

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF MICHIGAN CITY

LA PORTE COUNTY, INDIANA

January 1, 2022 to December 31, 2022



**FILED**  
05/04/2023



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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Yvonne Hoffmaster	01-01-22 to 12-31-23
Mayor	Duane Parry	01-01-22 to 12-31-23
President of the Board of Public Works and Safety	Virginia Keating	01-01-22 to 12-31-23
President of the Common Council	Angie Nelson Deutch Sean Fitzpatrick	01-01-22 to 12-31-22 01-01-23 to 12-31-23
Superintendent of the Water Utility	Christopher Johnsen	01-01-22 to 12-31-23
President of the Water Utility Board of Directors	Kenneth Behrendt	01-01-22 to 12-31-23
General Manager of the Sanitary District	Michael Kuss Milorad Milatovic	01-01-22 to 01-29-22 01-30-22 to 12-31-23
President of the Sanitary District Board of Commissioners	Tim Smith	01-01-22 to 12-31-23



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 MICHIGAN CITY, LA PORTE 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 Michigan City (City), for the year ended December 31, 2022, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated April 26, 2023, 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.

***Report on 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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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)

***Report on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***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

April 26, 2023



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 MICHIGAN CITY, LA PORTE COUNTY, INDIANA

**Report on Compliance for Each Major Federal Program**

***Qualified and Unmodified Opinions***

We have audited the City of Michigan City'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, 2022. 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.

***Qualified Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds***

In our opinion, except for the noncompliance described in the *Basis for Qualified and Unmodified Opinions* section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Coronavirus State and Local Fiscal Recovery Funds for the year ended December 31, 2022.

***Unmodified Opinion on the Other 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 its other major federal program identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2022.

***Basis for Qualified and Unmodified Opinions***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

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)

***Matter Giving Rise to Qualified Opinion on COVID-19 - Coronavirus State and Local Fiscal Recovery Funds***

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding 21.027 COVID-19 - Coronavirus State and Local Fiscal Recovery Funds as described in item 2022-001 for Procurement and Suspension and Debarment. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. 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**

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002, to be material weaknesses.

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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* require the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other 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, 2022, and the related notes to the financial statement. We issued our report thereon dated April 26, 2023, 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 performed 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

April 26, 2023

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.

CITY OF MICHIGAN CITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2022

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 Commerce</u>					
Coastal Zone Management Administration Awards Sheridian Beach Public Access and Erosion Control	Indiana Department of Natural Resources	11.419	CZ930	\$ -	\$ 12,366
Total - Department of Commerce				-	12,366
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants					
CDBG 2015	Direct Grant	14.218	B-15-MC-180022	-	1,673
CDBG 2017			B-17-MC-180022	-	29,632
CDGB 2018			B-18-MC-180022	-	906
CDBG 2019			B-19-MC-180022	-	26,386
CDBG 2020			B-20-MC-180022	25,180	97,403
CDBG 2021			B-21-MC-180022	78,399	78,399
Subtotal - Community Development Block Grants/Entitlement Grants				103,579	234,399
COVID-19 - Community Development Block Grants/Entitlement Grants			B-20-MW-180022	118,566	118,566
Total - CDBG - Entitlement Grants Cluster				222,145	352,965
Total - Department of Housing and Urban Development				222,145	352,965
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction					
Singing Sands Lighthouse Trail Phase II	Indiana Department of Transportation	20.205	DES #1500324	-	2,645
Singing Sands Lighthouse Trail Phase III			DES #1601869	-	114,310
Singing Sands Lighthouse Trail Phase I			DES #301165	-	71,454
Total - Highway Planning and Construction Cluster				-	188,409
Federal Transit Cluster					
Federal Transit Formula Grants					
Transit Operating	Direct Grant	20.507	IN-2019-02501	-	584,522
Transit Operating			IN-2018-018	-	183,397
Subtotal - Federal Transit Formula Grants				-	767,919
COVID-19 - Federal Transit Formula Grants			IN-2020-008-00	-	62,013
Total - Federal Transit Cluster				-	829,932

