

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF GARY

LAKE COUNTY, INDIANA

January 1, 2020 to December 31, 2020



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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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of Gary (City), for the year ended December 31, 2020, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated August 30, 2022, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2020-001 and 2020-002, that we consider to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2020-001 and 2020-002.

City of Gary's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

August 30, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Gary's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibilities

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibilities

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2020-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2020-003, that we consider to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the City, as of and for the year ended December 31, 2020, and the related notes to the financial statement. We issued our report thereon dated August 30, 2022, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

August 30, 2022

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

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CITY OF GARY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2020

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Department of Agriculture					
Child and Adult Care Food Program	Indiana Department of Education	10.558			
Child and Adult Care Food Program			#71818IN109942SF	\$ -	\$ 1,055
Total - Department of Agriculture				-	1,055
Department of Commerce					
Economic Development Cluster					
Investments for Public Works and Economic Development Facilities	Direct	11.300			
Investments for Public Works and Economic Development Facilities			06-01-06008	-	1,900,406
Total - Economic Development Cluster				-	1,900,406
Total - Department of Commerce					
				-	1,900,406
Department of Housing and Urban Development					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct	14.218			
Community Development Block Grant			B14MC180005 (Section 108 Loan)	-	1,759,432
Community Development Block Grant			B11MN180005	-	41,399
Community Development Block Grant			B15MC180005	-	917,858
Community Development Block Grant			B17MC180005	-	149,127
Community Development Block Grant			B19MC180005	-	1,137,013
Total - Community Development Block Grants/Entitlement Grants				-	4,004,829
Total - CDBG - Entitlement Grants Cluster					
				-	4,004,829
Emergency Solutions Grants Program					
Emergency Solutions Grants Program	Direct	14.231			
Emergency Solutions Grants Program			E-17-MC-180005	34,940	34,940
Emergency Solutions Grants Program			E-18-MC-180005	68,067	85,482
Emergency Solutions Grants Program			E-19-MC-180005	101,126	131,224
Total - Emergency Solutions Grants Program				204,133	251,646
Home Investment Partnerships Program					
Home Investment Partnerships Program	Direct	14.239			
Home Investment Partnerships Program			M-15-MC-180203	-	81,593
Home Investment Partnerships Program			M-17-MC-180203	-	4,057
Home Investment Partnerships Program			M-18-MC-180203	-	79,280
Home Investment Partnerships Program			M-20-MC-18203	-	14,171
Total - Home Investment Partnerships Program				-	179,101
Fair Housing Assistance Partnership (FHAPP)					
Fair Housing Assistance Partnership (FHAPP)	Direct	14.401			
			FF205K165012	-	33,800
Total - Department of Housing and Urban Development				204,133	4,469,376

CITY OF GARY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2020

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Justice</u>					
Community-Based Violence Prevention Program Safe and Thriving Grant	Direct	16.123	2017-MU-MU-K007	-	17,327
Crime Victim Assistance Crime Victim Assistance	Indiana Criminal Justice Institute	16.575	D3-17-11444	-	12,564
Violence Against Women Formula Grants STOP Grant	Indiana Criminal Justice Institute	16.588	2019-WF-AX-0005	-	18,733
Equitable Sharing Program Equitable Sharing Program	Direct	16.922	DEA-FY2020	-	4,430
Total - Department of Justice				-	53,054
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster	Indiana Department of Transportation				
Highway Planning and Construction 2020 Construction Engineering		20.205	DES#1600418	-	235,000
2017 Pre Eng MPO			DES#1601899	-	17,725
2019 Pre Eng MPO			DES#1702158	-	231,626
Total Highway Planning and Construction				-	484,351
Total - Highway Planning and Construction Cluster				-	484,351
Highway Safety Cluster					
State and Community Highway Safety Operation Pull Over	Indiana Criminal Justice Institute	20.600	CHIRP-2020-00055-FR2	-	44,180
Alcohol Impaired Driving Counter Measures Incentive Grants I Alcohol Impaired Driving Counter Measures Incentive Grants	Indiana Criminal Justice Institute	20.601	CHIRP-2020-00055-FR2	-	4,268
National Priority Safety Programs Distracted Driving	Indiana Criminal Justice Institute	20.616	CHIRP-2020-00050-FR1	-	21,645
Total Highway Safety Cluster				-	70,093
Total - Department of Transportation				-	554,444
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus Relief Fund		21.019			
Coronavirus Relief Fund	Indiana Finance Authority		FY 2020	-	99,488
Epidemiology and Laboratory Capacity for Infection Diseases	Indiana State Department of Health		NU50CK000503	-	44,276
Total - COVID-19 - Coronavirus Relief Fund				-	143,764
Total - Department of the Treasury				-	143,764

