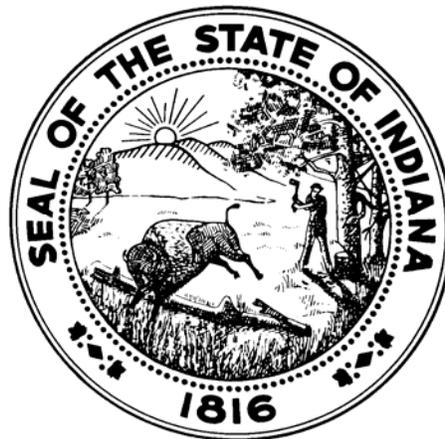


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
CITY OF HOBART
LAKE COUNTY, INDIANA
January 1, 2006 to December 31, 2006



FILED
10/12/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah A. Longer	01-01-04 to 12-31-07
Mayor	Linda M. Buzinec	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Linda M. Buzinec	01-01-04 to 12-31-07
President of the Common Council	Rebecca Juzwicki Brian Rosenbaum	01-01-06 to 12-31-06 01-01-07 to 12-31-07
City Judge	William J. Longer	01-01-04 to 12-31-07
Superintendent of Wastewater Utility	John Clemmons	01-01-06 to 12-31-07
Wastewater Utility Office Manager	Kay Chiabai	01-01-06 to 12-31-07



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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the City of Hobart (City), for the period of January 1, 2006 to December 31, 2006. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

