,710
Wheel Tax Road	1,224,399
Distracted Driving	26,660
Safe & Thriving Grant	27,919
AIM Medical Trust Wellness	15,555
Infant Mortality	2,940
Equal Opportunity Commission Hr	347
Youth Services Bureau	15,834
Emergency Shelter	890,375
Landfill Closure	42,573
Health And Human Services	509,714
Bioterrorism	19,905
Fair Housing Project	7,024
Alcohol And Drug Treatment	12,898
Social Services	669
Withholdings	530,667
Supplemental Public Defender	3,893
Salary Fee Judicial	34,073

The Emergency Shelter and the Health and Human Services funds have remained overdrawn for at least 14 years.

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

The General fund reported a positive cash and investment balance as of December 31, 2020. However, the General fund's cash balance contained outstanding temporary loans owed to other funds of \$11,577,927. Without these temporary loans, the cash balance of the General fund would have been overdrawn by \$2,446,974.

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)

TEMPORARY TRANSFER OF FUNDS

The same comment also appeared in 15 prior reports, including the 3 most recent Reports B51381, B53396, and B56040.

Condition and Context

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. The Common Council approved ordinances in 2020 and 2021 to roll over the loans outstanding; however, the City is only allowed to extend the repayment for six months if an emergency exists.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2020:

Loan To	Loan From	Loans Outstanding January 1, 2020	Loans Made	Loans Repaid	Loans Outstanding December 31, 2020
General	Other City Funds (Excluding GSD Funds)	\$ 7,320,800	\$ 3,000,000	\$ 3,000,000	\$ 7,320,800
General	GSD Funds	4,757,127	-	500,000	4,257,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	1,378,126	3,598,041	-	4,976,167
GSD Funds	GSD Funds	2,000,000	2,800,000	3,200,000	1,600,000
Totals		<u>\$ 15,456,053</u>	<u>\$ 9,398,041</u>	<u>\$ 6,700,000</u>	<u>\$ 18,154,094</u>

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 4,257,127	2006
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	380,000	2010
General	Media	600,000	2011
General	Consolidated Area TIF District	308,800	2011
General	Consolidated Area TIF District	300,000	2011
General	Consolidated Area TIF District	32,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
General	Lakefront TIF District	2,010,000	2014
Blight Elimination Program	Midwest Center TIF District	200,000	2015
General	Lakefront TIF District	1,000,000	2015
General	Lakefront TIF District	1,200,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Parks and Recreation	5,000	2016
Blight Elimination Program	Midwest Center TIF District	300,000	2016
General	Lakefront TIF District	720,000	2017
General	Wheel Exc Surtax	250,000	2017
Parks and Recreation	Wheel Tax	240,329	2017
Consolidated Area TIF District	Midwest Center TIF District	<u>191,480</u>	2019
Subtotal Outstanding Since 2019		<u>12,956,053</u>	
Rdvp Aux Non-Reverting	Lakefront Tif District	598,041	2020
Rdvp Aux Non-Reverting	Consolidated Area Tif District	2,000,000	2020
Blight Elimination Program	Lakefront Tif District	1,000,000	2020
GSD WWTP General Operating	GSD Equipment Replacement	400,000	2020
Gary Storm Water Management District (GSWMD)	GSD Equipment Replacement	<u>1,200,000</u>	2020
Total		<u>\$ 18,154,094</u>	

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,257,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2024, these temporary transfers of funds are to be fully repaid.

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .
- (b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:
- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
 - (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ERRORS ON CLAIMS

The same comment also appeared in two prior Reports B53396 and B56040.

Condition and Context

The following errors were noted in the testing of disbursements:

1. Disbursements for transfers of subsidies, closing dormant funds, and corrections totaling \$6,437,406 were done via journal entry or wire transfer and were not properly supported by an Accounts Payable Voucher (APV) as required by law. These transfers were not certified by the fiscal officer or approved by the governing board either on an APV or register of APVs.
2. Of the 19 City transfers tested totaling \$35,398, 2 were not disbursed in a timely manner. These transfers were corrections to move tax distributions into the correct funds that were done between 163 and 198 days after the original receipt.
3. Out of 46 claims tested, 4 were either not included or could not be found on an APV Register, which would have documented the certification by the fiscal officer and approval by the appropriate governing body as required by Indiana Code.
4. Of the payments made to the City's health insurance provider, \$7,421,383 were paid via wire transfer and did not go through the regular claims process. These wire transfers were not properly supported by an Accounts Payable Voucher (APV) as required by law. In addition, the disbursements were not certified by the fiscal officer or approved by the governing board on an APV or register of APVs.