CITY OF GARY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2020

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Equal Employment Opportunity Commission</u>					
Employment Discrimination Title VII of the Civil Rights Act of 1964 Equal Employment Opportunity Commission	Direct	30.001	EEC-45017C0056	-	17,680
Total - Equal Employment Opportunity Commission				-	17,680
<u>Environmental Protection Agency</u>					
Beach Monitoring and Notification Program Implementation Grants Beach Monitoring and Notification Program Implementation Grants	Indiana Department of Environmental Management	66.472	CU-10E73102	-	19,152
Total - Environmental Protection Agency				-	19,152
<u>Department of Health and Human Services</u>					
Immunization Cooperative Agreements Childhood Immunization	Indiana State Department of Health	93.268	H23IP000723	-	60,866
Public Health Emergency Preparedness Bioterrorism-CRI	Indiana State Department of Health	93.069	NU90TP922052	-	41,786
Social Services Block Grant Social Services Block Grant/SSBG Grant	Direct	93.667	2019INSOSR	-	14,146
HIV Care Formula Grants HIV Care Formula Grants	Indiana State Department of Health	93.917	X08HA00033	-	244,358
Maternal and Child Health Services Block Grant to the States Maternal and Child Health Services Block Grant to the States	Indiana State Department of Health	93.994	B04MC32539	-	13,345
Total - Department of Health and Human Services				-	374,501
<u>Department of Homeland Security</u>					
Emergency Food and Shelter National Board Program Lake Area United Way EFSP FEMA	Lake Area United Way	97.024	LRO 271600-005	-	1,750
Total - Department of Homeland Security				-	1,750
Total federal awards expended				<u>\$ 204,133</u>	<u>\$ 7,535,182</u>

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

CITY OF GARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2020. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Economic Development Cluster	Unmodified
CDBG - Entitlement Grants Cluster	Unmodified
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

FINDING 2020-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2019-001.

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.

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

In addition, the City did not have a 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.

Cash and Investments (Bank Reconciliations) - Sanitary District

The Sanitary District had designed a process of review or oversight over the bank reconcilements; however, the process was not consistently documented throughout the audit period. A consultant reconciled the bank accounts for the Sanitary District funds. The reconcilements 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 had taken place.

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

Additionally, the Sanitary District 2020 bank reconcilements 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 reconcilements also contained unidentified outstanding checks totaling \$27,847 and an unidentified deposit in transit of \$982 outstanding since November 2019.

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.

Receipts - City

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 was 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.

Receipts - Sanitary District

The Gary Sanitary District (GSD) 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 under *Cash and Investments (Bank Reconciliations) - Sanitary District*.

Payroll Withholdings and Health Insurance Disbursements

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

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

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 disbursements being overstated by \$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:

"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. . . ."

"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. . . ."

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

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](#)."

Cause

Management had not established or implemented a proper system of internal control or conducted a risk assessment related to the City's financial transactions.

Effect

The failure to establish a system of internal control enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that internal controls may not be either designed properly or operating effectively to provide reasonable assurance that internal controls will prevent, or detect and correct, misstatements in a timely manner.

Views of Responsible Officials

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

FINDING 2020-002

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2019-002.

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

Condition and Context

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

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

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

1. The Investments for Public Works and Economic Development Facilities was omitted, which understated expenditures by \$1,900,406.
2. The Highway Planning and Construction Cluster was omitted, which understated expenditures by \$484,351.
3. Several other grants had individually immaterial errors or omissions that resulted in a combined misstatement of \$435,794.
4. Other errors included incorrect program names, pass-through entities, and Assistance Listings Numbers.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"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. . . ."

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 200.62 states in part:

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

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

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

2 CFR 200.508 states in part:

"The auditee must: . . .

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

2 CFR 200.510(b) states:

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

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings Number information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.

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

- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established an effective system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition and Context*.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2020-003

Subject: Economic Development Cluster - Special Tests and Provisions - Wage Rate Requirements
Federal Agency: Department of Commerce
Federal Program: Investments for Public Works and Economic Development Facilities
Assistance Listings Number: 11.300
Federal Award Number and Year (or Other Identifying Number): 06-01-06008
Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements
Audit Findings: Material Weakness, Other Matters

Condition and Context

An effective internal control system was not in place at the City to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement. There was no oversight or review process in place at the City to ensure all subcontractors were notified to comply with prevailing wage rate requirements.

