

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HAMMOND

LAKE COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
10/18/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay	01-01-18 to 12-31-19
Mayor	Thomas M. McDermott, Jr.	01-01-18 to 12-31-19
President of the Board of Public Works and Safety	Stanley J. Dostatni Heather Garay	01-01-18 to 02-07-18 02-08-18 to 12-31-19
President of the Common Council	Janet Venecz Robert Markovich	01-01-18 to 12-31-18 01-01-19 to 12-31-19
Sanitary District Manager	Marty J. Wielgos	01-01-18 to 12-31-19
Sanitary District Business Manager	Rachel Montes	01-01-18 to 12-31-19
President of the Sanitary District Board of Commissioners	Sam Dimopoulos	01-01-18 to 12-31-19
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-18 to 12-31-19
Water Utility Office Manager	Deborah L. Van Meter	01-01-18 to 12-31-19
President of the Water Works Board of Directors	Sharon M. Daniels	01-01-18 to 12-31-19
Director of the Port Authority	Milan A. Kruszynski	01-01-18 to 12-31-19
Chairman of the Port Authority Board of Directors	Jeffrey Smith Thomas Kuhn	01-01-18 to 12-31-18 01-01-19 to 12-31-19
Port Authority Financial Director	Richard A. Szany Julia Pustek	01-01-18 to 03-31-19 04-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF HAMMOND, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Hammond (City), 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 City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinion on the City's financial statement. 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

September 11, 2019

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CITY CONTROLLER
CITY OF HAMMOND

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Reports B49726 and B51340, entitled *FINDING 2016-001 AND FINDING 2017-001*.

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting. The internal controls implemented by the City related to cash and investments, receipts, disbursements, and financial reporting were not effective. Furthermore, the internal controls were not monitored and evaluated for effectiveness.

Cash and Investments (Bank Reconciliations)

The control over cash and investments and trust bank reconciliations was not effective and did not ensure that bank reconciliations were prepared and reviewed in a timely manner or that reconciling items were corrected in a timely manner.

Reconciliations of the record balances to the depository balances were not prepared and reviewed in a timely manner. The City made improvements after July 2018 for the City's operating bank accounts. The August 2018 reconciliations had 13 trust accounts and 2 checking accounts that were not reconciled timely out of 41 active City accounts. The November 2018 reconciliations had 12 trust accounts that were not reconciled timely.

As of December 31, 2018, the City had accumulated reconciling adjustments to the payroll account, which had not been corrected. A \$16,065,281 transfer from the payroll bank account to the general bank account had been carried since December 31, 2014. Additional reconciling items in the payroll account included accumulated balances, and receipts and disbursements of payroll and payroll withholding amounts totaling \$19,971,736. The net effect on the reconciling items was a decrease in the balance of the payroll bank account of \$3,906,454.

As of December 31, 2018, the City's ledger balance was determined to be overstated by \$2,900,000 when compared to the reconciled depository balance due to recording only one side of a bank to bank transfer.

Receipts, Disbursements, and Financial Reporting

The City implemented internal controls over cash and investments, receipts, disbursements, and financial reporting; however, the controls were not effective and did not ensure that transactions were properly and timely recorded in the ledgers and reported in the financial statement. The receipt of the \$6,000,000 bond proceeds for the Sportsplex project was posted four months late.

Journal Entries

Journal entries were posted to the financial system to account for debt proceeds, debt payments, and the related trust activity. Instead of posting the activity to a receipt or disbursement account number, the activity was posted directly to the fund balance account; therefore, the financial activity of the journal entries was not recorded in the Ledger of Receipts and Disbursements of the City, which is the basis of the financial statement. Receipt and disbursement activity posted directly to the fund balance totaled \$46,937,880 and \$48,920,203, respectively.

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

The journal entries posted as payments were not approved by the fiscal officer or the appropriate governing board at a public meeting as required by Indiana Code. Accounts Payable Vouchers were not created to support the payments as required by Indiana Code.