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

SUBSEQUENT EVENTS - TIMELINESS OF RECONCILIATIONS

A similar comment also appeared in prior Report B56040.

Condition and Context

As of August 8, 2022, the City had not completed monthly bank reconciliations for several of the City's primary operating bank accounts for 2021 and 2022.

Criteria

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."

GATEWAY UPLOADS

The same comment also appeared in prior Report B56040.

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, approved board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

The City did not comply with Amended State Examiner Directive 2018-1 (directive) and failed to upload any of the monthly or annual files on the Indiana Gateway for Government Units (Gateway) financial reporting system for 2020, except for monthly bank reconcilements. However, many of the bank reconcilements were not uploaded timely, that is, no later than the 15th day of the second succeeding month required by the directive. Additionally, the City did not upload reconcilements for all of its bank accounts.

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifionline.org/userguides/engagementguide> **It is pertinent that this user guide be used in conjunction with this Directive.** It provides critical information to you that will help guide you to uploading the correct documents. (Amended State Examiner Directive 2018-1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CERTIFICATION OF INTERNAL CONTROL STANDARDS

Condition and Context

The City incorrectly certified on its Annual Financial Report that internal control training had been provided for 2020.

Criteria

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."



JEROME A. PRINCE
Mayor

TRENT A. MCCAIN
Deputy Mayor

CITY OF GARY
Department of Finance
401 Broadway
Gary, Indiana 46402
Phone (219) 881-1346 – Fax (219) 882-2320

Mileak L. Harper
City Controller

Yvette Barker
Deputy Controller

OFFICIAL RESPONSE TO AUDIT RESULTS AND COMMENTS

September 8, 2022
Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Responses to City and Common Council Audit Comments

Financial Transactions and Reporting

Views of Responsible Official: We concur with the finding. The large number of city bank accounts did not have proper controls in place to ensure bank transfers were timely recorded, and proper controls were not in place to ensure timely prepared, reviewed and posted caused even more issues within the city's financial reporting system.

Description of Corrective Action Plan:

Cash and Investment (Bank Reconciliation)

Additional staff has been assigned to the completion of bank reconciliations. The City Finance Department staff will continue to work with consultants to complete the bank reconciliations and bring status of completion to monthly as required by statute. The 2022 combined bank combined summary reconciliation will be completed annually; for 2023 quarterly, and for 2024 monthly. Due to the current status of the bank reconciliation timeliness of completion, it is the goal of the City to prioritize the time and accurate completion of the bank reconciliations, followed by the timely completion of the Combined Summary reconciliation.

After approval of the bank reconciliations, the cash position of banks that require transfers as part of the reconciliation will be evaluated and transferred, if funds are available.

The City will work with software programmers to identify the cause of the discrepancy between the outstanding checks detail listings and cleared checks listings.

Anticipated Completion Time: December 31, 2023



CITY OF GARY
Department of Finance

401 Broadway
Gary, Indiana 46402

Phone (219) 881-1346 – Fax (219) 882-2320

Mileak L. Harper
City Controller

Yvette Barker
Deputy Controller

JEROME A. PRINCE
Mayor

TRENT A. MCCAIN
Deputy Mayor

Journal Entries

The City will establish a process to ensure journal entries are posted accurately and timely. The Controller will assign a person to review and approve all journal entries.

Anticipated Completion Time: September 30, 2023

Payroll Withholdings and Health Insurance Disbursements

The City will establish procedures to record the monthly health insurance premium payments are recorded accurately.

Anticipated Completion Time: September 30, 2023

Local Development Agreement Intercepts

The City will establish procedures to record the monthly local development agreement receipts and corresponding lease rental payments in the general ledger.

Anticipated Completion Time: September 30, 2023

OVERDRAWN CASH BALANCE:

The City acknowledges it has overdrawn cash balances in its funds. Nearly 50% of the Funds with overdrawn balances are reimbursable grants, some of which reimbursements from the prior year may not be received by January 31st of the current year. For the balance of the funds listed, the city will prepare a schedule that will reflect the fund and amount that will be paid down and ultimately paid off over the next 5 to 10 years as City budget and finances will allow. The schedule will be presented for Council approval to assure that appropriations are made available to transfer cash to offset the deficit cash balances.

TEMPORARY TRANSFERS OF FUNDS

The City has not been able to repay the temporary internal fund transfers in accordance with the statute. The city will prepare a schedule that will reflect the fund and amount that will be paid down and ultimately paid off over the next 5 to 10 years as the City budget and finances will allow. The schedule will be presented for Council approval to assure that appropriations are made available to transfer cash to offset the deficit cash balances. Where possible and allowed by law, a request will be made to the Council to forgive specific interfund loans that will not have funds available to repay the loan in the foreseeable future.

