

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
VANDERBURGH COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
10/09/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Utilities	Allen Mounts	01-01-18 to 12-31-19
Chief Financial Officer of Utilities	Jenny Collins	01-01-18 to 12-31-19
Utilities Controller	Charlie W. Pride, Jr., CPA	01-01-18 to 12-31-19
President of the Department of Water Works Board	Robert R. Dillow	01-01-18 to 12-31-19
Mayor	Lloyd Winnecke	01-01-16 to 12-31-19
President of the Common Council	Jim Brinkmeyer	01-01-18 to 12-31-19
City Controller	Russell G. Lloyd Jr., CPA	01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE EVANSVILLE WATER AND WASTEWATER UTILITIES,
CITY OF EVANSVILLE, VANDERBURGH COUNTY, INDIANA

This report is supplemental to our audit report of the Evansville Water and Wastewater Utilities (Utilities), for the period from January 1, 2018 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Utilities. It should be read in conjunction with our Financial Statements Audit Report of the Utilities, which provides our opinion on the Utilities' 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 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

August 22, 2019

EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
AUDIT RESULTS AND COMMENTS

RESTATEMENT OF CAPITAL ASSETS

Condition and Context

Due to the omission of a portion of infrastructure in previous years, the Water Utility issued a restatement of the beginning balance of capital assets, increasing the beginning balance by \$76,727,635. Of the 18 restated assets that were selected for testing, 6 were not properly recorded due to either miscalculations or failure to include the entire portion of the asset.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ANNUAL FINANCIAL REPORT

Condition and Context

The Utilities did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the financial statements. The Utilities established internal control procedures related to the financial statements where the City Controller prepares and the Chief Financial Officer reviews the financial statements; however, they were not implemented effectively. The financial statements contained the following errors:

- Water Utility
 - ❖ Statement of Net Position
 - Capital Assets overstated by \$2,839,759.
 - Accumulated Depreciation overstated by \$3,043,055.
 - Deferred Outflows of Resources overstated by \$3,778,070.
 - Due to other overstated by \$3,778,070.
 - Net Position - Net Invested in Capital Assets understated by \$203,296.
 - Net Position - Restricted overstated by \$3,778,070.
 - Net Position - Unrestricted understated by \$3,778,070.
 - ❖ Statement of Revenues, Expenses and Changes in Net Position
 - Total Net Position - Beginning overstated by \$507,390.

EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

- Depreciation Expense overstated by \$233,206.
- Change in Net Position overstated by \$274,184.
- ❖ Statement of Cash Flows
 - Cash paid to suppliers, employees, and others overstated by \$45,313,213.
 - Acquisition and Construction of Capital Assets understated by \$45,313,213.
 - Change in Liabilities overstated by \$45,313,213.
- Sewer Utility
 - ❖ Statement of Net Position
 - Capital Assets overstated by \$4,255,550.
 - Deferred Inflows of Resources overstated by \$3,778,070.
 - Net Position - Net Invested in Capital Assets overstated by \$477,480.
 - ❖ Statement of Cash Flows
 - Cash paid to suppliers, employees, and others understated by \$3,778,070.
 - Deferred Debits overstated by \$3,778,070.
 - Due from Other was understated by \$3,778,070.

Audit adjustments were proposed for material errors and were accepted by the Utilities' management and were made to the financial statements.

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. . . .

EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
AUDIT RESULTS AND COMMENTS
(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. . . .

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

LLOYD WINNECKE
MAYOR



ALLEN R. MOUNTS
DIRECTOR

EVANSVILLE WATER & SEWER UTILITY

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8/26/19

Indiana State Board of Accounts
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OFFICIAL RESPONSE TO 2018 INDEPENDENT AUDITOR'S REPORT

Reference: Official Response to the Financial Statement Audit Report Evansville Water and Wastewater Utilities, City of Evansville, Vanderburgh County, Indiana, January 1, 2018 to December 31, 2018.

Dear State Board Member(s):

The City of Evansville Water and Wastewater Utilities (Utilities) recognizes the efforts put forward by the Indiana State Board of Accounts (the State) performing the 2018 audit of our financial statements. We submit below our responses to your findings. Our responses detail our understanding of the issues raised by the State and outline the Utilities' expected course of action to resolve these issues.

RESTATEMENT OF CAPITAL ASSETS

Due to the omission of a portion of infrastructure in previous years, the Water Utility issued a restatement of the beginning balance of Capital Assets, increasing the beginning balance by \$76,727,635. Of the restated assets errors were found due to either miscalculations or failure to include the entire portion. The EWSU's Engineering group will prepare the initial calculations and recommended values be for capital assets to be accepted by the utility. Either the EWSU's CFO or Controller will check the calculations prior to entering them into the system.

ANNUAL FINANCIAL REPORT

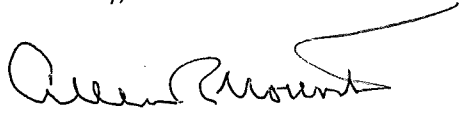
Composite Rate Method of Depreciation

The Water Utility is required to follow the IURC guidelines for capital assets and depreciation, which requires the Composite Depreciation Method. When the utilities purchase an asset that involved a trade-in, the new asset is recorded at the purchase cost of the asset plus the remaining book value of the trade in asset and the traded in asset is removed from the capital listing. By recording this transaction in this manner, capital assets and accumulated depreciation are both overstated but the net effect of these overstatements on the financial statements is \$0. In the future this issue will be phased out as we continue to transition from purchasing to leasing small vehicles in the Utility's fleet.

Internal Controls

Deferred Inflows and Deferred Outflows were both overstated due to an attempt to be more transparent in recording a receivable for Bond funds. These funds were used from Sewer Bond funds for a Waterworks project that was due to be reimbursed once the Water Bond funds were received in the first quarter of 2019. This has been corrected in 2019.

Sincerely,



Allen Mounts
Director
Evansville Water & Sewer Utility



Jenny Collins
Chief Financial Officer
Evansville Water & Sewer Utility



Russell Lloyd, Jr., CPA
City Controller
City of Evansville

EVANSVILLE WATER AND WASTEWATER UTILITIES
CITY OF EVANSVILLE
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2019, with Russell G. Lloyd, Jr., CPA, City Controller; Lloyd Winnecke, Mayor; Jonathan Weaver, City Council member; Marty Amsler, President of the Board of Public Works; Allen Mounts, Director of Utilities; Jenny Collins, Utilities CFO; Charlie W. Pride, Jr., CPA, Utilities Controller; Robert R. Dillow, President of the Department of Water Works Board; and Steve Schaefer, Deputy Mayor.