August 28, 2007

CITY OF HOBART
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ (4,021,014)	\$ 29,473,949	\$ 27,407,736	\$ (1,954,801)
Motor Vehicle Highway	(226,618)	1,372,566	900,407	245,541
Local Road and Street	(624,521)	379,236	473,637	(718,922)
Park and Recreation	(202,742)	859,486	481,971	174,773
DARE (Crime Prevention)	8,865	6,927	9,297	6,495
Adult Probation	63,632	19,592	14,303	68,921
Arbor Lane Park Donations	2,150	-	-	2,150
Police Seizures	68,433	31,382	53,445	46,370
Law Enforcement Continuing Education	42,513	36,357	32,989	45,881
Court Records Perpetuation	11,993	14,933	2,468	24,458
Fire Department Donations	9,989	18,695	20,291	8,393
Donation Park and Recreation	20,738	4,825	2,941	22,622
Pennsy Depot Donation	18,484	-	-	18,484
Park District Program	23,744	33,545	32,037	25,252
Police Department Donations	6,055	9,359	7,097	8,317
Lakefront Festival	7,275	11,978	9,667	9,586
Hobart Entryway Triangle	6,856	-	-	6,856
Public Defender	5,148	4,019	4,500	4,667
Innkeeper's Tax	50,782	5,400	6,677	49,505
Fire Dept EMS Education	1,088	385	230	1,243
DUI Overtime Grant	4,971	49,809	47,978	6,802
County Juvenile Night Light	409	1,475	1,230	654
Cops to Schools	(80,013)	-	38,843	(118,856)
Operation Pullover	19,217	22,369	33,766	7,820
Drug Task Force HDTA	126,388	54,324	48,230	132,482
Barrington Ridge Park Donations	113,178	5,750	-	118,928
Pleak Gift	35,077	-	-	35,077
Tax Abatement	34,185	10,855	779	44,261
E 911 Dispatch Center	-	-	29,820	(29,820)
Redevelopment Commission	715,934	6,702,528	6,506,555	911,907
Riverboat Casino	994,559	239,667	1,155,181	79,045
Park Legacy Fund	2	-	-	2
Fred Rose Park Grant	(33,333)	151,666	-	118,333
Cemetery Trust	96,328	2,000	-	98,328
2006 GO Bonds Debt Service (Paving)	-	-	160	(160)
1995 General Obligation Bond Debt Service	352,108	867,375	89,514	1,129,969
Park District General Obligation Bonds Debt Service	(410,811)	547,404	549,929	(413,336)
2002 General Obligation Bond Debt Service	(1,176,080)	-	344,119	(1,520,199)
Park Bond Debt 6 Projects	-	153,487	141,359	12,128
Park and Recreation Nonreverting Land	12,609	-	-	12,609
City Enhancement and Improvement	177,901	46,260	-	224,161
Scout Cabin	(530)	200	610	(940)
2006 General Obligation Bonds (Paving)	-	1,795,660	111,531	1,684,129
Cumulative Capital Improvement	117,503	81,890	302,908	(103,515)
Cumulative Capital Development	423,065	310,137	11,300	721,902
Park Improvement	369,310	120,373	-	489,683
Major Moves	-	905,703	300,000	605,703
2002 General Obligation Bond Proceeds	2,843,396	-	18,838	2,824,558
Park District General Obligation Bond Proceeds	72,305	-	67,576	4,729
Southlake Access Road	126,268	-	-	126,268
2005 Park Bond Proceeds	5,066,309	494,532	1,040,798	4,520,043
50/50 Sidewalk	(96,969)	14,517	14,792	(97,244)
LWCF Grant	(598,791)	63,805	407,246	(942,232)
Future Sewer Lines	21,700	-	-	21,700
Waterline Projects	49,894	7,875	-	57,769
Green Acres Sewer Line	52,733	-	-	52,733
Proprietary Funds:				
Wastewater Utility - Operating	(9,266,300)	1,744,562	473,929	(7,995,667)
Wastewater Utility - Revenue	13,028,811	5,369,655	5,372,063	13,026,403
Wastewater Utility - SBSF Sinking	1,399,501	53,017	22,375	1,430,143
Wastewater Utility - Improvement	(573,921)	22,900	45,190	(596,211)
Internal Service - Employee Health Benefits	1,375,043	29,077	1,301,327	102,793
Internal Service - TPA One	146,080	1,014,344	1,152,870	7,554
Fiduciary Funds:				
Firefighters' Pension	417,900	445,094	321,599	541,395
Police Officers' Pension	376,445	535,338	592,992	318,791
Drug Free Community	2,210	32,000	25,100	9,110
County Share Court Costs	13,346	375,363	372,247	16,462
Water Escrow	33,772	428,018	174,256	287,534
Payroll	2,095,379	204,249	1,216,552	1,083,076
Other Payroll withholding accts (799, 806-810, 820-899)	-	-	325,670	(325,670)
Civilian PERF	(206,247)	52,420	76,439	(230,266)
NIPSCO Escrow	3,577	2,279,470	2,477,406	(194,359)
Cable Escrow	100,000	2,197	2,523	99,674
Fire Pension 1977	(230,885)	63,747	93,527	(260,665)
Police Pension 1977	(258,438)	69,990	102,998	(291,446)
Adult Probation	-	33,350	29,899	3,451
City Court	245,367	978,057	932,346	291,078
Totals	\$ 13,403,312	\$ 58,665,143	\$ 55,834,063	\$ 16,234,392

The accompanying notes are an integral part of the financial information.

CITY OF HOBART
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, wastewater, urban redevelopment, and general administrative services.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are normally distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates are based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance).

However, property tax rates and levies for 2004 taxes payable in 2005, and 2005 taxes payable in 2006, were not established by February 15th, as required by state statute due to the delay in the completion of the reassessment of Lake County. The final settlement of the 2004 taxes payable in 2005, was distributed to the City on March 31, 2006.

The 2005 payable 2006 property tax bills were mailed on August 1, 2006, with the spring distribution to the City on October 13, 2006. The City received an advance of the fall installment on December 29, 2006. Final distribution of the 2005 taxes payable 2006 was distributed on January 4, 2007.

Property tax rates and levies for 2006 taxes payable in 2007 were not established by February 15th, as required by state statute due to the delay in the completion of the reassessment of Lake County. Currently, tax bills have not been mailed for the spring installment, normally due May 10th. Consequently, the City has not received the June distribution of the 2006 taxes payable in 2007.

