

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, 2018 to December 31, 2018



FILED
10/28/2019

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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.	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Stanley J. Dostatni Heather Garay	01-01-18 to 02-04-18 02-05-18 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
Chief Executive Operator	Edward Krusa	01-01-18 to 12-31-19
Office Manager	Deborah Van Meter	01-01-18 to 12-31-19
President of the Waterworks Board of Directors	Sharon Daniels	01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE WATER UTILITY, CITY OF HAMMOND, LAKE COUNTY, INDIANA

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

WATER UTILITY
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Reports B49694 and B51342, entitled *FINDINGS 2016-001 AND 2017-001*.

Condition and Context

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 used an outside consultant to assist with the posting of the bonds payable transactions without a review process in place to ensure their accuracy.

The Utility prepared the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements prepared on the GAAP basis and the 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 Utility was required to perform an analysis of the future costs associated with Other Post-Employment Benefits (OPEB) as required in accordance with Governmental Accounting Standards Board Statement (GASB) 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

However, the amounts reported in the financial statements and the accompanying notes for OPEB were in accordance with GASB 45. We were unable to apply alternative procedures to satisfy ourselves as to whether or not a material change to the liability, deferred inflow of resources, deferred outflow of resources, or net position should have been included on the financial statements as well as the required note disclosures for OPEB.

2. The Statement of Net Position and Statement of Revenues, Expenses and Other Changes in Fund Net Position included the following errors:
 - a. Depreciation and Construction cash and cash equivalents of \$981,174 and \$4,115,022, respectively, were misclassified as current assets instead of noncurrent restricted assets on the Statement of Net Position.
 - b. Bonds payable and discount on bonds payable of \$6,827,500 were misclassified as current liabilities instead of noncurrent liabilities, to be reported as bonds payable (net on unamortized discounts) on the Statement of Net Position.
 - c. An analysis of the amount of accrued interest by year end was not considered. Based on the number of days remaining after the last bond payment, \$199,123 in accrued interest payable and the related interest expense was not reported on the Statement of Net Position and Statement of Revenues, Expenses and Other Changes in Fund Net Position, respectively.

WATER UTILITY
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

- d. The Invested in capital assets, net of related debt was overstated by \$7,162,500 on the Statement of Net Position due to the related debt not being considered. The Restricted for capital improvements was understated by \$5,096,196 for the reclassification of the non-current restricted assets. These two items resulted in the understatement of the unrestricted net position by \$2,066,304.
- e. The Statement of Revenues, Expenses and Other Changes in Fund Net Position overstated the Administrative and General - Miscellaneous expense and understated the Nonoperating expenses by \$257,617 for the bond issuance costs that were incorrectly posted and reported.
3. The Statement of Cash Flows excluded adjustments for the following items:
- a. The receipt and repayment of a \$600,000 temporary loan.
 - b. The \$257,617 payment of bond issuance costs as cash flow from capital and related financing activities.
4. The Notes to the Financial Statements required adjustments to accommodate the errors noted above for the reclassification of current assets to noncurrent assets, the long-term obligation disclosure as well as a note on the revenue bonds outstanding balance at year end, debt service requirements to maturity, and included in the Changed in Noncurrent Liabilities. A Revenues Pledged note disclosure was added to describe how the revenue has been pledged to repay the bonds.

Audit adjustments were proposed and accepted by the Utility to correct the Statement of Net Position, Statement of Revenues, Expenses and Other Changes in Fund Net Position, and the Statement of Cash Flows for all items except for #1 noted above.

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. . . .

WATER UTILITY
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. . . ."

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)

CUSTOMER CITIES WATER RATES

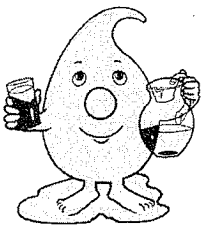
The Utility had water purchase agreements with eleven different communities. Five communities had rate increases after the original agreement date without documentation of Board approval or a new written purchase agreement provided for audit.

Indiana Code 8-1.5-3-8 states in part:

". . . (f) Rates and charges established under this section are subject to the approval of:

- (1) the municipal legislative body by ordinance; and
- (2) the commission, in accordance with the procedures set forth in [IC 8-1-2](#)."

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (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

MAYOR
Thomas M. McDermott, Jr.

CHIEF EXECUTIVE OPERATOR
Edward Krusa

ATTORNEY
Shana Levinson

OFFICIAL RESPONSE

Audit Year 2018

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

Contact Phone Number: 219-853-6424

We concur with findings that there was no documentation of board approval or a new written purchase agreement provided dated during the audit year 2018.

The Water Department did however have the original board approved purchase agreements. The original contracts clearly states that the Utility may not modify the Base Rate for a period of two (2) years from the effective date of the agreement. Thereafter the agreements states that the base rates may be modified at a rate that shall not exceed and amount equal to eighty-eight percent (88%) of the water rate in effect and being charged by the City of Chicago, IL.

The Water Department also provided the auditors with copies of the certified letters that were mailed to the five (5) communities that had rate increases during the 2018 audit period.

Going forward the Water Department will present to the Board of Directors for approval any and all water rate increases.

Anticipated Completion Date: September 20, 2019.

Deborah L. Van Meter

(Signature)

Office Manager

(Title)

Sept. 24, 2019

(Date)

SERVING GREATER HAMMOND WITH PURE FILTERED WATER



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WATER UTILITY
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2019, with Heather Garay, City Controller; Phil Taillon, Chief of Staff; Edward Krusa, Chief Executive Operator; Mark McLaughlin, Deputy Executive Operator; Michael Opinker, Waterworks Board of Directors member; Robert Markovich, President of the Common Council; Deborah Van Meter, Office Manager; and Shana D. Levinson, Attorney for the Water Utility.