In 2018, the City entered into an agreement that provides loan repayment terms with the Gary Sanitary District. Payments are due on each January 31 for the next five years to repay the remaining balance amount due. The City did receive a waiver from EPA to allow for a one year deferment and a new payment schedule effective in 2021.



CITY OF GARY
Department of Finance
401 Broadway
Gary, Indiana 46402

Phone (219) 881-1346 – Fax (219) 882-2320

Mileak L. Harper
City Controller

Yvette Barker
Deputy Controller

JEROME A. PRINCE
Mayor

TRENT A. MCCAIN
Deputy Mayor

ERRORS ON CLAIMS

The City concurs with the finding that not all claims were included on a Accounts Payable Voucher or approved by the fiscal officer. The City plans to reiterate that all claims be submitted on Accounts Payable Voucher and approved by the fiscal officer and the Board of Public Works. The City will assure that internal controls and policies are in place that will provide proper accounts payable voucher authorization, processing, approval, and timely recording in the financial system for all wire transfers, journal entries, and any other disbursements that are not processed through the normal check process.

SUBSEQUENT OF EVENTS-TIMELINESS OF RECONCILIATIONS AND TRANACTIONS

The city concurs with the finding that the City had not performed monthly bank reconciliations for several of it City's primary operating bank accounts for 2021. Numerous events have contributed to the delay in reconciliation over the past 3 years including lack of adequate staffing or staffing with adequate skills, changes in management, and COVID. The City is vigorously working with its consultants to bring the bank reconciliation up to date.

GATEWAY UPLOADS

The City concurs with the finding. The City had not timely uploaded into the State Board of Accounts (SBOA) Gateway portal, its monthly bank reconcilements, bank statements, approved board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund and some cases these items had not been uploaded. The City will revisit its process on performing monthly and annual uploads to Gateway to be sure that part of the approval process includes proof of uploads and monitoring Gateway uploads. The City will put procedures in place to have a staff member whose responsibility it is to timely upload its documents to the SBOA Gateway beginning in 2023.

TRAINING ON INTERNAL CONTROL STANDARDS

The City will reinstitute the internal control training for employees hired in 2020 to date whose official duties include receiving, processing, depositing, disbursing or otherwise having access to governmental funds. The Finance Department will coordinate with the Human resource department to maintain a log and certification forms to document the internal controls training. Anticipate having the trainings done for the employees hired in 2020 to date by December 31, 2022.

Respectfully submitted,

Mileak Harper
City Controller

FINANCE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2022, with Mileak Harper, City Controller; William G. Godwin, President of the Common Council; Linda D. Barnes-Caldwell, Common Council member; Ronald G. Brewer Sr., Common Council member; Clorius L. Lay, Common Council member; Jerome Prince, Mayor; Angela Lockett, Corporation Counsel; Karl Cender, Financial Advisor; Arlene Colvin, former interim City Controller; Loureather Allen, Internal Auditor; and Trent A. McCain, Deputy Mayor.

COMMON COUNCIL
CITY OF GARY

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in 15 prior reports, including the 3 most recent Reports B51381, B53396, and B56040.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2020. 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 at December 31, 2020, including the grant funds with no reimbursement received in January 2021, are listed below:

Fund	Amount Overdrawn
Riverboat	\$ 67,698
National Civ Rights	4,950
Self-Insurance	472,845
COVID-19 General	52,506
WCI/UCI Benefit	1,961,097
Maternal Child Health Infant Mortality	28,088
Tobacco	31,436
BUILDING COMMUNITY TRUST	366
MOTORCYCLE GRAN	1,553
JAG Grant	29,710
Wheel Tax Road	1,224,399
Distracted Driving	26,660
Safe & Thriving Grant	27,919
AIM Medical Trust Wellness	15,555
Infant Mortality	2,940
Equal Opportunity Commission Hr	347
Youth Services Bureau	15,834
Emergency Shelter	890,375
Landfill Closure	42,573
Health And Human Services	509,714
Bioterrorism	19,905
Fair Housing Project	7,024
Alcohol And Drug Treatment	12,898
Social Services	669
Withholdings	530,667
Supplemental Public Defender	3,893
Salary Fee Judicial	34,073

The Emergency Shelter and the Health and Human Services funds have remained overdrawn for at least 14 years.

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

The General fund reported at positive cash and investment balance as of December 31, 2020. However, the General fund's cash balance contained outstanding temporary loans owed to other funds of \$11,577,927. Without these temporary loans, the cash balance of the General fund would have been overdrawn by \$2,446,974.

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)

TEMPORARY TRANSFER OF FUNDS

The same comment also appeared in 15 prior reports, including the 3 most recent Reports B51381, B53396, and B56040.

