

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



**FILED**  
01/18/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Richard Murphy	01-01-17 to 12-31-18
Mayor	Ron Meer	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Stephen Janus	01-01-17 to 12-31-18
President of the Common Council	Chris Schwanke Donald Przybylinski	01-01-17 to 12-01-17 12-02-17 to 12-31-18
Superintendent of the Water Utility	Randall Russell	01-01-17 to 12-31-18
President of the Water Utility Board of Directors	L. J. Jordan, III	01-01-17 to 12-31-18
General Manager of the Sanitary District	Michael Kuss	01-01-17 to 12-31-18
President of the Sanitary District Board of Commissioners	Garry Mitchell	01-01-17 to 12-31-18
Harbormaster of the Port Authority	Tim Frame	01-01-17 to 12-31-18
President of the Port Authority Board of Directors	Sam Johns Sam Ferguson	01-01-17 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
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Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE CITY OF MICHIGAN CITY, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Michigan City (City), 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 Federal Findings that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

December 5, 2018

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CITY CONTROLLER  
CITY OF MICHIGAN CITY

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS

***FINDING 2017-001***

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*Condition*

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not implemented proper segregation of duties related to receipts and disbursements when posted via a journal entry, and the financial reporting of the Water Department.

*Receipts and Disbursements - Journal Entries*

Journal entries were made by one employee without evidence of an oversight or approval process to ensure the accuracy and classification of the receipts and disbursements to the proper fund and account.

The City disbursed funds through an electronic payment, then posted the transaction via a journal entry. These payments were not approved by the fiscal officer or the appropriate governing board at a public meeting as required by Indiana Code.

*Financial Reporting - City and Water Department*

Annual financial data was entered into an Excel spreadsheet at the Water Department and sent to the City Controller's office for entry into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement. No supporting documentation was provided to the City to ensure the amounts received and reported were accurate. An oversight or review process was not documented at the Water Department or at the City for the amounts reported for the Water Department.

*Context*

The lack of controls over financial reporting was a systemic issue throughout the audit period. The lack of controls and noncompliance related to journal entries was limited to transactions posted for bond proceeds, transfers between funds, debt payments, and other electronic payments.

*Criteria*

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.

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

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. . . ."

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

*Cause*

Management of the City had not established a proper system of internal control that segregated key functions and that would have ensured proper approval of disbursements as required.

*Effect*

Without a proper system of internal control in place over journal entries that operated effectively, noncompliance remained undetected as identified in the *Condition*. Additionally, the failure to establish controls over financial reporting could have enabled misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City establish a system of internal controls related to financial reporting and transactions posted via journal entry. We also recommended that the City establish a system of internal controls to ensure that disbursements posted via a journal entry will be approved by the fiscal officer and appropriate governing board as required by Indiana Code.

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Views of Responsible Officials*

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

**FINDING 2017-002**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Condition*

The City did not have an effective system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The federal grant information entered and submitted in the Indiana Gateway for Government Units financial reporting system was the source of the SEFA. The City Controller's office had an oversight and review process; however, that process was not effective in detecting and correcting errors prior to submission.

*Context*

Due to the ineffective controls, the following errors resulted in the understatement of the Passed Through to Subrecipient and Total Federal Awards Expended on the SEFA by \$73,761 and \$30,858, respectively, as of December 31, 2017:

1. The amount passed through to subrecipients for the Community Development Block Grants/Entitlement Grants was not reported, which understated the federal passed through to subrecipient amount by \$73,761.
2. The Urban and Community Forestry Program was omitted, which understated the federal expenditures by \$21,412.
3. The Great Lakes Program federal expenditures of \$202,871 were erroneously reported as part of the Coastal Zone Management Administration Awards grant. This had a net effect of zero on the SEFA total; however, the federal expenditures were not properly reported on the SEFA.
4. The Coastal Zone Management Administration Awards expenditures were overstated by \$6,201, which was determined to be non-federal dollars received in 2017, since the grant was exhausted in 2016.
5. The Bus and Bus Facilities Formula Program federal expenditures of \$211,634 were erroneously reported as Federal Transit Formula Grants. This had a net effect of zero on the SEFA total; however, the federal expenditures were not properly reported on the SEFA.
6. The Equitable Sharing Program was omitted, which understated the federal expenditures by \$18,795.