Eight journal entries totaling \$12,272,110 for trust activity receipts were posted four to six months after the trust transaction date. Of the 31 journal entries tested for bond payments, transfers, and trust activity, 26 journal entries totaling \$7,664,373 were not posted timely.

The trust activity per the trust statement did not agree to the receipts and disbursements reported in the financial statement for three of the trust funds. In fund 341, the Pot17Rf Escrow fund, the beginning cash and investment balance was understated by \$7,107,175, receipts were overstated by \$14,905,216, and disbursements were overstated by \$7,798,014. In fund 438, 18A Prk Cap Int fund, receipts and disbursements were overstated by \$96,945. In fund 426, GTW18A Bnd Pymt fund, receipts and disbursements were understated by \$4,656,336. Audit adjustments were proposed, approved by the City, and made to the financial statement.

Transfers

Controls were not effective over transfers between funds. Of the 83 transfers tested, 39 transfers totaling \$14,654,114 were not properly supported by an Accounts Payable Voucher (APV) as required by law. Additional audit procedures were performed to substantiate the amounts. In addition, 8 transfers totaling \$7,544,763 were not certified by the fiscal officer on the APV or register of APVs. Furthermore, 11 transfers totaling \$8,252,009 were not approved by the governing board. Transfers totaling \$11,917,751 were determined to not be posted timely.

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

"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. . . .

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

Monitoring Activities

"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. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

The cash balance of a particular fund shall be determinable from comparison of the entries in the Ledger of Receipts, Disbursements and Balances which shall be balanced and reconciled with bank balances monthly. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All documents and entries to records must be made 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)

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.

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

(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. . . ."

ADVANCE PAYMENTS

A similar comment also appeared in 13 prior reports, including the 3 most recent Reports B47309, B49726, and B51340.

Condition and Context

Employee compensation, hours, and leave time were reported by the departmental payroll clerks to the City Controller's office on a bi-weekly Payroll Earnings Forecast (forecast). The forecasts were submitted for payroll processing by the Monday or Tuesday prior to the pay date, which was on the following Friday. Salaried employees were paid for the prior and current week, and therefore, were paid in advance of performing the service. The pay also did not reflect leave time used for the period covered.

Criteria

Indiana Code 5-7-3-1(a) states: "Public officers may not draw or receive their salaries in advance."

OVERDRAWN CASH BALANCES

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2018.

Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants require the City to expend funds and subsequently request reimbursement. The City funds with overdrawn cash balances at December 31, 2018, including the grant funds with no reimbursement received as of August 2019, are listed below:

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

Fund	Amount Overdrawn
Pedestrian Safety	\$ 3,112
SIDE-P	141,264
FY19 OPO PDGmt	2,957
DUI Task Force	8,740

The City stated the delay for the FY19 OPO PDGmt and DUI Task Force grant reimbursements was due to the grantor agency switching grant management systems.

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



Heather Garay, J.D.
Controller

CITY OF HAMMOND

September 24, 2019

Official Response to Audit Results and Comments

FINANCIAL TRANSACTIONS

The City works diligently to implement new controls after weaknesses or risks are identified through the audit process. Due to the timing of the 2017 audit, which concluded in October 2018, and the time required for the departmental review and development process, these new controls were not in place for all or some of 2018 but have been implemented in 2019.

Cash and Investments:

The City has numerous bank and trust accounts. Bank reconciliations have been timely prepared, reviewed and uploaded to Gateway in compliance with requirements since July 2018. Prior to that, the bank reconciliation process was changed to better reflect account activity in anticipation of this upload requirement. All accounts were converted to the new method and revised recs were reviewed and signed by the Controller. This process affected the timely review but has been resolved in 2018.

Previously, bank reconciliations were prepared only for activity initiated by the city and interest earned for all trust activity, not for daily investment debits and credits made by the trustee. After the conclusion of the FY 2017 State Board of Accounts audit in October 2018, the City began reconciling this activity along with all other operating bank accounts. The City started with the most recently issued bonds and then worked to include all existing bond trust accounts. Given the number of existing bonds and related trust accounts, this process took several months to complete. Trust account statements are now received from the trustee monthly for all accounts. The Bank and Trust Administrator indicates activity to post after receiving the prior month's statement. The Budget and Reporting Administrator reviews this information and books the activity on the financial software. The trust accounts are then reconciled monthly by the Bank and Trust Administrator and reviewed and signed by the Controller prior to uploading them to the Indiana Gateway submission portal by the monthly deadline. All trust statements and journal entry activity are maintained in binders in the Controller's office.

