

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF

SANITARY DISTRICT  
CITY OF HAMMOND  
LAKE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



**FILED**  
11/16/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay	01-01-17 to 12-31-18
Mayor	Thomas M. McDermott, Jr.	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Stanley J. Dostatni Heather Garay	01-01-17 to 02-04-18 02-05-18 to 12-31-18
President of the Common Council	Janet Venecz	01-01-17 to 12-31-18
Sanitary District Manager	Marty J. Wielgos	01-01-17 to 12-31-18
Business Manager	Rachel Montes	01-01-17 to 12-31-18
President of the Sanitary District Board of Commissioners	Dean Button Sam Dimopoulos	01-01-17 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SANITARY DISTRICT,  
CITY OF HAMMOND, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Sanitary District (Sanitary District), City of Hammond, for the period from January 1, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Sanitary District. It should be read in conjunction with our Financial Statements Audit Report of the Sanitary District, which provides our opinions on the Sanitary District's financial statements. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

October 9, 2018

SANITARY DISTRICT  
CITY OF HAMMOND  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in prior Reports B45301 and B47498, entitled *INTERNAL CONTROLS OVER FINANCIAL STATEMENTS* and Report B49698, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

There were several deficiencies in the internal control system of the Sanitary District related to financial transactions and reporting.

1. Lack of Segregation of Duties: The Sanitary District had not separated incompatible activities as follows:

- A. The Accounts Payable Clerk recorded the invoices to the accounting system, generated the checks for payment, and prepared the envelopes, with the checks inserted, for mailing.

- B. The Payroll Manager was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. There was no verification of pay rates or pay distributions to the proper funds or accounts.

- C. The Business Manager was responsible for many of the account balances reported in the financial statements. The Business Manager performed many of the calculations or determinations using spreadsheets, then entered these amounts into the General Ledger (GL) accounting system via a journal entry or provided the calculated amounts to Sanitary District staff to enter into the GL through the normal course of business. The Business Manager then entered the amounts from the various GL reports into a spreadsheet that was the basis for the financial statements.

The account balances included accrued interest payable, loans payable, bonds payable, net pension liability, deferred inflows and outflows, and net position. The offset to activity entered into the account balances was revenue and expense transaction accounts, errors in entries to the account balances would affect the transaction accounts as well. There was a lack of segregation of duties as many of the amounts reported in the financial statements were determined by the Business Manager without any review or oversight.

- D. Outside consultants obtained the information and computed the taxes receivable, the allowance for doubtful accounts and the related bad debt expense, and other pension benefit obligations. A review of those computations was not documented before the amounts were entered into the General Ledger (GL). The amounts from the various GL reports were then the basis for the financial statements. The management of the Sanitary District had not established a documented process for final review of the consultants work including a documented review of the financial statements after compilation.

- E. The Business Manager was responsible for the preparation of the financial statements, notes to the financial statements, and the required supplemental information. An outside consultant prepared the financial statements, reviewed the notes to the financial statements, and the required supplementary information; however, there was not a documented review performed by the Sanitary District of the work performed by the outside consultant.

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2. **Monitoring of Controls:** An evaluation of the Sanitary District's system of internal control had not been conducted. Additionally, the Sanitary District had no process to identify or communicate monitoring control changes when the control environment changes (i.e. when contracting with outside consultants). Effective internal controls over financial reporting required the Sanitary District to monitor and assess the quality of the system of internal control.

The Sanitary District prepared the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements prepared on the GAAP basis and accompanying notes to the financial statements were prepared by the Business Manager with the assistance of an outside consultant. These financial statements and notes lacked a documented review which allowed the following errors to occur and not be detected or corrected:

1. **Statement of Net Position**

- a. The net invested in capital assets, net of related debt per the Statement of Net Position was understated by \$175,554; however, the unrestricted net position was overstated by \$175,554.
- b. The current portion of the capital lease payable of \$144,650 was reported as capital lease payable noncurrent liabilities.
- c. Compensated absences were reported as noncurrent liabilities; however, there should be a current portion. The governing body had not established a policy to describe the basis for the determination of the noncurrent estimate.

2. **The Statement of Cash Flows included the following errors:**

- a. Receipts from customers and users were overstated by \$731,859.
- b. Proceeds and principle payments on tax anticipation warrants of \$1,700,000 was excluded as well as the interest paid on the tax anticipation warrants.
- c. Acquisition and construction of capital assets was overstated by \$1,078,040.
- d. Local tax distributions/community customer debt service was understated by \$203,062.

3. **The Statement of Revenues, Expenses, and Changes in Net Position included the amortization of the bond discounts in the amount of \$7,264 as amortization expense. Per GAAP, amortization of bond discounts should be reported as interest expense.**

Audit adjustments were proposed and accepted by the Sanitary District to correct the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows.

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:

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"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."

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

### ***DELINQUENT WASTEWATER ACCOUNTS***

The same comment also appeared in prior Reports B47498, B45301, and B49698.

Delinquent wastewater fees and penalties had not been certified to the County Auditor, nor recorded with the County Recorder.

Indiana Code 36-9-23-33 states in part:

". . . (c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
  - (B) A description of the premises, as shown by the records of the county auditor.
  - (C) The amount of the delinquent fees, together with the penalty.

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- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.
  
- (d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .
  
- (f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the unpaid liens for collection with the next May installment of property taxes. . . ."

# SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE  
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## Board of Sanitary Commissioners

DEAN BUTTON, PE  
MICHAEL DYE  
MATTHEW J. MUTA  
SAM DIMOPOLOS  
MICHAEL R. HAWKINS SR.



THOMAS MCDERMOTT, JR.  
Mayor

MARTY WIELGOS  
District Manager

RACHEL MONTES  
Business Manager

JOSEPH P. ALLEGRETTI  
Legal Counsel

October 23, 2018

State Board of Accounts  
302 West Washington Street, Room E418  
Indianapolis, IN 46204-2765

Re: State Board of Accounts Examination and Audit Results and Comments  
(Exam Period: January 1, 2017 – December 31, 2017)

## Internal Controls Over Financial Transactions and Reporting

### Examination Position

1. Lack of Segregation of Duties: The District had not separated incompatible activities as follows:
  - a. The Accounts Payable Clerk recorded the invoices to the accounting system, generated the checks for payment, and prepared the envelopes, with the checks inserted for mailing.
  - b. The Payroll Clerk was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. There was no verification of pay distributions to proper accounts and pay rates.
  - c. The Business Manager is responsible for many of the account balances reported in the financial statements. The Business Manager performed many of the calculations or determinations using spreadsheets and entering the amounts into the General Ledger. The Business Manager then entered the amounts from the various GL reports into a spreadsheet that was the basis for the financial statements.
  - d. The Business Manager hired an outside consultant to compute the taxes receivable, allowance for doubtful accounts and the related bad debt expense, and other pension benefit obligations. A review of those computations was not documented before the amounts were entered into the general ledger.
  - e. The Business Manager hired an outside consultant to prepare the financial statements, review the notes to the financial statements and the required supplementary information. A review of the work performed by the outside consultant was not performed.

### Response

1. Accounts Payable
  - a. As of June 2018, a second accounts payable clerk was hired and the accounts payable process was divided in the following order:
    - i. Accounts Payable Clerk
      - Issues purchase order numbers and maintains a purchase order register.
      - Opens invoices, date stamp invoices, matches invoices and completed requisitions.
      - Enters matched invoices and requisitions into accounting system, prints purchase orders, posts purchase orders in the accounting system and fills out claim forms.
      - Fills out requisitions for prepaid invoices.
    - ii. Lead Accounts Payable Clerk
      - Reviews newly prepared claims for errors prior to the Business Manager's reviewal.

- Generates checks once claims have been prepared by the Accounts Payable Clerk, reviewed by the Business Manager, approved by the Board of Commissioners and authorized by the District Manager.
  - Generates checks for prepaids once the prepaid claim has been prepared by the Accounts Payable Clerk and reviewed by the Business Manager. The prepaids are submitted to the next board meeting for approval by the Board of Commissioners.
  - Maintains a check number register.
  - Prepares the envelopes with the checks inserted and gives the prepared envelopes to the receptionist to adhere postage and hold for the postal carrier to pick up.
  - Prepares a month end check reconciliation. Once the reconciliation is prepared, the Accounting Assistant reviews the reconciliation for accuracy.
  - Prepares month end closing of accounts payable.
2. Payroll Clerk
    - a. The Hammond Sanitary District will create an additional payroll position to segregate duties.
    - b. As of September 2018, after every pay date, the department manager is reviewing each employee's identification number, department, hourly rate, longevity pay, certification pay and any additional pay transaction on their report.
  3. Business Manager – Account Balances
    - a. All calculations or determinations using spreadsheets and entries will be reviewed by the Accounting Assistant for accuracy.
    - b. All reports using the general ledger reports will also be reviewed by an employee other than the Business Manager for accuracy.
  4. Business Manager – Financial Computations from outside consultants
    - a. All financial computations prepared from outside consultants will be reviewed by internal staff.
  5. Business Manager – Financial Statements prepared from outside consultants
    - a. All financial statements prepared from outside consultants will be reviewed by internal staff.


## **Delinquent Wastewater Accounts**

### Examination Position

Delinquent wastewater fees and penalties had not been certified to the County Auditor nor recorded with the County Recorder in 2017.

### Response

1. The Hammond Sanitary District staff, Hammond City Controller and the Hammond Water Department CEO met to discuss the process for delinquent wastewater fees and penalties. The following will be the procedure:
  - a. The Hammond Sanitary District will receive monthly reports from the Hammond Water Department for delinquent accounts.
  - b. An Accounts Receivable Clerk will verify owner name and address and create a spreadsheet with all necessary information to certify and record the wastewater fees and penalties with the County Auditor and County Recorder.
  - c. The Accounts Receivable Clerk will then send the prepared sewer lien report to the Hammond Sanitary District attorney. The attorney will follow the Indiana Code for the process of certifying and recording the lien with the appropriate County offices.

  
(Signature)

Rachel Montes, Business Manager  
(Title)

October 23, 2018  
(Date)

  
(Signature)

Marty Wielgos, District Manager  
(Title)

October 23, 2018  
(Date)

SANITARY DISTRICT  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on October 9, 2018, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Robert Markovich, Common Council member; Pete Torres, Common Council member; Anthony Higgs, Common Council member; Scott Rakos, Common Council member; Marty J. Wielgos, Sanitary District Manager; Rachel Montes, Business Manager; Patrick Moore, Sanitary District Board of Commissioners member; Phil Taillon, Chief of Staff; and Joseph Allegretti, Sanitary District Attorney.