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

7. The Department of Justice Joint Law Enforcement Operations, which was not a grant, was reported in error. This resulted in an overstatement of the federal expenditures by \$3,148.
8. The pass-through identifying numbers were reported incorrectly for the following programs: Federal Transit Formula Grants, Highway Planning and Construction, National Priority Safety Programs, and Beach Monitoring and Notification Program Implementation Grants.

Audit adjustments were proposed, approved by the City, and made to the SEFA.

*Criteria*

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. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

*Cause*

Management had not established an effective system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

*Recommendation*

We recommended that the City establish a system of internal controls to ensure that federal expenditures will be properly reported on the SEFA.

*Views of Responsible Officials*

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

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

**FINDING 2017-003**

Subject: Federal Transit Cluster - Reporting  
Federal Agency: Department of Transportation  
Federal Programs: Federal Transit Formula Grants, Bus and Bus Facilities Formula Program  
CFDA Numbers: 20.507, 20.526  
Federal Award Numbers and Years (or Other Identifying Numbers): IN201602602, IN-90-4681,  
IN-95-0052

Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement.

The City had not developed, nor documented a system of internal controls for the quarterly Federal Financial Reports (FFR) to ensure that the reported data was accurate.

The City did not comply with the reporting requirements. Three of the four quarterly FFRs tested reported incorrect amounts for the federal and recipient shares of expenditures.

*Context*

The lack of controls and the noncompliance were systemic issues throughout the audit period. Thirty percent of the quarterly FFRs submitted during 2017 were inaccurate. The federal share of expenditures was overstated by \$16,827, and the recipient share of expenditures was understated by \$14,255.

*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). . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following.

. . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Cause*

The City's management had not developed or implemented a system of internal controls that would have ensured compliance with the grant agreement and the Reporting compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the Reporting compliance requirement could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and comply with the Reporting compliance requirement.

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

### **FINDING 2017-001**

Contact Person Responsible for Corrective Action: Richard Murphy

Contact Phone Number: 219-873-1404

Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue

### Description of Corrective Action Plan:


1. The New World ERP General Ledger currently requires two approvals prior to posting any Journal Entries. The Controller, Assistant Controller and 2<sup>nd</sup> Assistant Controller have approval rights. Any journal prepared by the Assistant or 2<sup>nd</sup> Assistant Controller will be reviewed and approved by another employee with approval rights prior to posting.
2. All electronic payments will be entered in the New World ERP Accounts Payable system as an EFT payment. A payment register will be presented to the appropriate governing board for approval.
3. Prior to entering the Water Department data into the Indiana Gateway for Government Units financial reporting system, the Controller's office will review the data using the financial statements which are sent to the Controller's office monthly.

### Anticipated Completion Date:

Item 1 was implemented February 2018. Item 2 was implemented September 2018. Item 3 will be implemented with the review of the 2018 Annual Report.

  
(Signature)

  
(Title)

  
(Date)

RON MEER – MAYOR



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

### **FINDING 2017-002**

Contact Person Responsible for Corrective Action: Richard Murphy

Contact Phone Number: 219-873-1404

Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue

### Description of Corrective Action Plan:

- 1 Prior to submitting the SEFA, the 2<sup>nd</sup> Assistant Controller will review the Community Development Block Grant to ensure the pass-through amounts to the subrecipients are accurately reported.
- 2 The policy to track grants from inception to award will be reviewed. Prior to compiling the data for the SEFA, the Assistant Controller will have all grant receiving departments review the proposed SEFA to check for omissions or closed or misreported grants. The SEFA will also be reviewed by the 2<sup>nd</sup> Assistant Controller prior to submission in Gateway  
  
The pass through identifying numbers will be checked by the 2<sup>nd</sup> controller prior to submission in Gateway.