CITY OF MICHIGAN CITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2022

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
Highway Safety Cluster State and Community Highway Safety Impaired Driving and Unrestrained Occupants	Indiana Criminal Justice Institute	20.600	CHIRP-2022-0077	-	6,309
Total - Highway Safety Cluster				-	6,309
Airport Improvement Program AIP 25 AIP 23	Direct Grant	20.106	3-18-0055-025 3-18-0055-023	- -	80,312 44,416
Total - Airport Improvement Program				-	124,728
Total - Department of Transportation				-	1,149,378
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds Coronavirus Local Fiscal Relief	Direct Grant	21.027	2021	-	1,887,138
Total - Department of the Treasury				-	1,887,138
<u>Environmental Protection Agency</u>					
Beach Monitoring and Notification Program Implementation Grants Beach Act Grant	Indiana Department of Environmental Management	66.472	CU-10E73102	-	27,375
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements Brownfield Grant Brownfield Grant	Direct Grant	66.818	BF00E03207 BF00EO2417	- -	2,984 154,198
Total - Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements				-	157,182
Total - Environmental Protection Agency				-	184,557
<u>Department of Homeland Security</u>					
Staffing for Adequate Fire and Emergency Response (SAFER) Fire Safer Grant	Direct Grant	97.083	EMW-2016-FH-00446	-	135,927
Total - Department of Homeland Security				-	135,927
Total federal awards expended				<u>\$ 222,145</u>	<u>\$ 3,722,331</u>

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

CITY OF MICHIGAN CITY  
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, 2022. 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 MICHIGAN CITY  
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?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

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>Assistance Listings Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
21.027	Federal Transit Cluster	Unmodified
	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	no
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**Section II - Financial Statement Findings**

No matters are reportable.

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2022-001**

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Suspension and Debarment  
 Federal Agency: Department of the Treasury  
 Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds  
 Assistance Listings Number: 21.027  
 Federal Award Number and Year (or Other Identifying Number): 2021  
 Pass-Through Entity: Direct Grant  
 Compliance Requirement: Procurement and Suspension and Debarment  
 Audit Findings: Material Weakness, Modified Opinion

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

*Condition and Context*

The City elected to receive the standard revenue loss allowance, allowing the City to claim \$10,000,000 of its total State and Local Fiscal Recovery Funds (SLFRF) allocation of \$16,549,045 as revenue loss to use for government services. All SLFRF program funds expended in 2022 were under the revenue loss eligible use category. The Department of the Treasury (Treasury) determined that there are no subawards under this eligible use category, and that recipients' use of revenue loss funds would not give rise to subrecipient relationships given that there is no federal program or purpose to carry out in the case of the revenue loss portion of the award.

Prior to entering into subawards and covered transactions with SLFRF award funds, recipients are required to verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded. "Covered transactions" include, but are not limited to contracts for goods and services awarded under a non-procurement transaction (i.e. grant agreement) that are expected to equal or exceed \$25,000. The verification is to be done by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person. Due to the Treasury's determination that the revenue loss eligible use category does not give rise to subawards, the City was only required to comply with suspension and debarment requirements related to contracts.

The City's policies related to SLFRF suspension and debarment requirements included the Board of Public Works completing a review of each bid packet to ensure the bidder submitted a statement indicating if they were not suspended or debarred. Of the 13 transactions that equaled or exceeded \$25,000 that were paid from SLFRF funds during the audit period, 2 were selected for testing to verify the City followed its procedures related to suspension and debarment.

One transaction in the amount of \$278,000 was made for the purchase of a street sweeper for the Street Department. Although bids were obtained for the street sweeper, the vendor's suspension and debarment status was not verified prior to payment. Documentation of the bids received was not presented to the Board of Public Works; therefore, the street sweeper was purchased without the appropriate approval from the City Board.

The second transaction selected for testing in the amount of \$65,823 was made for the purchase of a Dodge Ram truck for the Street Department. Several quotes were obtained; however, the purchase was ultimately made without verifying the vendor's suspension and debarment status.

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

*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). . . ."

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

2 CFR 200.214 states:

"Non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. The regulations . . . restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities."

31 CFR 19.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the *EPLS*; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person."