CITY OF HOBART
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 5. Deposits and Investments

Deposits made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 6. Pension Plans

A. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

CITY OF HOBART
NOTES TO FINANCIAL INFORMATION
(Continued)

2. 1925 Police Officer's Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan.

3. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan.

B. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

CITY OF HOBART
NOTES TO FINANCIAL INFORMATION
(Continued)

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF.

Note 7. Rate Structure – Wastewater Utility

The current rate structure was approved by the City Council on August 7, 2002.

Note 8. Postemployment Benefits

In addition to the pension benefits described above, the City provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City on or after attaining age plus years of service equal to 80 years. Currently 10 retirees meet these eligibility requirements. The City provides 100% of these postemployment benefits. Disbursements for those benefits are recognized on a pay-as-you-go basis and cannot be reasonably estimated.

CITY OF HOBART
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

The City has entered into the following long term debt:

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Nipsco Building	\$ 32,726	\$ 18,280
Garbage Trucks	193,698	64,389
Street Sweeper	31,873	31,873
Recycling Truck	26,978	26,978
Court Computers	13,435	6,885
Fire Truck and Vehicles	403,738	101,281
Police Vehicles	290,058	70,465
Police Equipment	118,780	29,695
EMS Equipment	97,990	19,598
Bonds payable:		
General obligation bonds:		
1995 City Improvement Bonds	225,000	60,000
2002 Special Program Bonds	590,000	290,000
2005 Park District Refunding Bonds	1,425,000	505,000
2005 Park District Bonds	5,200,000	-
2006 General Obligation Bonds	1,800,000	-
	<u>10,449,276</u>	<u>1,224,444</u>
Total governmental activities long-term debt	<u>\$ 10,449,276</u>	<u>\$ 1,224,444</u>
Business-type Activities:		
Wastewater Utility		
Claims and judgments		
Capital Costs owed to Gary Sanitary District	<u>\$ 1,726,352</u>	<u>\$ 132,037</u>

** Principal payments begin in 2009

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS

CITY AND TOWN ANNUAL REPORT (CTAR) DEFICIENCIES

1. The December 31, 2006, cash balances on the CTAR, Part 1, Statements of Receipts, Disbursements, Cash Balances, and Investments Balances, for several funds did not agree to the "Fund Report". The "Fund Report" is the City's official record (ledger) of receipts, disbursements, and balances for each fund. The total cash balances on the Fund Report exceeded the published CTAR by \$1,181,093. The "Fund Report" was used in preparation of this financial report.
2. The CTAR, Part 1, Statements of Receipts, Disbursements, and Cash Balances did not include \$3,125,691.16 in investments on hand for the 2005 Park Bond Proceeds (6 Projects, fund 472) as of December 31, 2006.
3. Reported transfers in did not agree to transfers out on Part 1.
4. The total of all transfers, as listed in Part 2, Receipt Report - Actual Receipts by Fund, (the detail) did not agree to Part 1 (the control). The control was \$5,967,719 greater than the detail.
5. On the detail of receipts (Part 2, Receipt Report - Actual Receipts by Fund) \$7,381,917 was classified as NOC (not otherwise classified). Research into these receipts indicated \$3,964,934 was property tax receipts, \$432,793 excise tax receipts, \$1,795,500 bond proceeds, \$819,213 state distributions, \$302,899 NIPSCO utility collections, and the balance \$2,164,978 was for miscellaneous receipts for multiple funds.
6. "Part 2, Receipt Report - Actual Receipts by Fund", was not organized by fund as the report requires. Some fund receipts were co-mingled with other funds.
7. "Part 3, (Disbursement detail) Transaction Report" was not completely organized by fund as the report requires. Some fund's disbursements were co-mingled with other funds.