Anticipated Completion Date: The Corrective Action Plan will be implemented with the review of the 2018 Annual Report.

  
(Signature)  
  
(Title)  
  
(Date)

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515  
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: [rmurphy@emichigancity.com](mailto:rmurphy@emichigancity.com)

## CORRECTIVE ACTION PLAN

### **FINDING 2017-003**

Contact Person Responsible for Corrective Action: Richard Murphy

Contact Phone Number: 219-873-1404

Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue

### Description of Corrective Action Plan:

1. Prior to submitting the Quarterly Federal Financial Reports (FFR), a signature form indicating review by the Assistant Controller will be completed and filed with the Transit Director's grant files.

### Anticipated Completion Date:

This procedure will be implemented with the 4<sup>th</sup> Quarter reporting in January 2019.

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

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

  
\_\_\_\_\_  
(Date)

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515  
web ~ [emichigancity.com](http://emichigancity.com) e-mail ~ [mayormeer@emichigancity.com](mailto:mayormeer@emichigancity.com)

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2018, with Richard Murphy, City Controller; Ron Meer, Mayor; Mary Lynn Wall, Deputy City Controller; James Meyer, Common Council Attorney; and Amber Lapaich-Stalbrink, Corporation Counsel.

WATER UTILITY  
CITY OF MICHIGAN CITY

WATER UTILITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

***FINDING 2017-001***

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*Condition*

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not implemented proper segregation of duties related to receipts and disbursements when posted via a journal entry, and the financial reporting of the Water Department.

*Receipts and Disbursements - Journal Entries*

Journal entries were made by one employee without evidence of an oversight or approval process to ensure the accuracy and classification of the receipts and disbursements to the proper fund and account.

The City disbursed funds through an electronic payment, then posted the transaction via a journal entry. These payments were not approved by the fiscal officer or the appropriate governing board at a public meeting as required by Indiana Code.

*Financial Reporting - City and Water Department*

Annual financial data was entered into an Excel spreadsheet at the Water Department and sent to the City Controller's office for entry into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement. No supporting documentation was provided to the City to ensure the amounts received and reported were accurate. An oversight or review process was not documented at the Water Department or at the City for the amounts reported for the Water Department.

*Context*

The lack of controls over financial reporting was a systemic issue throughout the audit period. The lack of controls and noncompliance related to journal entries was limited to transactions posted for bond proceeds, transfers between funds, debt payments, and other electronic payments.

*Criteria*

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

WATER UTILITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

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. . . .

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- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

*Cause*

Management of the City had not established a proper system of internal control that segregated key functions and that would have ensured proper approval of disbursements as required.

*Effect*

Without a proper system of internal control in place over journal entries that operated effectively, noncompliance remained undetected as identified in the *Condition*. Additionally, the failure to establish controls over financial reporting could have enabled misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City establish a system of internal controls related to financial reporting and transactions posted via journal entry. We also recommended that the City establish a system of internal controls to ensure that disbursements posted via a journal entry will be approved by the fiscal officer and appropriate governing board as required by Indiana Code.

*Views of Responsible Officials*

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



# DEPARTMENT OF WATER WORKS

*Pure Filtered Water*

DISTRIBUTION CENTER  
701 GRAND STREET  
MICHIGAN CITY, INDIANA 46360  
219/874-6683  
FAX: 219/874-8064

MAIN OFFICE  
532 FRANKLIN SQUARE  
P.O. BOX 888  
MICHIGAN CITY, INDIANA 46361  
219/874-3228  
FAX: 219/874-1433

FILTRATION PLANT  
111 LAKE SHORE DRIVE  
MICHIGAN CITY, INDIANA 46360  
219/872-4430  
FAX: 219/873-9323

November 27, 2018

## CORRECTIVE ACTION PLAN

Finding 2017-001

Contact Person Responsible of Corrective Action:

