

**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, 2019 to December 31, 2019



**FILED**  
11/06/2020



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Audit Result and Comment: Financial Transactions and Reporting .....	4-6
Official Response .....	7
Exit Conference.....	8

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay Megan Flores	01-01-19 to 01-19-20 01-20-20 to 12-31-20
Mayor	Thomas M. McDermott Jr.	01-01-19 to 12-31-20
President of the Board of Public Works and Safety	Heather Garay Kevin Margraf	01-01-19 to 01-19-20 01-20-20 to 12-31-20
President of the Common Council	Robert Markovich Dave Woerpel	01-01-19 to 12-31-19 01-01-20 to 12-31-20
Chief Executive Operator	Edward Krusa Mark McLaughlin	01-01-19 to 10-09-20 10-10-20 to 12-31-20
Office Manager	Deborah Van Meter	01-01-19 to 12-31-20
President of the Waterworks Board of Directors	Sharon Daniels	01-01-19 to 12-31-20



**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](http://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, 2019 to December 31, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Utility. It should be read in conjunction with our Financial Statements Audit Report of the Utility, which provides our opinions on the Utility's financial statement. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Result and Comment contained herein describes the identified reportable instance of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Result and Comment, incorporated within this report, was not verified for accuracy.

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

October 27, 2020

WATER UTILITY  
CITY OF HAMMOND  
AUDIT RESULT AND COMMENT

**FINANCIAL TRANSACTIONS AND REPORTING**

Similar comments also appeared in prior Reports B49694, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSCATIONS AND REPORTING*; B51342, entitled *FINANCIAL TRANSACTIONS AND REPORTING*; and B53598, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

There were deficiencies in the internal control system of the Utility related to financial transactions and reporting. There were no documented internal controls to ensure the accuracy of financial transactions and the internal controls related to financial reporting were not effective.

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 Utility personnel with the assistance of an outside consultant. Although the financial statements and notes had a documented review process in place, the following errors occurred and were not detected or corrected:

1. The Statement of Net Position and Statement of Revenues, Expenses and Other Changes in Fund Net Position included the following errors:
  - a. The Statement of Net Position understated the Deferred Outflows for Other Postemployment Benefits, as determined by the actuarial report, by \$822,977. The omission also overstated the Change in OPEB/Net Pension obligations expense on the Statement of Revenues, Expenses and Other Changes in Fund Net Position.
  - b. The Statement of Net Position overstated the Other Postemployment Benefits liability by \$810,108 for the prior period adjustment determined by the actuarial report for the implementation of Governmental Accounting Standards Board Statement (GASB) 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The omission also understated the Total Net Position - Beginning on the Statement of Revenues, Expenses and Other Changes in Fund Net Position.
  - c. Bond and Interest Sinking cash and cash equivalents of \$369,124 was misclassified and netted Bonds Payable on the Statement of Net Position.
  - d. Items a. and b. noted above understated Net Position by \$1,633,085.
2. The Statement of Cash Flows excluded adjustments to the following items:
  - a. Cash flows from operating activities: Payments for employee pension and benefits was overstated by \$941,975.
  - b. Cash flows from capital and related financing activities section was overstated by \$488,124.

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

- c. The adjustments to reconcile operating loss to net cash provided by operating activities section required adjustments totaling \$941,975.
  - d. Noncash investing, capital, and financing activities: transfer of completed construction in progress projects was understated by \$57,965.
3. The Notes to Financial Statements required adjustments to accommodate following errors:
- a. An Adoption of Governmental Accounting Standards Board (GASB) Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, disclosure was not presented as required.
  - b. A Restatement of Net Position note was not presented as required.
  - c. The Other Postemployment Benefits note was not updated in accordance with the requirements of GASB Statement 75.
  - d. The Revenue bond note was overstated by \$721,881 as it erroneously included principal and interest payments for 2019.
  - e. The Changes in Long-Term Liabilities note was overstated by \$312,567 and the totals of several columns were overstated due to a formula error in the spreadsheet.
  - f. The Subsequent Events note contained the prior year's disclosures.

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 Statement of Cash Flows for all items 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 RESULT AND COMMENT  
(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 must be made in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



# Hammond Water Works Department

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

## BOARD OF DIRECTORS

Sharon Daniels  
Bernard Grisolia  
Robert Lendi  
Paul Walker  
Philip Gavrilos

MAYOR  
Thomas M. McDermott, Jr.

CHIEF EXECUTIVE OPERATOR  
Mark McLaughlin

ATTORNEY  
Shana Levinson

## OFFICIAL RESPONSE

November 5, 2020

Indiana State Board of Accounts  
302 West Washington St. Room E418  
Indianapolis, IN 46204-2765

Audit Year 2019

We concur with the audit results and comments that were discussed during our annual audit. The Water Department makes every effort to improve internal controls and implement all suggestions made by State Board of Accounts.

The bond payable transactions came from the Amortize Bond Discount Schedule that was prepared by an outside consultant and approved by the Board. Going forward the entries will be presented first to the Chief Executive Operator then to the Board of Directors for final review and approval prior to posting.

Due to the completion date of our 2019 annual audit, transactions have already been posted to our current year. The transactions that were done in January and July of 2020 will be presented to the Board of Directors at the next meeting, for review and approval.

Anticipated Completion Date: November 12, 2020.

(Signature)

(Title)

(Date)

SERVING GREATER HAMMOND WITH PURE FILTERED WATER



PRINTED ON RECYCLED PAPER

WATER UTILITY  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2020, with Megan Flores, City Controller; Mark McLaughlin, Chief Executive Operator; Jaime Prieto, Deputy Executive Operator; Sharon Daniels, President of the Waterworks Board of Directors; Deborah Van Meter, Office Manager; and Shana D. Levinson, Attorney for the Water Utility.