Condition and Context

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. The Common Council approved ordinances in 2020 and 2021 to roll over the loans outstanding; however, the City is only allowed to extend the repayment for six months if an emergency exists.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2020:

Loan To	Loan From	Loans Outstanding January 1, 2020	Loans Made	Loans Repaid	Loans Outstanding December 31, 2020
General	Other City Funds (Excluding GSD Funds)	\$ 7,320,800	\$ 3,000,000	\$ 3,000,000	\$ 7,320,800
General	GSD Funds	4,757,127	-	500,000	4,257,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	1,378,126	3,598,041	-	4,976,167
GSD Funds	GSD Funds	2,000,000	2,800,000	3,200,000	1,600,000
Totals		<u>\$ 15,456,053</u>	<u>\$ 9,398,041</u>	<u>\$ 6,700,000</u>	<u>\$ 18,154,094</u>

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 4,257,127	2006
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	380,000	2010
General	Media	600,000	2011
General	Consolidated Area TIF District	308,800	2011
General	Consolidated Area TIF District	300,000	2011
General	Consolidated Area TIF District	32,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
General	Lakefront TIF District	2,010,000	2014
Blight Elimination Program	Midwest Center TIF District	200,000	2015
General	Lakefront TIF District	1,000,000	2015
General	Lakefront TIF District	1,200,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Parks and Recreation	5,000	2016
Blight Elimination Program	Midwest Center TIF District	300,000	2016
General	Lakefront TIF District	720,000	2017
General	Wheel Exc Surtax	250,000	2017
Parks and Recreation	Wheel Tax	240,329	2017
Consolidated Area TIF District	Midwest Center TIF District	<u>191,480</u>	2019
Subtotal Outstanding Since 2019		<u>12,956,053</u>	
Rdvp Aux Non-Reverting	Lakefront Tif District	598,041	2020
Rdvp Aux Non-Reverting	Consolidated Area Tif District	2,000,000	2020
Blight Elimination Program	Lakefront Tif District	1,000,000	2020
GSD WWTP General Operating	GSD Equipment Replacement	400,000	2020
Gary Storm Water Management District (GSWMD)	GSD Equipment Replacement	<u>1,200,000</u>	2020
Total		<u>\$ 18,154,094</u>	

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,257,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2024, these temporary transfers of funds are to be fully repaid.

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TRAINING ON INTERNAL CONTROL STANDARDS

A similar comment appeared in a Management Letter addressed to the Common Council for the audit period ending December 31, 2019.

Condition and Context

None of the employees hired in 2020 whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity, had received training over the internal control standards. Internal control training had not been provided since 2019.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."



CITY OF GARY
Department of Finance
401 Broadway
Gary, Indiana 46402

Phone (219) 881-1346 – Fax (219) 882-2320

Mileak L. Harper
City Controller

Yvette Barker
Deputy Controller

JEROME A. PRINCE
Mayor

TRENT A. MCCAIN
Deputy Mayor

OFFICIAL RESPONSE TO AUDIT RESULTS AND COMMENTS

September 8, 2022
Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Responses to City and Common Council Audit Comments

Financial Transactions and Reporting

Views of Responsible Official: We concur with the finding. The large number of city bank accounts did not have proper controls in place to ensure bank transfers were timely recorded, and proper controls were not in place to ensure timely prepared, reviewed and posted caused even more issues within the city's financial reporting system.

Description of Corrective Action Plan:

Cash and Investment (Bank Reconciliation)

Additional staff has been assigned to the completion of bank reconciliations. The City Finance Department staff will continue to work with consultants to complete the bank reconciliations and bring status of completion to monthly as required by statute. The 2022 combined bank combined summary reconciliation will be completed annually; for 2023 quarterly, and for 2024 monthly. Due to the current status of the bank reconciliation timeliness of completion, it is the goal of the City to prioritize the time and accurate completion of the bank reconciliations, followed by the timely completion of the Combined Summary reconciliation.

After approval of the bank reconciliations, the cash position of banks that require transfers as part of the reconciliation will be evaluated and transferred, if funds are available.

The City will work with software programmers to identify the cause of the discrepancy between the outstanding checks detail listings and cleared checks listings.

Anticipated Completion Time: December 31, 2023



JEROME A. PRINCE
Mayor

TRENT A. MCCAIN
Deputy Mayor

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Mileak L. Harper
City Controller

Yvette Barker
Deputy Controller

Journal Entries

The City will establish a process to ensure journal entries are posted accurately and timely. The Controller will assign a person to review and approve all journal entries.