*Cause*

The system of internal controls as established by management of the City was not properly implemented to ensure that the policies and procedures in place related to suspension and debarment were appropriately followed.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, vendors to whom payments equal to or in excess of \$25,000 were not verified to be not suspended, debarred, or otherwise excluded.

Noncompliance with the provisions of Federal statutes, regulations, and the terms and conditions of the Federal award could result in the loss of future federal funding to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that management of the City establish a proper system of internal controls, including strengthening their policies and procedures to ensure their compliance with requirements related to suspension and debarment.

*Views of Responsible Officials*

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

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

***FINDING 2022-002***

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Reporting - Internal Controls  
Federal Agency: Department of the Treasury  
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds  
Assistance Listings Number: 21.027  
Federal Award Number and Year (or Other Identifying Number): 2021  
Compliance Requirement: Reporting  
Audit Finding: Material Weakness

*Condition and Context*

The City had not properly designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, noncompliance. Recipients are required to submit quarterly or annually Project and Expenditure (P&E) Reports to the Department of the Treasury (Treasury). The reporting periods, as well as the respective due dates are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period.

The City was classified as a metropolitan city with a population below 250,000 residents that received an allocation of more than \$10 million in Coronavirus State and Local Fiscal Recovery Funds funding. As such, the initial P&E report, covering three calendar quarters from March 3, 2021 to December 31, 2021, was required to be submitted to the Treasury by January 31, 2022. The subsequent quarterly reports were to cover one calendar quarter and must be submitted to the Treasury by the last day of the month following the end of the period covered.

The City submitted five P&E reports during the audit period; however, a single employee prepared and submitted each P&E report without a review or oversight process in place to prevent, or detect and correct, errors.

The lack of internal controls was a systemic issue throughout the audit period.

*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). . . ."

*Cause*

A proper system of internal controls was not designed by management of the City, which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

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

*Effect*

Without the proper design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that management of the City design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure appropriate reviews, approvals, and oversight are taking place.

*Views of Responsible Officials*

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

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#### AUDITEE-PREPARED DOCUMENTS

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

# City of Michigan City



Office of City Controller ~ Yvonne Hoffmaster, City Controller ~ Phone: 219 873-1404 ext. 2004 ~ email: [yvonneh@emichigancity.com](mailto:yvonneh@emichigancity.com)

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### ***FINDING 2021-001***

Fiscal year in which the finding initially occurred: 2021

Status of Audit Finding: Complete

Description of Corrective Action Plan:

To bring the Water Department in compliance with our established internal controls, the Water Department Superintendent reviews all the manual entries to the general ledger entered by the accountant.

Completion Date: This process began with the September 2022 entries.

A handwritten signature in black ink that reads "Yvonne Hoffmaster".

Yvonne Hoffmaster  
City Controller

DUANE PARRY ~ MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Blvd, Michigan City IN 46360  
WEB ~ [emichigancity.com](http://emichigancity.com)

# City of Michigan City



Office of City Controller ~ Yvonne Hoffmaster, City Controller ~ Phone: 219 873-1404 ext. 2004 ~ email: [yvonneh@emichigancity.com](mailto:yvonneh@emichigancity.com)

## CORRECTIVE ACTION PLAN

### ***FINDING 2022-001***

Contact Person Responsible for Corrective Action: Yvonne Hoffmaster  
Contact Phone Number: 219 873-1404 Ext. 2004

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

To bring the City into compliance with effective internal controls to ensure requirements related to the grant agreement and the Suspension and Debarment are satisfied, the City has created a checklist, Exhibit A, that contain a sign off by the Department Head and Board of Works as necessary.

Anticipated Completion Date: The checklist will begin to be utilized on May 1, 2023.

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# City of Michigan City

## EXHIBIT A

### PURCHASING CHECKLIST

#### CHOOSE THE APPROPRIATE SECTION BELOW

#### SECTION I

1. Is this purchase a small purchase for capital equipment or operating supplies under \$50,000?  
 Yes (proceed to 2.)       No (proceed to Section II)
  
2. Purchase less than \$2,500
  - a. Inquire with at least two (2) vendors – must document date, who spoken with, what the quote is for, and price.
  - b. Upload this checklist and two quotes to purchase order.