Indiana Code 5-3-1-3 provides the Clerk-Treasurer or Controller of each city and town shall have published an annual report of the receipts and expenditures of such city or town within sixty days after the close of each calendar year. The total indebtedness at December 31 of such municipality must also be shown in this published report. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

2006 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

As part of the CTAR (City/Town Annual Report), the City prepares Part 8 and Part 9 (Statement of Federal Grant Receipts and Statement of State Grant Receipts). These statements were incorrect since several grants were omitted. Receipts and disbursements for the grants were not listed. In reviewing grant files and making inquiries, we determined that actual federal grant expenditures for the City for 2006 totaled \$424,073. Grants omitted from the City's report included grants for Pavese Park Expansion, Federal Forfeitures, Operation Pullover, Operation Night Light, Lake Michigan Coastal Zone Management, and the Recreational Trails Program.

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS
(Continued)

Grant files in the Clerk-Treasurer's office were incomplete. Information was available at various departments in the City upon request. Grant activity was not identifiable in separate funds (i.e. Park grants were commingled in the 2005 Park Bond Proceeds Fund). Internal control over federal and state grants was not adequate for reporting purposes.

OMB Circular A-133 requirements state "Auditee Responsibilities:

New responsibilities are placed on the recipient of federal awards. The unit is required to do the following [Sec.300]:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the unit is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards.
- (e) Follow up and take corrective action on audit findings, including preparation of a Summary Schedule of Prior Action Findings and a Corrective Action Plan."

(City and Towns Bulletin and Uniform Compliance Guidelines, December 1997)

2005 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The 2005 report, reported \$1,175,322 in federal expenditures. However, several grants were omitted. The City received reimbursements in 2006 for expenditures made in 2005 totaling \$555,498 in addition to the expenditures reported in 2005. Grants expended and omitted from the City's 2005 report included Pavese Park Expansion (\$200,000), City Ball Park Improvements (\$200,000), Lake Michigan Coastal Zone Management (\$134,148), and Recreational Trails Program (\$21,350).

Grant files in the Clerk-Treasurer's office were incomplete. Information was available at the Park department upon request. Turnover of Park department management hindered the identification of these grants in a timely fashion. Grant activity was not identifiable in separate funds. Internal control over federal and state grants was not adequate for reporting purposes.

OMB Circular A-133 requirements state "Auditee Responsibilities:

New responsibilities are placed on the recipient of federal awards. The unit is required to do the following [Sec.300]:

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS
(Continued)

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

(b) Maintain internal control over Federal programs that provides reasonable assurance that the unit is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards.

(e) Follow up and take corrective action on audit findings, including preparation of a Summary Schedule of Prior Action Findings and a Corrective Action Plan."

(City and Towns Bulletin and Uniform Compliance Guidelines, December 1997)

BANK RECONCILEMENT DEFICIENCIES

1. The Corporate bank account reconciliation had adjustments for "reversal of prior transaction" for \$400,320.79 and for a "June reconciling item" of \$9,492.00. These adjustments could not be identified by officials and supporting documentation was not provided for examination.
2. The Payroll bank account did not reconcile to the sum of all payroll funds. The adjusted bank balance was \$76,707 less than the sum of the cash balances of the payroll funds.
3. The list of outstanding checks for the Payroll bank account did not include \$3,375 of 2006 clothing allowance checks that had not cleared the bank as of December 31, 2006.
4. As a result of reconciling problems, the Payroll bank account was overdrawn on January 9, 2007, by \$2,574.84. No overdraft fees were assessed by the bank.
5. The reconciled bank balance for the Wastewater, Water Escrow, and NIPSCO Escrow could not be traced to a Fund Report, which is the official ledger of receipts, disbursements, and balances.
6. In total, the cash balances of all funds combined, exceeded the substantiated adjusted bank balances by \$269,698.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS
(Continued)

UTILITY ESCROW FUND ACTIVITY

The City collects Indiana-American Water Co., and Northern Indiana Public Service Co., (NIPSCO) utility payments from customers as a courtesy to the public in conjunction with paying their sewage bill. These payments are deposited into separate bank accounts for this purpose. The respective Utilities (Indiana-American Water and NIPSCO) then draw out the collections. As required, the City reported the activity in these agency funds, Water Escrow (Fund 631) and NIPSCO Escrow (Fund 815). Officials' recorded the actual activity for these funds on excel spreadsheets. However, receipts and disbursements posted for these funds in the ledger did not agree to the actual activity (excel spreadsheets), as follows:

	<u>Water Escrow</u>	<u>Nipsco Escrow</u>
Receipts - actual activity (spreadsheets):		
Collections	\$ 457,179	\$ 2,557,034
Interest	85	138
Redeposits	753	1,034
Commission	<u>7,613</u>	<u>-</u>
Total activity receipts	465,630	2,558,206
Ledger receipts	<u>428,018</u>	<u>2,279,470</u>
Difference	<u>\$ 37,612</u>	<u>\$ 278,736</u>
Disbursements - actual activity (spreadsheets):		
Withdrawals	\$ 457,179	\$ 2,557,034
NSF's	958	1,058
Bank fees	<u>106</u>	<u>71</u>
Total activity disbursements	458,243	2,558,163
Ledger disbursements	<u>174,256</u>	<u>2,477,406</u>
Difference	<u>\$ 283,987</u>	<u>\$ 80,757</u>

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS
(Continued)

RECEIPT CONTROLS

The City installed a new computer software system for the general ledger in July, 2006. Controls over receipts have the following deficiencies:

1. The system cannot generate a report, listing the receipt number, description, and amount, in numerical order.
2. A receipt number can be deleted, voided, or "lost in the restoring process". That same receipt number can be reused.
3. Computer generated receipt numbers can be manually changed.
4. Computer generated dates on receipts can be manually changed.
5. Three receipts (6983, 6985, and 6987) could not be located.
6. Supporting documentation and complete explanations are not maintained for all deleted receipts.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CHECK CONTROLS

The new computer system allows checks to be printed with one date and posted as issued on another date. For example, corporate computer check 013443 was dated January 4, 2007, but was posted to the records as issued on December 29, 2006. The check was for \$225 and cleared the bank on January 11, 2007. Officials were unclear as to why the check date was different than the posted date of the check. This check was used out of order. Internal controls should not allow checks to be used out of order. Internal controls should not allow the posting date of a check to be different than the actual date printed on the check.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS
(Continued)

NEGATIVE CASH BALANCES

The following funds had negative cash balances at December 31, 2006:

Fund	Cash Balance
General Fund (101)	\$ 1,954,801
Local Road and Street (220)	718,922
COPS to School (284)	118,856
E 911 Dispatch Center (292)	29,820
2006 GO Bonds Debt Service (Paving) (150)	160
Park District General Obligations Bonds (110)	413,336
2002 General Obligation Bond Debt Service (130)	1,520,199
Scout Cabin (291)	940
Cumulative Capital Improvement (401)	103,515
50/50 Sidewalk (473)	97,244
LWCF Grant (475)	942,232
Wastewater Utility - Operating (606)	7,995,667
Wastewater Utility - Improvement (608)	596,211
Other Payroll Withholding Accounts	325,670
Civilian PERF (805)	230,266
NIPSCO Escrow (815)	194,359
Fire Pension 1977 (817)	260,665
Police Pension 1977 (819)	291,446

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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERSPENT APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

Fund	Amount Overspent
General Fund (101)	\$ 436,363
Park District General Obligation Bonds Debt Service (110)	143,315
Police Officers' Pension (802)	94,235
Local Road and Street (202)	421,948
Motor Vehicle Highway (201)	108,252
Cumulative Capital Improvement (401)	156,033
Riverboat Casino (446)	145,182

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 6-1.1-18-5 states:

"(a) If the proper officers of a political subdivision desire to appropriate more money for a particular year than the amount prescribed in the budget for that year as finally determined under this article, they shall give notice of their proposed additional appropriation. The notice shall state the time and place at which a public hearing will be held on the proposal. The notice shall be given once in accordance with IC 5-3-1- 2(b).

(b) If the additional appropriation by the political subdivision is made from a fund that receives:

- (1) distributions from the motor vehicle highway account established under IC 8-14-1-1 or the local road and street account established under IC 8-14-2-4; . . ."