Anticipated Completion Time: September 30, 2023

Payroll Withholdings and Health Insurance Disbursements

The City will establish procedures to record the monthly health insurance premium payments are recorded accurately.

Anticipated Completion Time: September 30, 2023

Local Development Agreement Intercepts

The City will establish procedures to record the monthly local development agreement receipts and corresponding lease rental payments in the general ledger.

Anticipated Completion Time: September 30, 2023

OVERDRAWN CASH BALANCE:

The City acknowledges it has overdrawn cash balances in its funds. Nearly 50% of the Funds with overdrawn balances are reimbursable grants, some of which reimbursements from the prior year may not be received by January 31st of the current year. For the balance of the funds listed, the city will prepare a schedule that will reflect the fund and amount that will be paid down and ultimately paid off over the next 5 to 10 years as City budget and finances will allow. The schedule will be presented for Council approval to assure that appropriations are made available to transfer cash to offset the deficit cash balances.

TEMPORARY TRANSFERS OF FUNDS

The City has not been able to repay the temporary internal fund transfers in accordance with the statute. The city will prepare a schedule that will reflect the fund and amount that will be paid down and ultimately paid off over the next 5 to 10 years as the City budget and finances will allow. The schedule will be presented for Council approval to assure that appropriations are made available to transfer cash to offset the deficit cash balances. Where possible and allowed by law, a request will be made to the Council to forgive specific interfund loans that will not have funds available to repay the loan in the foreseeable future.

In 2018, the City entered into an agreement that provides loan repayment terms with the Gary Sanitary District. Payments are due on each January 31 for the next five years to repay the remaining balance amount due. The City did receive a waiver from EPA to allow for a one year deferment and a new payment schedule effective in 2021.



CITY OF GARY
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Mayor

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Deputy Mayor

ERRORS ON CLAIMS

The City concurs with the finding that not all claims were included on a Accounts Payable Voucher or approved by the fiscal officer. The City plans to reiterate that all claims be submitted on Accounts Payable Voucher and approved by the fiscal officer and the Board of Public Works. The City will assure that internal controls and policies are in place that will provide proper accounts payable voucher authorization, processing, approval, and timely recording in the financial system for all wire transfers, journal entries, and any other disbursements that are not processed through the normal check process.

SUBSEQUENT OF EVENTS-TIMELINESS OF RECONCILIATIONS AND TRANACTIONS

The city concurs with the finding that the City had not performed monthly bank reconciliations for several of it City's primary operating bank accounts for 2021. Numerous events have contributed to the delay in reconciliation over the past 3 years including lack of adequate staffing or staffing with adequate skills, changes in management, and COVID. The City is vigorously working with its consultants to bring the bank reconciliation up to date.

GATEWAY UPLOADS

The City concurs with the finding. The City had not timely uploaded into the State Board of Accounts (SBOA) Gateway portal, its monthly bank reconcilements, bank statements, approved board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund and some cases these items had not been uploaded. The City will revisit its process on performing monthly and annual uploads to Gateway to be sure that part of the approval process includes proof of uploads and monitoring Gateway uploads. The City will put procedures in place to have a staff member whose responsibility it is to timely upload its documents to the SBOA Gateway beginning in 2023.

TRAINING ON INTERNAL CONTROL STANDARDS

The City will reinstitute the internal control training for employees hired in 2020 to date whose official duties include receiving, processing, depositing, disbursing or otherwise having access to governmental funds. The Finance Department will coordinate with the Human resource department to maintain a log and certification forms to document the internal controls training. Anticipate having the trainings done for the employees hired in 2020 to date by December 31, 2022.

Respectfully submitted,

Mileak Harper
City Controller

COMMON COUNCIL
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2022, with William G. Godwin, President of the Common Council; Linda D. Barnes-Caldwell, Common Council member; Ronald G. Brewer Sr., Common Council member; Clorius L. Lay, Common Council member; Mileak Harper, City Controller; Jerome Prince, Mayor; Angela Lockett, Corporation Counsel; Karl Cender, Financial Advisor; Arlene Colvin, former interim City Controller; Loureather Allen, Internal Auditor; and Trent A. McCain, Deputy Mayor.

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BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY
AUDIT RESULT AND COMMENT

PUBLIC PURCHASES - POLICE VEHICLES

Condition and Context

The contract for the purchase of 18 police vehicles totaling \$937,375 was approved by the Board of Public Works and Safety on November 12, 2020. The vehicles were procured based on quotes which were obtained from two vendors. Documentation of the quote received from the second vendor was not provided for audit.

We were unable to determine the procurement method used to allow the public purchase of more than \$150,000 based upon quotes.