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Department Head Signature

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#### SECTION II – CAPITAL EQUIPMENT AND OPERATING SUPPLIES GREATER THAN \$50,000

1. Is this purchase for capital equipment or operating supplies between \$50,000 and \$149,999.99?  
 Yes (proceed to 1a.)       No (proceed to 3.)
  - a. Written solicitation with detailed specifications must be **preapproved** by Board of Works.
  - b. Proof of Funding attached (obtained from Controller’s Office).
  
  - c. Date submitted to BOW \_\_\_\_\_
  
  - d. Signature of BOW President \_\_\_\_\_
  
2. After BOW approval, obtain quotes from three (3) vendors known to deal in the line of business. Upload this checklist and three quotes to purchase order.

---

Department Head Signature

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3. If the purchase is greater than \$150,000, **the formal bid process must be followed.**
  - a. Written solicitation with detailed specifications must be **preapproved** by Board of Works.
  - b. Proof of Funding attached (obtained from Controller’s Office).

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# City of Michigan City

c. Date submitted to BOW \_\_\_\_\_

d. Signature of BOW President \_\_\_\_\_

4. Upload the awarded bid, proof of advertising and this checklist to purchase order.

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Department Head Signature

5. Suspension and Debarment check (attach screen shot from SAM website)

Performed by: \_\_\_\_\_

Date: \_\_\_\_\_

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## SECTION III – SERVICE AGREEMENTS

1. Is the service agreement less than \$5,000?

\_\_\_\_\_ Yes (proceed to 2.)      \_\_\_\_\_ No (proceed to 3.)

2. Service Agreement less than \$5,000

- a. Inquire with at least two (2) vendors – must document date, who spoken with, what the quote is for, and price.
- b. Upload this checklist and two quotes to purchase order.

---

Department Head Signature

3. Service Agreement greater than \$5,000.

- a. Written solicitation with detailed specifications must be **preapproved** by Board of Works.
- b. Proof of Funding attached (obtained from Controller’s Office).

c. Date submitted to BOW \_\_\_\_\_

d. Signature of BOW President \_\_\_\_\_

4. After BOW approval, obtain quotes from three (3) vendors known to deal in the line of business. Upload this checklist and three quotes to purchase order.

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# City of Michigan City

Department Head Signature

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## SECTION IV – PROFESSIONAL SERVICES (ACCOUNTING, ARCHITECTURAL, ENGINEERING, LEGAL OR OTHER ADVISORY SERVICES FOR WHICH A LICENSE IS NEEDED)

1. Written solicitation with detailed specifications must be **preapproved** by Board of Works
  - a. Proof of Funding attached (obtained from Controller’s Office).
  - b. Date submitted to BOW \_\_\_\_\_
  - c. Signature of BOW President \_\_\_\_\_
2. After BOW approval, upload this checklist and specifications to purchase order.

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Department Head Signature

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## SECTION V – LEASE AGREEMENTS IN THE AMOUNT OF \$5,000 OR MORE AND DURATION OF ONE (1) YEAR OR LONGER

1. In addition to the Quote and Bid process set forth above, any lease of equipment or capital (which includes but are not limited to vehicles, tools, machines, printers, computers, etc...) in the amount of \$5,000 or more and of a duration of one (1) year or longer, **MUST** first be approved by the Board of Works along with copies of any and all contracts.

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Department Head Signature

DUANE PARRY ~ MAYOR

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# City of Michigan City



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## CORRECTIVE ACTION PLAN

### ***FINDING 2022-002***

Contact Person Responsible for Corrective Action: Yvonne Hoffmaster  
Contact Phone Number: 219 873-1404 Ext. 2004

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

To bring the City into compliance with effective internal controls to ensure requirements related to the grant agreement and the reporting compliance requirements are satisfied, the City Controller will prepare the project and expenditure reports and the Assistant Controller, or the 2<sup>nd</sup> Assistant Controller will review the project and expenditure reports before they are submitted.

Anticipated Completion Date: The process will begin with the reports due April 30, 2023.

DUANE PARRY ~ MAYOR

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## 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/>.