The City had a responsibility to include a provision in its construction contracts that the contractors or subcontractors comply with the prevailing wage rate requirements. The City's contract stated that the Contractor was to submit to the City a written statement concerning the proposed award to the subcontractor which would include appropriate provisions. The City was responsible to provide written approval before the contractor awarded any work to a subcontractor. The City did not provide the written statements for all subcontractors that were tested; therefore, we were unable to determine if the subcontractors were notified of the wage rate requirements.

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

The lack of internal controls and noncompliance was isolated to the subcontractors.

Criteria

2 CFR 200.303 states in part:

"The Non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

40 USC 3142(a) states:

"Application.—The advertised specifications for every contract in excess of \$2,000, to which the Federal Government or the District of Columbia is a party, for construction, alteration, or repair, including painting and decorating, of public buildings and public works of the Government or the District of Columbia that are located in a State or the District of Columbia and which requires or involves the employment of mechanics or laborers shall contain a provision stating the minimum wages to be paid various classes of laborers and mechanics."

Contract Documents and Specifications for Buffington Harbor Drive Reconstruction in the City of Gary states in part:

"Subcontracts

The Contractor may utilize the services of specialty Subcontractors on those parts of the work which, under normal contracting practices, are performed by specialty Subcontractors.

The Contractor shall not award any work to any subcontractor without prior written approval of the City, which approval will not be given until the Contractor submits to the City a written statement concerning the proposed award to the subcontractor, which statement shall contain such information as the City may require.

The Contractor shall be as fully responsible to the City for the acts and omissions of his subcontractors, and of persons either directly or indirectly employed by them, as he is for the acts and omissions of persons directly employed by him.

The Contractor shall cause appropriate provisions to be inserted in all subcontracts relative to the work to bind subcontractors to the Contractor by the terms of the General Conditions and other contract documents insofar as applicable to the work of subcontractors and to give the Contractor the same power as regards terminating any subcontract that the City may exercise over the Contractor under any provision of the contract documents.

Nothing contained in this contract shall create any contractual relation between any subcontractor and the City."

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

Cause

Management had not developed a system of internal control that would have ensured compliance with requirements related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Effect

The failure to establish an effective internal control system, as well as maintain and provide appropriate documentation, prevented the determination of the City's compliance with the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish an effective system of internal control, as well as retain documentation, related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.



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Mayor

TRENT A. MCCAIN
Deputy Mayor

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Mileak L. Harper
City Controller

FINDING 2019-001

Finding initially occurred in 2018:

Status of Audit Finding: In Progress

The City worked with its consultants to adjust accounting software balances to agree to bank statement balances as of December 31, 2019. The Prior Year Adjustments were approved by the City Council.

Amounts owed between funds or banks were transferred. Cash was transferred only if sufficient cash was available to complete the entries transaction. Bank reconciliations for 2020 are largely completed and will be fully complete in early 2022., 2021 Bank Recs are in progress with the goal of completing 2021 bank reconciliations by October 2022. Completion of the 2020 and 2021 bank reconciliations on a monthly basis was challenging due to COVID related restrictions and challenges, as well as changes and turnover in the Finance Department. Additionally, there was a large amount of unreconciled differences from prior years for which adjustments needed to be calculated and entered into the general ledger before accurate bank reconciliations could be produced.

Problems associated with the changes implemented in 2019 for processing AIM insurance became apparent in 2020, after the audit. Analyzing the problem to discover the disconnect in the payment processes of the City's AIM insurance took several months. A reconciliation was completed for 2020 with instructions for wire transfer payments and reimbursements. However, cash was not available in some of the banks to complete some of the transactions.



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A journal entry form is currently being used to propose journal entries. The Cash Management staff prepares the journal entry and attaches documentation. The Controller reviews the journal entry and approves the entry on the form, then the Cash Management staff enters and files the journal entry.

Dormant funds were reviewed and submitted to the City Council for approval to close. Upon approval the funds were closed and cash transferred.

A new Controller has been hired for the Finance Department. Due to Covid -19 the process of reviewing all of the staff's responsibilities was delayed and is a work in progress. The Controller is currently in the process of developing segregation of responsibilities.