Criteria

Indiana Code 5-22-7-1 states: A purchasing agent shall follow the procedure described in this chapter in awarding a contract for supplies, unless another purchasing method is required or authorized by this article."

Indiana Code 5-22-7-2 states:

- "(a) A purchasing agent shall issue an invitation for bids.
- (b) An invitation for bids must include the following:
 - (1) A purchase description.
 - (2) All contractual terms and conditions that apply to the purchase.
 - (3) A statement of the evaluation criteria that will be used, including any of the following:
 - (A) Inspection.
 - (B) Testing.
 - (C) Quality.
 - (D) Workmanship.
 - (E) Delivery.
 - (F) Suitability for a particular purpose.
 - (G) The requirement imposed under [IC 5-22-3-5](#).
 - (4) The time and place for opening the bids.
 - (5) A statement concerning whether the bid must be accompanied by a certified check or other evidence of financial responsibility that may be imposed in accordance with rules or policies of the governmental body.
 - (6) A statement concerning the conditions under which a bid may be canceled or rejected in whole or in part as specified under [IC 5-22-18-2](#)."

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY
AUDIT RESULT AND COMMENT
(Continued)

Indiana Code 5-22-7-5(a) states: "The purchasing agent shall give notice of the invitation for bids in the manner required by IC 5-3-1."

Indiana Code 5-22-7-6 states: "The purchasing agent shall open bids publicly in the presence of one (1) or more witnesses at the time and place designated in the invitation for bids."

Indiana Code 5-22-7-7 states:

"Bids must be:

- (1) unconditionally accepted without alteration or correction, except as provided in sections 11 through 13 of this chapter; and
- (2) evaluated based on the requirements provided in the invitation for bids."

Indiana Code 5-22-7-8 states: "A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder."

Indiana Code 5-22-10-3 states:

"(a) A purchasing agent shall maintain the contract records for a special purchase in a separate file.

(b) A purchasing agent shall include in the contract file a written determination of the basis for:

- (1) the special purchase; and
- (2) the selection of a particular contractor.

(c) Notwithstanding any other law, a governmental body shall maintain a record listing all contracts made under this chapter for a minimum of five (5) years. The record must contain the following information:

- (1) Each contractor's name.
- (2) The amount and type of each contract.
- (3) A description of the supplies purchased under each contract.

(d) The contract records for a special purchase are subject to audit by the state board of accounts."

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2022, with Mileak Harper, City Controller; Trent A. McCain, President of the Board of Public Works and Safety; Arlene Colvin, Vice President of the Board of Public Works and Safety; Angela Lockett, Board of Public Works and Safety member; Marianetta L. Barber, Board of Public Works and Safety Clerk; and Loureather Allen, Internal Auditor.

SANITARY DISTRICT
CITY OF GARY

SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

A similar comment appeared in a Management Letter addressed to the Mayor, Sanitary District Board of Commissioners, and Storm Water Management District Board of Directors, for the audit period ending December 31, 2019.

Condition and Context

Cash and Investments (Bank Reconciliations)

The Sanitary District had designed a process of review or oversight over the bank reconciliations; however, the process was not consistently documented throughout the audit period. A consultant reconciled the bank accounts for the Sanitary District funds. The reconciliations were subsequently reviewed by Sanitary District officials as documented by a signature.

The Sanitary District process was to have the bank reconciliations reviewed and uploaded on the Indiana Gateway for Government Units (Gateway) financial reporting system by the 15th of the second following month, to comply with the Gateway deadlines. The bank reconciliations were not considered complete until reviewed. However, we observed that the bank reconciliations for three of the three months tested in 2020 were not reviewed timely as they were completed between 53 and 358 days late. Furthermore, two of the three months tested did not have documentation that a review process took place.

Additionally, the Sanitary District 2020 bank reconciliations contained outstanding reconciling items and adjustments from 2017, 2018, and 2019 totaling \$1,667, \$18,868, and \$57,319, respectively. These outstanding reconciling items and adjustments had not been posted in the subsequent period, and, therefore, had not been posted timely. The bank reconciliations also contained unidentified outstanding checks totaling \$27,847 and an unidentified deposit in transit of \$982 outstanding since November 2019.

Receipts

The Sanitary District had designed a process of review or oversight to ensure the accuracy, completeness, timeliness, and classification of the receipts posted as a part of the monthly bank reconciliation. However, documentation of the review process over the bank reconciliations, which included the review process for receipts, was not consistently documented throughout the audit period as noted above.

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.

SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

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."

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)

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in seven prior Reports, including the three most recent Reports B51381, B53396, and B56040.