SEWAGE BONDS SINKING FUNDS

In the prior report, the City paid the final payment of principal and interest on the 1993 Sewage Revenue Bonds, Series A, and B, from the Park District General Obligation Bonds Debt Service Fund. Documentation showing that the Wastewater repaid the Park District General Obligation Bonds Debt Service Fund \$379,712.50 was not provided for examination. Officials transferred \$379,712.50 on August 23, 2007.

As of December 31, 2005, the Wastewater Utility has paid all bond issues in full. Per the bond ordinance, the City had established the SBSF (Sewage Bond Sinking Fund) Sinking Fund. This fund was established to pay the principal and interest payments of the Sewage bonds. At December 31, 2006, the SBSF Sinking Fund has a cash balance of \$1,430,143. Officials should repay the Park District General Obligation Bonds Debt Service Fund \$379,712.50 and close out the balance of the SBSF Sinking Fund.

In addition, the City established a SBSF Escrow bank account at Harris Bank as a sinking reserve, as per the bond ordinance. However, this bank account is not included in any of the City's funds. At December 31, 2006, this bank account had a market value balance of \$324,167.16. This account should also be closed, pending consultation with the city attorney, as the underlying bond instrument has been completed.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

As reported in prior examination reports, some assets included in the City's capital asset records do not have a calculated value (estimated or actual cost). The assets' ages exceeded the time period for which information was available to determine costs. Such assets include City Hall, Fire Stations One and Two, Community Center building, several lift stations, as well as various pieces of equipment and vehicles. For these assets, estimated historical costs should be calculated.

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS
(Continued)

In addition, the detail of assets retired for the year, did not list the original cost or dollar value of the asset being deleted. The detail of additions did not agree to the total additions reported on the CTAR (City/Town Annual Report), Report of General Fixed Assets. A complete listing of infrastructure additions was not presented for examination. Officials have contracted with a vendor to prepare a detailed list of all capital assets, infrastructure, and accumulated depreciation. Officials indicated that this should be completed by year end.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TRUST FUND RECONCILEMENT (City Court)

The City Court's official end-of-year Register of Trust Funds (General Form 102) does not reconcile to the Court's Cash Book balance at December 31, 2006. This was a comment in the 2003, 2004, and 2005 reports.

The total of all unpaid items as shown by the trust fund register must agree with the balance in trust as shown by the court cash book. (Accounting and Uniform compliance Guidelines Manual for City and Town Courts, Chapter 1)

UNCLAIMED MONEY OVER FIVE YEARS OLD (City Court)

The City Court's outstanding check listing as of December 31, 2006, included checks outstanding in excess of five years. The City Court's Trust Register also included restitution and cash bonds which have been unclaimed in excess of five years of an indeterminable amount. In August of 2007, the City Court Clerk remitted to the Attorney General \$3,723.49 for some of the unclaimed items. However, more research is needed to review all old outstanding checks and old case files to determine the amount that should be sent to the Attorney General's office.

All fees and funds five or more years old, including old outstanding checks, should be scheduled on forms provided by the Attorney General and paid over to him as required by IC 32-34-1-20(c)(5). They should not be allowed to accumulate beyond the five year anniversary date of issue. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

HVAC FEES

The Common Council approved Ordinance 97-11 which created the office of Heating, Ventilation, and Air Conditioning (HVAC) Inspector. The purpose of this office is to perform inspections, re-inspections, or test new or replaced private and commercial HVAC systems. In July of 2007, the Council approved Ordinance 97-31 which amended Ordinance 97-11 and included an approved fee schedule for permits, inspections fees, and other administrative fees. Fees charged in 2006, for HVAC permits and inspections, did not agree to the fee schedule.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF HOBART
EXAMINATION RESULTS AND COMMENTS
(Continued)

FIREFIGHTER PENSION BENEFIT

Two pensioner's dependents were overpaid firefighter pension benefits in 2005 and 2006. The benefit paid was based on 60% of the deceased member's monthly benefit instead of the allowed 55%. Officials indicated that the benefit calculation will be corrected and the correct benefit will be paid in September 2007.