Extensive work has been done in the past to attempt to understand this discrepancy that occurred prior to the current Controller and Deputy Controller, however we were unable to resolve the issue. The amount is related to a posting discrepancy and any corrective adjustment will not affect the actual total cash balance of combined city accounts. The City will work with financial advisors and their current financial software company to make an adjustment to resolve the outstanding payroll issue from 2014. The City plans to update their financial software in the next year and will address these issues related to the sweep of the payroll account with the new vendor.

The City agreed to transfer \$2,900,000 in cash on hand to a new bank account in order to receive a reduction in interest rate for the 2018 HRC Installment Purchase Contract for the Sportsplex Project. This activity was incorrectly posted as an actual transfer expenditure rather than a bank to bank non-expenditure transfer. This error was detected by the Controller during a routine review of the bond accounts. The Deputy Controller worked with the City's financial software company (RDS) to correct this activity, however the correction implemented did not resolve the issue. This was also detected during review by the Controller. The City worked to resolve the issue with RDS, which required RDS to post activity from the back end of the financial software. This posting was not correctly posted to both sides of the activity. The Controller agreed to an adjustment in the financial statement to properly show this activity as it should have been posted originally. All transfer activity must be reviewed by the Controller prior to posting in the future.

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Heather Garay, J.D.
Controller

CITY OF HAMMOND

Receipts, Disbursements, and Financial Reporting

The City had previously not prepared bank reconciliations for activity performed by the trustee in trust accounts held. After the conclusion of the FY 2017 State Board of Accounts audit in October 2018, the City began reconciling this activity along with all other operating bank accounts. The City implemented a procedure that details how each fund is linked to a trust account and how activity should be posted. These summaries cannot be developed until the trust indenture and trust statements for each account are received. The City started with the most recently issued bonds and then worked to include all existing bond trust accounts. Given the number of existing bonds and related trust accounts, this process took several months to complete. Trust account statements are now received from the trustee monthly for all accounts. The Bank and Trust Administrator indicates activity to post after receiving the prior month's statement. The Budget and Reporting Administrator reviews this information and books the activity on the financial software. The trust accounts are then reconciled monthly by the Bank and Trust Administrator and reviewed and signed by the Controller prior to uploading them to the Indiana Gateway submission portal by the monthly deadline. All trust statements and journal entry activity are maintained in binders in the Controller's office. The City engaged a financial advisor for assistance in establishing the procedure to post journal entry activity. The current financial software (RDS) is not widely used by municipalities and few advisors are familiar with the program. The City will change the procedure used to book activity for the trust accounts to mirror that of regular expenses. The City will develop a journal entry AP voucher to be used for approving this activity in the future.

The Controller and Deputy Controller detected multiple errors made by the former Receipt Manager. Receipts were not posted by this employee timely in violation of office procedures. These errors were addressed directly with this employee and ultimately she separated from the City. A new Receipt Manager was hired in 2019. She has been trained on office procedures and her work is regularly monitored by the Deputy Controller.

The trustee assigned to the several accounts changed during the audit period. Several trust account statements were not received timely by the Controller due to this change. The Controller contacted the trust bank and has since received all statements for all accounts and is receiving monthly statements timely. The Controller's Office staff responsible for booking trust activity will now date stamp all trust statements when they are received to document any that were not received timely.

The financial statement originally included journal entries that were not true activity but were corrections to journal entries. These corrections appeared to be true activity on the RDS report used to complete the financial statement and although they did not affect the ending cash balance of these funds, they caused some trust funds' receipts and disbursements to be overstated/understated. The Controller's office will use information gained from this audit to revise the procedures for booking trust activity going forward. These procedures will include booking trust activity in a way that will appear on both the receipt and disbursement ledgers and documentation of the Controller's review.