Condition and Context

Delinquent wastewater fees and penalties have not been certified to the County Auditor since 2009. The delinquent fees have been recorded with the County Recorder more frequently, but not certified to the County Auditor. The wastewater accounts receivable at December 31, 2020, was \$11,893,883. Wastewater fees and penalties outstanding for over one year as of December 31, 2020, totaled \$7,995,915. Of the amounts outstanding for over one year, \$6,659,628 (83 percent) of the outstanding amounts have been outstanding for over three years.

Criteria

Indiana Code 36-9-25-11(g) states:

"Except as otherwise provided in subsection (h) or in an ordinance provision described in subsection (l), fees assessed against real property under this section also constitute a lien against the property assessed. The lien attaches at the time of the filing of the notice of lien in the county recorder's office. The lien is superior to all other liens except tax liens, and shall be enforced and foreclosed in the same manner as is provided for liens under [IC 36-9-23-33](#) and [IC 36-9-23-34](#)."

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

- (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

- (B) A description of the premises, as shown by the records of the county auditor.
- (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.
- (d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .
- (f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

TEMPORARY TRANSFER OF FUNDS

The same comment also appeared in 15 prior reports, including the 3 most recent Reports B51381, B53396 and B56040.

Condition and Context

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,257,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2024, these temporary transfers of funds are to be fully repaid.

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (1) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (2) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.

SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

- (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

MAYOR JEROME A. PRINCE



CHARLES G. PELLER, JR., P.E.
Executive Director

AN EQUAL OPPORTUNITY EMPLOYER
www.garysanitary.com

OFFICIAL RESPONSE TO AUDIT RESULTS AND COMMENTS

September 9, 2022

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

Re: Responses to City and Common Council Audit Comments

Financial Transactions

Views of Responsible Official: The Gary Sanitary District concurs with the findings.

Description of Corrective Action Plan:

FINANCIAL TRANSACTIONS

Cash and Investment (Bank Reconciliation)

The Gary Sanitary District (GSD) recognizes that the designed processes and procedures for review and oversight of the monthly bank reconciliations are sufficient in scope and design. GSD will ensure that these processes are followed each month, including sufficient evidence of review process, and timely completion by the 15th of the second following month. Lastly, GSD intends for the bank rec process to result in timely posting of outstanding adjustments, and include identification of all outstanding checks and deposits in transit. **Anticipated Completion Time:** October 31, 2022

Receipts

GSD recognizes that receipts posted are to be reviewed for accuracy, completeness, timeliness, and classification as part of the monthly bank reconciliation process. GSD notes that proper execution of designed bank reconciliation processes (as discussed above), including documentation of the review process, is sufficient for reviewing receipts posted for these attributes. **Anticipated Completion Time:** October 31, 2022

DELINQUENT WASTEWATER ACCOUNTS:

GSD completed the implementation of a new billing software system in October 2021. This new billing system is currently being enhanced with custom features to automate a sewer lien

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CUSTOMER SERVICE OFFICE

504 Broadway, Suite 103, Gary, IN 46402
Tel: 219-883-1027 | Fax: 219-883-1029

process, including recording entries and certifying liens. Various testing of this lien process using the billing system is presently underway. GSD expects live implementation of monthly lien recording to begin by November 2022. By the end of December 2022, GSD will file sewer liens with the county for all delinquent balances that Indiana state statute will allow, including balances less than 3 years old, and at least 60 days old. **Anticipated Completion Time: December 31, 2022**

TEMPORARY TRANSFERS OF FUNDS

In 2018, GSD entered into a Consent Decree with the Department of Justice that provided the repayment terms of the outstanding loan between the City of Gary and GSD. An updated payment schedule was effective during 2021. The City anticipates making payments on or before the 31st of the year according to the schedule, unless any more deferments are approved by the EPA.

Respectfully submitted,



Jerome Foster
Finance Manager

SANITARY DISTRICT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2022, with Mileak Harper, City Controller; Jerome Foster, Gary Sanitary Finance Manager; Charles Peller Jr., Executive Director; Daniel F. Vicari, President of Gary Sanitary Board; Maurice Mabon, Vice President of Gary Sanitary Board; Ola V. Morris, Gary Sanitary Board Secretary; Charles W. Jackson Jr., Gary Sanitary Board member; Karl Cender, Financial Advisor; Loureather Allen, Internal Auditor; and Angela Lockett, Corporation Counsel.

PARKS AND RECREATION DEPARTMENT
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AUDIT RESULTS AND COMMENTS

PARK BOARD - APPROVAL OF CLAIMS

The same comment also appeared in prior Report B56040.