Per Indiana Code 36-8-7-12.2:

(d) If a member dies while in active service or after retirement:

(1) The surviving spouse is entitled to receive an amount fixed by ordinance but not less than:

(A) for the surviving spouse of a member who dies before January 1, 1989, thirty percent (30%) of the salary of a fully paid first class firefighter in the unit at the time of the payment of the pension; and

(B) for the surviving spouse of a member who dies after December 31, 1988, except as otherwise provided in this clause, an amount per month, during the spouse's life, equal to the greater of thirty percent (30%) of the monthly pay of a first class firefighter or fifty-five percent (55%) of the monthly benefit the deceased member was receiving or was entitled to receive on the date of the member's death (these amounts shall be proportionately increased or decreased if the salary of a first class firefighter is increased or decreased); however, if the deceased member was not entitled to a benefit because the member had not completed twenty (20) years of service, for purposes of computing the second amount under this item, the member's benefit is considered to be fifty percent (50%) of the monthly salary of a first class firefighter in the unit at the time of payment of the pension; . . . "

CITY ENGINEER CONTRACT

Payments totaling \$53,220 were made to the city engineer for professional services in 2006 without a contract.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2007, with Linda M. Buzinec, Mayor; Deborah A. Longer, Clerk-Treasurer; and Susan Laba, Deputy Clerk-Treasurer. The official response has been made a part of this report and may be found on pages 20 through 22.

Deborah A. Longor
Clerk-Treasurer

"The Friendly City"

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The City of Hobart

414 Main Street • Hobart, Indiana 46342

September 6, 2007

State Board of Accounts
302 West Washington St., Room E 418
Indianapolis, IN 46204-2738

RE: Official Response to City of Hobart 2006 Audit

As explained in the 2003, 2004 and 2005 Official Response to the Audit dated November 8, 2004, November 18, 2005 and October 18, 2006 respectively, the set-up of the new accounting software system for the City of Hobart put in place in 2003, was not completed by the previous Clerk-Treasurer and once realized, the current Clerk-Treasurer brought in H.J. Umbaugh and Associates to aid in the review of the records and to help with the painstaking process of sorting out the problems and getting the financial records of the City back on track. Umbaugh continues to work with the Clerk-Treasurer's office and in cooperation with the State Board of Accounts, and this slow and meticulous process remains ongoing. A great deal of progress was made in 2004 and 2005 but in late 2005, a determination was made that the accounting software was inadequate for the needs of the municipality and a new, more compatible accounting software system was purchased.

Installation and conversion of the records took place in mid-2006 with the conversion completed by late 2006. It is important to note that the first half of 2006 utilized the old software program and the conversion included totals as provided by that system. As we completed the 2006 fiscal year, many of the details of the conversion were still being worked through while attempting to reconcile information from the old system into the new. Much of this detail work involves looking back into the history of the various funds and the activity of the funds, line item by line item. In some instances, this process has allowed us to reconcile discrepancies while in other areas there is incomplete information available due to the previous software inadequacies. To date, a great deal of progress has been made and updates to the software have been installed as requested by the City to address many of the issues. Work continues with every effort being made to address the concerns of the State Board of Accounts as to past reporting issues and reconciling the information to assure the set-up of the new program affords a clearer and more concise picture of the financial reporting for the City of Hobart in the future.

Annual City and Town Financial Report (CTAR) Issues: As noted above, the City continues the process to address each of the comments mentioned to generate and maintain accurate financial records. The previous software problems and conversion process have addressed many of the deficiencies in the reporting and the fine tuning of the new accounting software is anticipated to facilitate this and provide a more reflective activity of the funds in the City and Town Annual Report (CTAR).

Schedule of Expenditures of Federal Awards: A corrective action plan has been put into place and work is being completed to gather information from every department regarding the various grants awarded and utilized. Individually, all grant requirements were met and status reports were timely and accurately filed by each department overseeing the federal awards. Through a cooperative effort of all departments, all information will be available within the records of the fiscal officer on a regular and ongoing basis as required.

