

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HOBART

LAKE COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED

04/28/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Longer	01-01-22 to 12-31-23
Mayor	Brian Snedecor	01-01-22 to 12-31-23
President of the Board of Public Works	Brian Snedecor	01-01-22 to 12-31-23
President Pro Tempore of the Common Council	Matthew Claussen	01-01-22 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of Hobart (City), for the period from January 1, 2022 to December 31, 2022. 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 opinion 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

April 18, 2023

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CLERK-TREASURER
CITY OF HOBART

CLERK-TREASURER
CITY OF HOBART
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment appeared in five prior reports, including the three most recent, Reports B55413, B57261, and B59485.

Condition and Context

The financial statement presented included the Motor Vehicle Highway fund with an overdrawn cash balance of \$982,081 at December 31, 2022.

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

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND DISBURSEMENTS

The same comment also appeared in the prior Report B59485.

Condition and Context

The City created a Motor Vehicle Highway (MVH) Restricted sub-fund within the MVH fund and posted 50 percent of the state MVH distributions to the sub-fund as required. However, the City disbursed \$1,135 for maintenance of machinery and \$571 to construct barricades. These disbursements were not for the construction, reconstruction, or preservation of the City's highways.

Criteria

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

GENERAL FUND APPROPRIATIONS

The same comment also appeared in prior Reports B57261 and B59485.

Condition and Context

Disbursements in the General fund exceeded the budgeted appropriations by \$2,864,716. Additionally, interest paid on the tax anticipation warrant totaling \$52,547 was disbursed without an appropriation.

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

Criteria

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

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

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

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

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

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

ANNUAL FINANCIAL REPORT

Condition and Context

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The City had also not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Leases and Debt

The City did not report the leases with the Hobart Redevelopment Authority, identified as Lease Rental Revenue Bond 2014, Lease Rental Revenue Bond 2015, and Lease Rental Revenue 2020, with the yearly lease payment amounts of \$688,000, \$232,000, and \$976,000, respectively.

Adjustments were proposed, accepted by the City, and made to the Schedule of Leases and Debt presented as Other Information.

Grants

1. The Highway Planning and Construction Cluster grant receipts were overstated by \$360,884 due to reporting a non-federal portion of the grant.
2. Several grants had individually immaterial errors that resulted in a total misstatement of expenditures of \$71,809.

CLERK-TREASURER
CITY OF HOBART
AUDIT RESULTS AND COMMENTS

3. Other errors included incorrect federal program names and identifying numbers.

Adjustments were proposed, accepted by the City, and made to the Schedule of Expenditures of Federal Awards.

Criteria

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

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-11-1-4(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](#)."



"The Friendly City"

The City of Hobart

414 Main Street · Hobart, Indiana 46342

Deborah A. Longer
Clerk-Treasurer

OFFICIAL RESPONSE

April 21, 2023

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

Submitted via email: officialresponse@sboa.in.gov

RE: Civil City of Hobart, Lake County Indiana 2022 Audit Results and Comments

A. Overdrawn Cash Balances

The audit report lists the Motor Vehicle Highway Fund with an overdrawn cash balance as of December 31, 2022. This is partially a result of some reimbursable expenditures that were not received by the end of December 2022, in addition to a combination of a levy collection shortfall with tax distributions coming in at only 68% of the total anticipated which was not realized until late December when distributions were received from Lake County, coupled with the previous shortfalls that are not able to be recovered from past years.

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

B. Motor Vehicle Highway (MVH) Restricted

The City of Hobart is well aware of the permitted uses for the MVH Restricted funds and utilizes these funds correctly. The discrepancy in the specific fund uses for maintenance of machinery and construction of barricades is solely due to the misunderstanding by the auditors as to what specific type of project these pertained to, whether it be construction, reconstruction or preservation of the City's highways. For example, the maintenance of machinery related to a preservation project would fall into the category of costs included as equipment operation expenses and construction of barricades to be used for a reconstruction project is included in the cost of materials. Care will be taken in the future to more specifically designate the project type for which the expenditure is used.

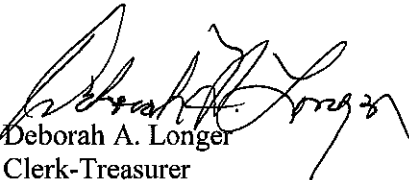
C. General Fund Appropriations

Disbursements exceeded the budgeted appropriations in the General Fund at the end of 2022 due to certain reimbursements not being received that could have been adjusted back into the appropriated line item before the end of the year. In the future, pending reimbursements that could be adjusted back into the appropriated lines will not be considered if not received before December 1st each year and end of the year claims will be considered only if presented by mid-December and will be held over to the following year to avoid current year appropriations being exceeded. In addition, when informed that the property tax disbursements were going to see a significant shortfall in December, the anticipated additional appropriation requests were not going to be permitted by the Dept. of Local Government Finance as there was insufficient cash to support an additional appropriation. Once the City received its distributions and closed on its new bond in mid-December, it was too late in the year to apply for the additional appropriation. As to the interest paid on the tax anticipation warrants, these costs were anticipated as part of the issuance of the tax warrants and included in the Council's ordinance to issue the warrants with the pledging of property tax dollars to repay both the warrants and the interest. In the future a specific appropriation for interest will be used to pay the tax anticipation warrant interest.

D. Annual Financial Report

Leases and Debt: The City of Hobart files two (2) Annual Financial Reports (AFR), one for the Civil City and one for the Redevelopment Authority. The leases of the Redevelopment Authority were correctly reported in the AFR for that entity but were originally not reported in the AFR for the Civil City as this would appear to be double reporting of the same lease/debt. The AFR for the Civil City has been amended to include the leases listed in the Redevelopment Authority AFR and this double reporting will be continued in future years as the State Board of Accounts requires.

Grants: For each grant the City relies on the Employee in Responsible Charge (ERC) to oversee the reporting and compliance of the receipts and expenditures reported. The Clerk-Treasurer distributes quarterly updates to each ERC for their specific grants, showing what records the Clerk-Treasurer has regarding federal receipts and expenditures. The overstatement of grant receipts was specifically due to an error that included not only the federal dollars received as a grant but also local grant dollars that were used for the project. Other individual immaterial errors as to some expenditures were due to the ERC not correcting reports showing only federal dollars spent. The grant schedule in the AFR has been adjusted as proposed by the Auditors.


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

CLERK-TREASURER
CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on April 18, 2023, with Deborah Longer, Clerk-Treasurer; Brian Snedecor, Mayor; Stella McDaniels, Deputy Clerk-Treasurer; Heather McCarthy, City Attorney; Daniel Waldrop, Common Council member; and Josh Huddlestun, Common Council member.