Transfers

The City has implemented controls to authorize for transfers between accounts in the gaming fund. A transfer request form is submitted by the Council member and Mayor to the Board of Public Works and Safety to track the appropriation transfers within various gaming funds. This control was put in place in 2018. Other transfers are made as a result of budgeted line-items in the gaming and other funds and Mayor's gaming annual spending plan. Many are done as appropriation transfers. Supporting documentation directing or authorizing these transfers was provided during the audit, however, claim vouchers were only made for the expenditures funded by the transfer, not the actual transfer of the appropriation. Many of the transfers deemed to be lacking approval were related to the booking of trust activity performed by the trustee, not payment of unauthorized expenses. The City will require all transfers between funds to be supported with a claims voucher in addition to current approval methods. The City is working to implement an approval method for trust activity transfers performed by the trustee.



Heather Garay, J.D.
Controller

CITY OF HAMMOND

ADVANCED PAYMENTS

The City of Hammond’s 2018 Salary Ordinance states, “For 2018 the payday shall be every other Friday commencing on January 12th, 2018, for a total of 26 pays.” This allows for paydays to remain on an every other week schedule. This schedule has been maintained for at least 40 years. Salaried employees’ annual salary is divided by the number of pay dates in the calendar year and that amount reflects the employees’ bi-weekly pay. The City’s Employee Handbook and department polices require advanced notification of scheduled vacations and planned personal time. The City utilizes payroll earnings forecasts to project time off. Unplanned and emergency leaves are not reflected until the following pay. The City retains the ability to pull-back payroll funds paid to employees that separate from the City with unearned compensation. In the event that timing prevents the City from pulling back funds, the former employee is required to repay the unearned funds. Overtime pay is paid after it is earned. The City will continue to research ways in which to change the pay schedule so that time is earned before it is paid without imposing an undue burden on employees by forcing them to have extended periods without pay.

OVERDRAWN CASH BALANCES

All funds listed as overdrawn at the conclusion of 2018 were police reimbursement grant funds. The Indiana Criminal Justice Institute converted their grant management systems during the grant period. Our grant administrator was instructed to hold quarterly reimbursement requests by the ICJI due to delays in the conversion. We were recently given the ability to submit these requests and reimbursement is in progress.



(Signature) Controller

(Title)



(Date)



CITY CONTROLLER
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2019, with Heather Garay, City Controller; Robert Markovich, President of the Common Council; Phil Taillon, Chief of Staff; and Megan Flores, Budget and Reporting Administrator.

SANITARY DEPARTMENT
CITY OF HAMMOND

SANITARY DEPARTMENT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Reports B49726 and B51340, entitled *FINDING 2016-001 AND 2017-001*.

Condition and Context

There were several deficiencies in the internal control system of the Sanitary District related to financial transactions and reporting. The internal controls implemented by the Sanitary District related to receipts, disbursements, and financial reporting were not effective.

Receipts, Disbursements, and Financial Reporting - Sanitary District

The Sanitary District implemented internal controls over receipts, disbursements, and financial reporting; however, the controls were not effective and did not ensure that transactions were properly reported in the financial statement.

The receipts and disbursements of \$22,011,655 of bond proceeds for the 2018 special taxing district refunding bond issue were not reported in the regulatory financial statement of the Sanitary District funds. The activity was recorded in the Sanitary District's ledgers six months after receipt.

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

Disbursements - Sanitary District

The Payroll Manager was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. A verification or review process was not established to ensure that employees were paid from the correct fund and the correct rate. The Sanitary District instituted additional payroll processing procedures in 2019.

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. . . .

SANITARY DEPARTMENT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(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 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All documents and entries to records must be made 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)

APPROVAL AND ALLOWANCE OF DISBURSEMENTS

Condition and Context

Transfers between funds totaling \$15,228,581 were not included on an Accounts Payable Voucher Register that would have allowed the disbursements to be audited, certified by the fiscal officer, and allowed by the Board of Sanitary Commissioners as required by law.