FINDING 2019-002

Finding initially occurred in 2018:

Status of Audit Finding: In Progress

The Grant Administrator was able to correspond with designated departmental personnel bi-weekly or weekly. Due to COVID, in person meetings were not possible. Receipts and discrepancies were discussed during these meetings.

Currently, The Grant Administrator position is vacant. However, we are working to implement E-Civis grant software by end of November 1, 2022. This program would address concerns with reporting problems. We are continuing to work with a few departments to prioritize submission of grant information sent to the Finance Department in a timely manner, in order to prepare a complete and more accurate SEFA.



JEROME PRINCE
Mayor

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DIVISION OF COMMUNITY DEVELOPMENT

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ARLENE D. COLVIN
Director

E. NIKOLE RUMPH
Deputy Director

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2019-003

Fiscal year in which the finding initially occurred: 2017

Status of Audit Finding:

All 108 loan reports are up to date. The Deputy Director of the Department signs off as a part of the review process. No further action is required.



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Mileak L. Harper
City Controller

Yvette Williams
Deputy Controller

CORRECTIVE ACTION PLAN

FINDING 2020-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action:

Mileak Harper

Contact Phone Number:

219-999-3316

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

We concur with the finding. Due to the Nationwide battle with Covid-19. The large number of city bank accounts proper controls not being in place to ensure bank transfers were timely recorded, and proper controls not being in place to ensure that adjusting journal entries were timely prepared, reviewed and posted caused even more issues within the city's financial reporting system for the year 2020.

Subsequent to the completion of this audit, the City has hired a new City Controller as of April 2021.

The City has put a plan together with its consultant's and software vendor to reconcile City bank accounts, which has included adjusting balances to determine the current bank balances at the end of December 31, 2020. The City will summarize the prior year's bank accounts owed to



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City Controller

Yvette Williams
Deputy Controller

other bank accounts and determine whether funds exist to make the necessary transfers or what alternative steps will be needed.

Amounts owed between funds or banks were transferred. Cash was transferred only if sufficient cash was available to complete the entries transaction. Bank reconciliations for 2020 are now completed. The City's 2021 Bank Recs are in progress with the goal of completing 2021 bank reconciliations by October 2022. Completion of the 2020 and 2021 bank reconciliations on a monthly basis was challenging due to COVID related restrictions and challenges, as well as changes and turnover in the Finance Department. Additionally, there was a large amount of unreconciled differences from prior years for which adjustments needed to be calculated and entered into the general ledger before accurate bank reconciliations could be produced.

Problems associated with the changes implemented in 2020 for processing AIM insurance became apparent in 2020, after the audit. Analyzing the problem to discover the disconnect in the payment processes of the City's AIM insurance took several months. A reconciliation was completed for 2020 with instructions for wire transfer payments and reimbursements. However, cash was not available in some of the banks to complete some of the transactions.

A journal entry form is currently being used to propose journal entries. The Cash Management staff prepares the journal entry and attaches documentation. The Controller reviews the journal entry and approves the entry on the form, then the Cash Management staff enters and files the journal entry.

The City will establish procedures to determine the responsible persons to review and post receipts in a timely matter.



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Gary Sanitary District

Cash and Investments (Bank Reconciliations)

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.

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 Date:

We are in line to have all findings completed by December 31, 2023.



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Yvette Williams
Deputy Controller

CORRECTIVE ACTION PLAN

FINDING 2020-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action:

Mileak Harper

Contact Phone Number:

219-999-3316

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

Currently, The Grant Administrator position is vacant. We are in the interviewing process of hiring a new and qualified candidate. However, we are working to implement E-Civis grant software by end of November 1, 2022. This program would address concerns with reporting problems. We are continuing to work with a few departments to prioritize submission of grant information sent to the Finance Department in a timely manner, in order to prepare a complete and more accurate SEFA. We have also hired a new Internal Auditor that will be in the process of establishing effective internal controls.

Anticipated Completion Date:

We are in line to have all findings completed by December 31, 2023.



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CORRECTIVE ACTION PLAN

FINDING 2020-003 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action:

Mileak Harper

Contact Phone Number:

219-999-3316

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

We are working with our newly hired Internal Auditor and its consultants to address the responsibility to include a provision in their construction contracts that the contractors or subcontractors comply with the prevailing wage rate requirements. Due to COVID, the prevailing wage rate requirements were not addressed previously.

Anticipated Completion Date:

We are in line to have all findings completed by September 30, 2023.

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.