

**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, 2017 to December 31, 2017



**FILED**  
11/21/2018



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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
Chief Executive Operator	Edward Krusa	01-01-17 to 12-31-18
Office Manager	Deborah Van Meter	01-01-17 to 12-31-18
President of the Waterworks Board of Directors	Sharon Daniels	01-01-17 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), 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 Utility. It should be read in conjunction with our Financial Statements Audit Report of the Water Utility, which provides our opinions on the Utility'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 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

October 9, 2018

WATER UTILITY  
CITY OF HAMMOND  
AUDIT RESULT AND COMMENT

***FINANCIAL TRANSACTIONS AND REPORTING***

A similar comment also appeared in prior Report B49694, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

There were deficiencies in the internal control system of the Utility related to financial transactions and reporting. There were no documented controls to ensure the accuracy of the financial transactions and reports.

The Utility did not have documented internal controls in place to ensure that financial information prepared by consultants was reviewed for accuracy and completeness.

The Utility 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 Office 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. The Statement of Net Assets reported excess contributions of \$634,674.
2. The Statement of Cash Flows excluded adjustments for the following items:
  - a. Increase in Other Post-Employment Benefits of \$1,159,990.
  - b. Increase in Deferred Inflows of Resources - Deferred Pension of \$362,399.
  - c. Increase in Deferred Outflows of Resources - Deferred Pension of \$51,377.
  - d. Decrease in the Net Pension Liability of \$76,309.

Audit adjustments were proposed and accepted by the Utility to correct the Statement of Net Position and Statement of Cash Flows.

The Utility also did not have documented internal controls in place to ensure that financial information prepared by the Utility Office Manager was reviewed for accuracy and completeness prior to submission into the Indiana Gateway for Government Units (Gateway) financial reporting system.

WATER UTILITY  
CITY OF HAMMOND  
AUDIT RESULT AND COMMENT  
(Continued)

The Utility prepared and submitted the financial information into the Gateway, which was the source for the Utility funds reported in the regulatory basis financial statement presented by the City of Hammond. The financial information submitted on Gateway was reviewed and approved by the Utility Board; however, it was approved after it was submitted.

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. . . .

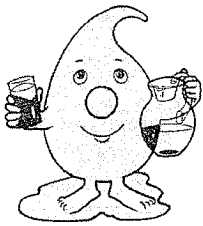
There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . .

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. . . ."

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental 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)

# Hammond Water Works Department



BUSINESS OFFICE  
6505 COLUMBIA AVENUE  
HAMMOND, INDIANA 46320-2554  
TELEPHONE: (219) 853-6421  
FAX: (219) 853-6554

## BOARD OF DIRECTORS

Sharon Daniels  
Bernard Grisolia  
Robert Lendi  
Paul Walker  
Michael Opinker

## OFFICIAL RESPONSE

MAYOR  
Thomas M. McDermott, Jr.

CHIEF EXECUTIVE OPERATOR  
Edward Krusa

ATTORNEY  
Shana Levinson

**Audit Year 2017**

**Contact Person Responsible for Corrective Action: Deborah L. Van Meter**

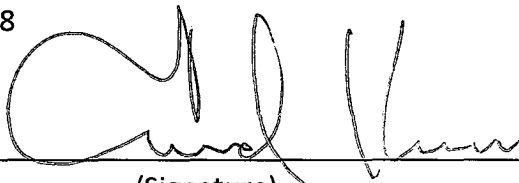
**Contact Phone Number: 219-853-6424**

We concur with the findings.

As always the Water Department tries to implement the recommendations made by State Board of Accounts. We are also continually trying to work on the segregation of duties. Part of the issue for our 2017 audit was due to the fact that our 2016 Audit was not completed until February of 2017. We have already implemented some changes after our 2016 audit year earlier this year. The changes in OPEB/Net Pension Obligation, and the Cash Financials being used for the Gateway Reporting System are now being provided by the Office Manager then reviewed first by the CEO, and presented to the Board of Directors for the final approval. We do however need to address the timing issue for presentation to the Board of Directors prior to the numbers being entered.

Going forward the Financial Statements and notes to the Financial Statements will also be reviewed first by the CEO for accuracy and completeness, and then be presented to the Board of Directors for final approval.

**Anticipated Completion Date: December 31, 2018**

  
\_\_\_\_\_  
(Signature)

CEO  
\_\_\_\_\_  
(Title)

10-11-2018  
\_\_\_\_\_  
(Date)



WATER UTILITY  
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; Deborah Van Meter, Office Manager; Edward Krusa, Chief Executive Operator; Sharon Daniels, President of the Waterworks Board of Directors; Mark McLaughlin, Assistant Chief Executive Operator; Paul A. Walker, Waterworks Board of Directors member; Shana Levinson, Water Utility Attorney; Phil Taillon, Chief of Staff; Anthony Higgs, Common Council member; Robert Markovich, Vice President of the Common Council; Pete Torres, Common Council member; and Scott Rakos, Common Council member.