Condition and Context

The Parks and Recreation Board (Park Board) conducted meetings in January, February, and October in 2020. While this was primarily due to the COVID-19 pandemic, the minutes did not mention that payroll and vendor claims were subsequently ratified as required by Indiana Code for months which the board did not meet. Additionally, for the months with no meetings, inconsistency was noted in each meeting by approving only part of the monthly payroll or vendor claims. That was noted for four of the twelve months during 2020.

In 2021, the Park Board was conducting meetings more frequently than in 2020 and 2019; however, meetings were not held biweekly like in previous years and payroll and vendor claims were not approved consistently on each meeting. There were 9 months of vendor and 11 months payroll claims either partially ratified or not ratified at all.

Furthermore, the Park Board did not reorganize in February 2020 or 2021 as required by Indiana Code.

Criteria

Indiana Code 36-10-4-7(f) states:

"Money received by the board shall immediately be paid into the city treasury and credited to the department. All expenditures relating to the parks, parkways, public grounds, public ways, and other places of the city under the control of the department shall be provided for by a special levy of taxes. The money shall be paid from the city treasury when ordered by the board."

Indiana Code 36-10-4-16 states in part:

". . . (c) The board may expend on behalf of the city all sums of money collected from:

- (1) taxes;
- (2) the sale of privileges in the parks of the city;
- (3) the sale of bonds of the city for park purposes; and
- (4) any other source.

All gifts, donations, or payments that are given or paid to the city for park purposes belong to the general park fund, the special nonreverting operating fund, or the special nonreverting capital fund to be used by the board as provided by this chapter. Warrants for expenditures shall be drawn by the city fiscal officer upon a voucher of the board signed by the president or vice president and secretary. . . .

(g) The city legislative body may establish by ordinance upon request of the board:

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- (1) a special nonreverting operating fund for park purposes from which expenditures may be made as provided by ordinance, either by appropriation by the board or by the city legislative body; or
- (2) a special nonreverting capital fund for the purpose of acquiring land or making specific capital improvements from which expenditures may be made by appropriation by the city legislative body.

The city legislative body shall designate the fund or funds into which the city fiscal officer shall deposit fees from golf courses, swimming pools, skating rinks, or other major facilities requiring major expenditures for management and maintenance. Money received from fees other than from major facilities or received from the sale of surplus property shall be deposited by the city fiscal officer either in the special nonreverting operating fund or in the nonreverting capital fund, as directed by the board. However, if neither fund has been established, money received from fees or from the sale of surplus property shall be deposited in the general park fund. Money from either special fund may be disbursed only on approved claims allowed and signed by the president and secretary of the board. . . ."

Indiana Code 36-10-4-7(a) states: "The board shall elect at its first regular meeting in February each year one (1) of the commissioners president and another vice president. The vice president shall perform the duties of the president during the absence or disability of the president."

HUDSON CAMPBELL - SUPPORTING DOCUMENTATION AND FEES

A similar comment also appeared in prior Report B56040.

Condition and Context

The fees charged for tennis court usage, the college student plan, and the track team rate at the Hudson Campbell Park facility were not included in the Parks and Recreation Board approved rate schedule.

The City did not have internal controls to ensure that fees collected for Physical Fitness were properly documented. We were unable to determine if fees were properly charged because when multiple daily passes are purchased by the same individual, the sales report only gave the total collected and did not document how many passes were purchased. Additionally, we were unable to determine if the partial payments received for passes and payroll deductions were for approved rates.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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:

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"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. . . ."



JEROME A. PRINCE
Mayor

TRENT A. MCCAIN
Deputy Mayor

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Mileak L. Harper
City Controller

Yvette Barker
Deputy Controller

OFFICIAL RESPONSE TO AUDIT RESULTS AND COMMENTS

September 9, 2022
Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Responses to City of Gary Park Department Audit Comments

PARK BOARD – APPROVAL OF CLAIMS

We concur with the finding. During COVID-19 pandemic, The Park Department Board did not always meet and as a result the claims were not always approved. The Park Department is now in the process of ensuring that past claims are ratified. Additionally, procedures are being developed to ensure that claim ratification occurs on a monthly basis.

The City administration will remind the Park Board to reorganize each February as required by Indiana statute.

HUDSON CAMPBELL - SUPPORTING DOCUMENTATION AND FEES

Additional internal control measures will be implemented to ensure that the fees for Physical Fitness and related facilities are included in the park Board approved rate schedule and fees are charged accordingly. A detailed corrective action plan will be submitted to address this area.

Respectfully submitted,

Mileak Harper
City Controller

PARKS AND RECREATION DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2022, with Mileak Harper, City Controller; Marianetta L. Barber, interim Director of Parks, Venues, and Recreation; Angela Lockett, Corporation Counsel; Trent A. McCain, Deputy Mayor; and Loureather Allen, Internal Auditor.