

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

SANITARY DISTRICT
CITY OF HAMMOND
LAKE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
11/19/2020

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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
Sanitary District Manager	Marty J. Wielgos	01-01-19 to 12-31-20
Business Manager	Rachel Montes	01-01-19 to 12-31-20
President of the Sanitary District Board of Commissioners	Sam Dimopoulos	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SANITARY DISTRICT, CITY OF HAMMOND, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Sanitary District (District), City of Hammond, 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 District. It should be read in conjunction with our Financial Statements Audit Report of the District, which provides our opinions on the District's 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 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 29, 2020

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B49698, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*, and Reports B51313 and B53596, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were several deficiencies in the internal control system of the District related to financial transactions and reporting.

The District had not separated incompatible activities as follows:

A. The Business Manager was responsible for the preparation of the financial statements, notes to the financial statements, and the required supplementary information. After the financial statements were completed by the Business Manager, an outside consultant reviewed the financial statements, the notes to the financial statements, and the required supplementary information; however, there was not an effective documented review performed by the District for adjustments made by the Business Manager after the advice was received from the outside consultant.

B. An employee was responsible for calculating the amounts billed to certain customers. These billings were then reviewed by a second employee. However, implementation of the review process ensuring the accuracy, completeness, and timeliness of the calculations could not be verified.

Furthermore, transactions related to the posting of revenues occurred without a review process in place to ensure their accuracy.

C. After transfers were approved by the Sanitary District Board of Commissioners during the audit period, they were entered into the financial system by the Business Manager. A review or oversight process was not in place over the transfer entries to ensure the accuracy of the amounts transferred and the funds involved.

In addition, the District had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the District to monitor and assess the quality of the system of internal control.

The District prepared the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements prepared on the GAAP basis and accompanying notes to the financial statements were prepared by the Business Manager with the assistance of an outside consultant. These financial statements and notes to the financial statements lacked a documented review after changes recommended by the outside consultant were made. The following errors occurred and were not detected or corrected:

1. The Statement of Net Position: The Deferred Outflow and Inflow of Resources for Other Postemployment Benefits were each understated by \$1,998,669, and did not align with the Notes to the Financial Statements.
2. The Statement of Net Position: The Accounts Payable was overstated by \$2,012,361 due to the inclusion of Contracts/Retainage and Customer Deposits payables. The Contracts/Retainage and Customer Deposits payables are payable from restricted assets.

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULT AND COMMENT
(Continued)

3. The Statement of Revenues, Expenses, and Changes in Net Position erroneously classified \$785,607 of commercial revenues as residential.
4. The Notes to the Financial Statements included several corrections for amounts that did not align with the financial statements, or for language changes to reflect the activity of 2019.

Audit adjustments were proposed and accepted by the District to correct the financial statements and notes to 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. . . .

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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties. . . .

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. . . .

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. . . ."

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

OFFICIAL RESPONSE

October 30, 2020

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

Re: Sanitary District of the City of Hammond, Audit Result and Comment

FINANCIAL TRANSACTIONS AND REPORTING

The Sanitary District had not separated incompatible activities as follows:

- A. The Business Manager was responsible for the preparation of the financial statements, notes to the financial statements, and the required supplementary information. After the financial statements were completed by the Business Manager, an outside consultant reviewed the financial statements, the notes to the financial statements, and the required supplementary information; however, there was not an effective documented review performed by the Sanitary District for adjustments made by the Business Manager after the advice was received from the outside consultant.**

The Business Manager made the advised changes. The changes were documented by email correspondence between the Business Manager and the outside consultant. In future financial statements, notes to the financial statements, and the required supplementary information review, the Sanitary District will have an employee review and document a final review.

- B. An employee was responsible for calculating the amounts billed to certain customers. These billings were then reviewed by a second employee. However, implementation of the review process ensuring the accuracy, completeness, and timeliness of the calculations could not be verified.**

Furthermore, transactions related to the posting of revenues occurred without a review process in place to ensure their accuracy.

In 2020, the Sanitary District implemented a more thorough review for the calculation of the amounts billed to certain customers that includes documentation of the review.

- C. **After transfers were approved by the board during the audit period, they were entered into the financial system by the Business Manager. A review or oversight process was not in place over the transfer entries to ensure the accuracy of the amounts transferred and the funds involved.**

In 2020, the Sanitary District implemented a more thorough review of approved transfers that include signed authorization to initiate the review and a final review once the entries have been made in the accounting system.

The Sanitary District prepared the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements prepared on the GAAP basis and accompanying notes to the financial statements were prepared by the Business Manager with the assistance of an outside consultant. These financial statements and notes lacked a documented review after changes recommended by the outside consultant were made. The following errors occurred and were not detected or corrected:

1. **The Statement of Net Position: The Deferred Outflow and Inflow of Resources for Other Postemployment Benefits were each understated by \$1,998,669 and did not align with the Notes to the Financial Statements.**

The Business Manager will work with an outside consultant to ensure the correct amounts are reflected in the Financial Statements and align Notes to the Financial Statements and the actuary report.

2. **The Statement of Net Position: The Accounts Payable was overstated by \$2,012,361 due to the inclusion of Contracts/Retainage and Customer Deposits payables. The Contracts/Retainage and Customer Deposits payables are payable from restricted assets.**

The Business Manager will add an additional level of review to ensure that a classification error does not occur.

3. **The Statement of Revenues, Expenses, and Changes in Net Position erroneously classified \$785,607 of commercial revenues as residential.**

The Business Manager will add an additional level of review to ensure that a classification error does not occur.

4. **The Notes to the Financial Statements, included several corrections for amounts that did not align with the financial statements or for language changes to reflect the activity of 2019.**

The Business Manager will work with an outside consultant to ensure that the correct amounts and language is reflected in the Notes to the Financial Statements.



Marty Wielgos
District Manager



Rachel Montes
Business Manager

SANITARY DISTRICT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on October 29, 2020, with Megan Flores, City Controller; Marty J. Wielgos, Sanitary District Manager; Michael Dye, Vice President of the Sanitary District Board of Commissioners; Owana Miller, Sanitary District Commissioner; Heather Garay, Sanitary District Commissioner; Michael R. Hawkins Sr., Sanitary District Commissioner; and Rachel Montes, Business Manager.