

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

WATER UTILITY
CITY OF HAMMOND
LAKE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
03/15/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay	01-01-16 to 12-31-18
Mayor	Thomas M. McDermott, Jr.	01-01-16 to 12-13-19
President of the Board of Public Works and Safety	Stan Dostatni	01-01-16 to 12-31-18
President of the Common Council	Michael Opinker Janet Venecz	01-01-16 to 07-28-16 07-29-16 to 12-31-18
Office Manager	Deborah Van Meter	01-01-16 to 12-31-18
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-16 to 12-31-18
President of the Waterworks Board of Directors	Sharon Daniels	01-01-16 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE WATER UTILITY, CITY OF HAMMOND, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Water Utility (Utility), City of Hammond, for the period from January 1, 2016 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Utility. It should be read in conjunction with our Financial Statements Audit Report of the Utility, which provides our opinions on the Utility's financial statements. 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

February 7, 2018

WATER UTILITY
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

All political subdivisions subject to audit by the Indiana State Board of Accounts are expected to adhere to the standards outlined in the *Uniform Internal Controls Standards for Political Subdivisions* manual regarding the development and implementation of a system of internal controls. The following deficiencies were noted in the Water Utility's system of internal controls.

The Water Utility had not separated incompatible activities related to Net Pension liability, Deferred Inflow and Outflow of Resources - Deferred Pension, Other Post-Employment Benefits liability, and Net Position. One individual determined the amounts to post to the general ledger and report on the financial statements without a proper system of oversight or review.

In addition, the financial statements, notes to financial statements, and required supplementary information were prepared by one individual. However, a proper system of oversight or review had not been established to ensure the accuracy and completeness of the financial statements, notes to financial statements, and required supplementary information.

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.

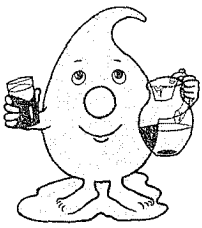
An integral part of the control activity component is segregation of duties. . . .

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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



Hammond Water Works Department

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6505 COLUMBIA AVENUE
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BOARD OF DIRECTORS

Sharon Daniels
Bernard Grisolia
Robert Lendi
Paul Walker
Courtney Doughty

MAYOR
Thomas M. McDermott, Jr.

CHIEF EXECUTIVE OPERATOR
Edward Krusa

ATTORNEY
Shana Levinson

OFFICIAL RESPONSE

Audit Year 2016

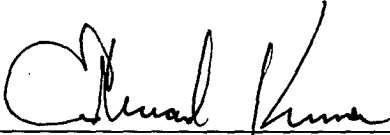
Contact Person Responsible for Corrective Action: Deborah L. Van Meter
Contact Phone Number: 219-853-6424

We concur with the findings.

The Water Department continues to work on segregations of Duties. Currently the Office Manager works up and enters the annual journal entries for the Net Pension Liabilities. Going forward the Office Manager will work up the entries and submit them to the Utilities CEO for review prior to posting them to the general ledger. This will be implemented for the 2017 Annual Audit.

Training on Internal Control Standards was provided to key personnel only. The Water Utility has already had all employees view the Internal Control Video and complete the certification.

As for the Compensation and Benefits mentioned in the Management Letter. A "Revised" 2018 Salary Schedule has already been submitted to the Board of Directors to include the position of Summer Help at an hourly rate of \$9.00 per hour.



(Signature)

CEO

(Title)

2-20-2018

(Date)



WATER UTILITY
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2018, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Deborah Van Meter, Office Manager; Edward Krusa, Chief Executive Operator of the Water Utility; Sharon Daniels, President of the Waterworks Board of Directors; Mark McLaughlin, Assistant Chief Executive Operator of the Water Utility; Paul Walker, Waterworks Board of Directors member; Robert Lendi, Waterworks Board of Directors member; Shana Levinson, Water Utility Attorney; Phil Taillon, Chief of Staff; Dan Spitale, Common Council member; Mark Kalwinski, Common Council member; Anthony Higgs, Common Council member; William Emerson, Sr., Common Council member; and Dave Woerpel, Common Council member.