Criteria

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

SANITARY DISTRICT of HAMMOND

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Board of Sanitary Commissioners

DEAN BUTTON, PE
MICHAEL DYE
PATRICK MOORE
SAM DIMOPOLOS
MICHAEL R. HAWKINS SR.



THOMAS MCDERMOTT, JR.
Mayor

MARTY WIELGOS
District Manager

RACHEL MONTES
Business Manager

JOSEPH P. ALLEGRETTI
Legal Counsel

September 26, 2019

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, 2018 – December 31, 2018)

Financial Transactions and Reporting

Examination Position

1. Receipts, Disbursements, and Financial Reporting – Sanitary District
 - a. The Sanitary District implemented internal controls over receipts, disbursements, and financial reporting; however, the controls were not effective and did not ensure that transactions were properly reported in the financial statement.
2. Disbursements – Sanitary District
 - a. The Payroll Clerk was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. A verification or review process to ensure that employees were paid from the correct fund and at the correct rate was not established. The Sanitary District instituted additional payroll processing procedures in 2019.

Response

1. Receipts, Disbursements, and Financial Reporting – Sanitary District
 - a. The receipts and disbursements of Refunding Bond Series 2018A were not reported on the regulatory financial statement of the Sanitary District funds due to the Sanitary District never having possession of the funds and following GASB Implementation Guide 2015-1 (2.15.3.). In the future, the Sanitary District will request a trustee statement and record all bond transactions properly on the regulatory financial statement of the Sanitary District funds.
2. Disbursements – Sanitary District
 - a. A second payroll clerk position was created and the payroll process has been modified as of May 2019. The Payroll Clerk enters all hours and rates into the accounting system. The Lead Payroll Clerk verifies all pay distribution to the proper funds and cost centers as reflected on the employee's timesheets compared to our accounting system's daily work window. The software does not contain a report that can print this information at this time. Once this review is completed, the Payroll Clerk proceeds with calculating checks and prints the edit register

report. The Lead Payroll Clerk then reviews the edit register report and timesheets for accuracy prior to the pay vouchers being printed and payroll upload being sent to the bank. Once the Payroll Clerk posts all payroll transactions, the Lead Payroll Clerk reviews the payroll summary and compares it to the check history register and the post checks to general ledger report from the accounting software for accuracy. The Lead Payroll Clerk then initials the payroll summary and turns it in to the Business Manager for final review and bank transfer. We are working on a method of verifying the payroll entries to the general ledger posted entries.

Approval and Allowance of Disbursements

Examination Position

1. Transfers between funds and two lease payments were not included on an Accounts Payable Voucher Register (Docket) that would have allowed the disbursements to be audited and certified by the fiscal officer and allowed by the Board of Sanitary Commissioners as required by law.

Response

1. Transfers between funds are approved by the Board of Sanitary Commissioners via resolutions and will now be included on the Accounts Payable Voucher Register (Docket) to allow the disbursements to be audited and certified by the fiscal officer and by the Board of Sanitary Commissioners as required by law.
The lease payments in the amount of \$1,150,000 were included on the Accounts Payable Voucher Register (Docket) and were audited and certified by the fiscal officer and by the Board of Sanitary Commissioners as required by law. The lease payments were transferred to the trustee account for payment of the associated bond. The Sanitary District will now include the bond payments made by the trustee on the Accounts Payable Voucher Register (Docket) to allow the disbursements to be audited and certified by the fiscal officer and by the Board of Sanitary Commissioners as required by law.



(Signature)

Rachel Montes, Business Manager
(Title)

September 26, 2019
(Date)



(Signature)

Marty Wielgos, District Manager
(Title)

September 26, 2019
(Date)

SANITARY DEPARTMENT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2019, with Heather Garay, City Controller; Robert Markovich, President of the Common Council; Phil Taillon, Chief of Staff; Marty J. Wielgos, Sanitary District Manager; Rachel Montes, Sanitary District Business Manager; and Michael Dye, Vice President of the Sanitary District.