Bank Reconciliation & Utility Escrow Fund Activity: As noted above, the conversion of the software included the use of the old system through the first half of 2006 and the new software throughout the remainder of 2006. As a result, the reconciliation of the various bank accounts was not completed by the end of the audit period. Currently,

the corporate, payroll and wastewater accounts are reconciled on a monthly basis and work is being done to complete the reconciliation of the Water Escrow and NIPSCO Escrow funds before the end of 2007.

Receipt Controls / Check Controls: While the audit was being performed, updates to the software were requested of the vendor and installed by the City to address the concerns outlined as to receipt and check controls.

Negative Cash Balances / Overspent Appropriations: Many of the funds listed in this category were due to reimbursable fund situations that were not set up properly in the software system, utilizing an appropriation line item rather than designating a reimbursable expenditure. This item is being addressed within the new software system with reimbursable expenses being clearly delineated. In addition, due to the reassessment issues over the past five years in Lake County, cash flows for municipalities have been difficult to maintain. The issuance of property tax bills (the main source of revenue for the City) has been running up to a year behind schedule and promises for distributions once the taxes have been received by the County are not always timely met. For this reason, the City has had to continually borrow and roll-over the loans, adding to the interest expenses while still maintaining all city services for residents. In December of 2006, the disbursement of the final tax collections was not given to the City but deferred until January 2007, causing the City to either default on the loans outstanding and due or to pay the loans from other funds (interfund borrowing). The City chose not to default and paid the loans as due. As a result, at the end of the fiscal year, the interfund borrowing was also paid back to the appropriate funds as required and many funds ended the year with a negative cash balance. Until some normalcy returns within the County regarding the collection and distribution of tax dollars, the City will continue facing this issue.

Sewage Bonds Sinking Funds: The Hobart Sanitary Board recognizes that the sinking funds are ready to be closed out and a final analysis of the authorization of these designated funds has been requested of their attorney prior to moving the balances to the appropriate funds. Regarding the Park Bond funds, bookkeeping adjustments were made in 2006 and the final transfer of funds was completed in 2007.

Capital Asset Records: The Clerk-Treasurer's staff along with the various City Departments have updated and maintained the capital asset listings in accordance with the City's policy adopted in November 2004. The City of Hobart has also purchased software which allows mapping and inventory of storm and sanitary sewers and other infrastructure owned by the City. Work will be completed by the end of 2007 on the detailed Capital Asset Records data, which includes historical costs and estimated values of all equipment and infrastructure. This report was not available at the time of the audit but the draft has since been presented to the City for review.

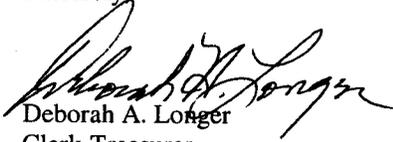
HVAC Fees: The staffs of the Clerk-Treasurer's office and the Building Department are working toward resolutions of the comments addressed in the audit.

Fire Fighter Pension Benefit: The Fire Pension Board has been made aware of the comments and has taken action to correct the previous error in the benefit calculations. The pensioner's dependents are currently being paid the allowable 55% as designated by law.

City Engineer Contract: The Board of Public Works and Safety has addressed this issue and a contract is now in place for the professional services rendered by the City Engineer.

Conclusion: Due to the 2006 audit taking place in August 2007, many of the issues discussed during the audit process had been implemented or were being addressed in 2007 but were not reflected in the year 2006. As noted in the previous audit response, the Clerk-Treasurer's office continues to use every effort to address the concerns in a timely and appropriate manner.

Sincerely


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

HOBART CITY COURT

William J. Longer, Judge

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Hobart, IN 46342
(219) 942-8218
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September 6, 2007

Response to 2006 Audit

Significant progress was made in 2006 resolving unclaimed property and reconciliation issues, in spite of conversion to a new record keeping system and over 30 percent increase in new filings for the year. Additional progress on each of these issues has been made in 2007, and it is anticipated that they will be resolved fully in 2007.



WILLIAM J. LONGER
Judge, Hobart City Court