Randall E. Russell, Superintendent Department of Water Works, Michigan City, IN  
219-874-3228

and

Richard Murphy, Controller for the City of Michigan City, IN  
218-873-1400

### Views of Department of Water Works Superintendent:

Based on our discussions with the Field Examiner, Tuesday November 27, 2018, we informed her of two things. First the Water Board reviews the Departments financial reports once per month, and then those reports are sent to the Controller's office as per ordinance, for their use and review.

Second, the CTAR report is completed and returned to the Controller's office again using year-end Department figures from the December financial statement.

She mentioned that the Department financial reports were not properly approved.

### Description of Action Plan:

First, all Department Financial Reports will be voted on and approved by the Water Board of Directors with the motion and second noted in the Board Regular meeting minutes.

Second, Once the CTAR report is completed by our Department's Accountant, he will make a copy for Department files, which will then be reviewed, attested to and dated by either the Superintendent or Assistant Superintendent. Again, once that report has been reviewed, the CTAR report will be sent back to the Controller's office for their use and files.

### Anticipated Completion Date:

The Financial Reports will be voted on at the Water Boards next regular meeting which is scheduled for November 27, 2018.

The copy of the CTAR report will be witnessed and attested to just prior to submitting report to Controller's office in early 2019.

Randall E. Russell



Superintendent  
Department of Water Works  
November 27, 2018

WATER UTILITY  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

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SANITARY DISTRICT  
CITY OF MICHIGAN CITY

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

***FINDING 2017-001***

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

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*Criteria*

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. . . .

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FEDERAL FINDING  
(Continued)

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. . . ."

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

*Cause*

Management of the City had not established a proper system of internal control that segregated key functions and that would have ensured proper approval of disbursements as required.

*Effect*

Without a proper system of internal control in place over journal entries that operated effectively, noncompliance remained undetected as identified in the *Condition*. Additionally, the failure to establish controls over financial reporting could have enabled misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City establish a system of internal controls related to financial reporting and transactions posted via journal entry. We also recommended that the City establish a system of internal controls to ensure that disbursements posted via a journal entry will be approved by the fiscal officer and appropriate governing board as required by Indiana Code.

*Views of Responsible Officials*

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



CORRECTIVE ACTION PLAN

**FINDING 2017-001**

Contact Person Responsible for Corrective Action: Scott Kistler

Contact Phone Number: 874-7799

Views of Responsible Official: The Michigan City Sanitary District ("District") understands the comment and will implement the corrective action plan to resolve the issue.

Description of Corrective Action Plan:

1. The New World ERP General Ledger currently requires two approvals prior to posting any Journal Entries. If the entry is entered by the District's Bookkeeper, the District's Financial Manager will approve the entry prior to posting the entry. If the entry is entered by the District's Financial Manager, the Controller, Assistant Controller or the 2<sup>nd</sup> Assistant Controller will approve the entry prior to posting the entry.
2. All electronic payments will be entered in the New World ERP Accounts Payable system as an EFT payment. Monthly, the District and / or City Controller's office will prepare an EFT payment register for the District which will be presented to the District's Board of Commissioners for their approval.

Anticipated Completion Date:

Item 1 was implemented November 2018.

Item 2 was implemented November 2018.

Scott Kistler  
(Signature)

MESD Financial Manager  
(Title)

December 3<sup>rd</sup> 2018  
(Date)

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EXIT CONFERENCE

The contents of this report were discussed on December 5, 2018, with Richard Murphy, City Controller; Ron Meer, Mayor; Mary Lynn Wall, Deputy City Controller; James Meyer, Sanitary District Board Attorney; Amber Lapaich-Stalbrink, Corporation Counsel; Micheal Kuss, General Manager of the Sanitary District; and Scott Kistler, Sanitary District Financial Manager.