

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
12/09/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
City Controller:	
Audit Results and Comments:	
Financial Transactions and Reporting	6-8
Capital Assets	8
Official Response.....	9-10
Exit Conference	11
Water Department:	
Audit Result and Comment:	
Financial Transactions and Reporting	14-16
Exit Conference	17

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Richard Murphy Yvonne Hoffmaster	01-01-19 to 12-31-19 01-01-20 to 12-31-20
Mayor	Ron Meer Duane Parry	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President of the Board of Public Works and Safety	Stephen Janus Keith Harris (Vacant)	01-01-18 to 12-31-19 01-01-20 to 11-21-20 11-22-20 to 12-31-20
President of the Common Council	Donald Przybylinski Sean Fitzpatrick	01-01-19 to 12-31-19 01-01-20 to 12-31-20
Superintendent of the Water Utility	Randall Russell	01-01-19 to 12-31-20
President of the Water Utility Board of Directors	L.J. Jordan, III (Vacant) Kenneth Behrendt	01-01-19 to 07-02-19 07-03-19 to 07-22-19 07-23-19 to 12-31-20
General Manager of the Sanitary District	Michael Kuss	01-01-19 to 12-31-20
President of the Sanitary District Board of Commissioners	Garry Mitchell	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

TO: THE OFFICIALS OF THE CITY OF MICHIGAN CITY, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Michigan City (City), 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 City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinions 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

December 2, 2020

(This page intentionally left blank.)

CITY CONTROLLER
CITY OF MICHIGAN CITY

CITY CONTROLLER
CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B53223, entitled *Finding 2018-001*.

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting. There was a lack of segregation of duties as the City had not separated incompatible activities related to cash and investments, financial reporting, and transfer receipts and disbursements.

Cash and Investments

City

The City had employees who were responsible for ensuring that their respective ledgers were reconciled with the bank depository balances. Effective internal controls were not in place to ensure that the depository reconcilements were performed accurately and timely. Reconcilements for 2019 were not all performed until February 2020.

Water Department

The Water Department had employees who were responsible for ensuring that their ledgers were reconciled with the bank depository balances. Effective internal controls were not in place to ensure that the depository reconcilements were performed accurately and timely. The Water Transfer Bank Account was not being reconciled timely and at December 31, 2019, there was an unidentified variance of \$4,221. Reconcilements for 2019 were not completed when we arrived in October 2020, nor when we completed the audit in November 2020.

Transfer Receipts and Disbursements

Internal controls were not designed and implemented properly over transfer receipts and disbursements. The following errors in transfers were not detected or corrected:

1. Transfers totaling \$2,243,289 were not certified by the fiscal officer or approved by the governing board either on an Accounts Payable Voucher (APV) or register of APVs.
2. Ordinance 4525, approved on August 20, 2019, authorized the transfer of funds (\$100,000) within the Riverboat Gaming fund, but funds were instead transferred to the General Fund.
3. Ordinance 4541, approved on December 17, 2019, authorized the transfer of funds within the Riverboat Gaming fund, but the funds were instead transferred to the General Fund (\$22,210) and the MC Promise Scholarship Fund (\$1,815).

Financial Reporting - City

Financial information for the Annual Financial Report (AFR) is submitted through the Indiana Gateway for Government Units financial reporting system. The AFR was the source for the City's financial statement. The City had designed internal controls over the financial transactions regarding the financial report; however, no documentation was provided to document that internal controls had been properly implemented. The lack of internal controls could have allowed errors on the financial statement to occur and not be detected.

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

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. . . ."

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."

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.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

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

- (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. . . ."

CAPITAL ASSETS

A similar comment appeared in a Management Letter addressed to the City Controller and City Council for the audit period ending December 31, 2018.

Condition and Context

The City does not maintain a complete detailed listing of capital assets. The provided asset list contained summary totals, including additions and deletions for the current period, but did not contain historical data on prior period assets. Prior period data was limited to summary totals with no acquisition dates, amounts, or specific items listed.

Additionally, the City did not comply with City Ordinance Number 3859, page 4, which states, a "physical inventory of all City assets will be conducted on an annual basis. Individual department heads will be required to verify the assets under their responsibility and certify the accuracy of the asset listing." The City had NOT completed annual inventories, nor required them of its department heads.

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)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

City of Michigan City



Office of City Controller ~ Yvonne Hoffmaster, City Controller ~ Phone: 219 873-1404 ext. 2004 ~ email: yvonneh@emichigancity.com

December 3, 2020

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2765

Re: **OFFICIAL RESPONSE**

This is the official response of the City of Michigan City to the audit results and comments contained in the City's audit report for the year 2019.

FINANCIAL TRANSACTIONS AND REPORTING

During 2019, the Controller's Office was still struggling with the conversion of the new financial system implemented in the fourth quarter of 2017. As the financial conversion carried into 2019, bank reconciliations were not completed timely as required. In February 2020, all City bank accounts had been reconciled through December 2019. Beginning in 2020, the 2nd Assistant Controller reconciles many of the City bank accounts through a module in the financial system and the remaining accounts are reconciled manually until they can be set up in the financial system. This allows for all the accounts to be reconciled in a timelier manner. Once the reconciliations are completed, the Assistant Controller reviews, initials, and dates them.

The Water Department also had an issue with an account that was not reconciled in a timely manner. This comment was about a single bank account that had been reconciled by an employee that no longer works at the Water Department. Another employee has now been assigned to reconcile this account and should be up to date by the end of 2020.

During 2019, transfers were not processed consistently. The process for recording transfers has been improved in 2020. All transfers are entered in the accounts payable system as an EFT. The accounts payable system has the approval process built in and will be included on the appropriate board docket. Transfers in and out are also reconciled quarterly by the Assistant Controller.

Also, during 2019, some Ordinances and/or Resolutions were not processed properly. Beginning in January 2020, all Transfer Ordinance/Resolutions and Additional Appropriation Ordinances will be processed according to standards set forth by the State Board of Accounts and the Department of Local Government Finance.

DUANE PARRY ~ MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Blvd, Michigan City IN 46360
WEB ~ emichigancity.com

City of Michigan City

The City's Annual Financial Report is submitted through the Gateway portal. As the City has designed internal controls over the financial transactions regarding the report, there was no formal documentation showing the internal controls and review of the Annual Financial Report. Beginning with the 2020 report, a process has been designed to record the review of the Annual Financial Report.

CAPITAL ASSETS

The original software used for the City's capital asset is no longer supported and the City is in the process of implementing the Capital Asset module of the new financial software. The process required a new inventory which has been contracted with Universal Valuations. The inventory was coming along smoothly until COVID hit in March of 2020. We currently have most of the buildings inventoried. Once the health emergency is over, the final building will be completed. After the report on the inventories is received, it will be uploaded to our software and the City will be updating the capital asset policy and develop a comprehensive Capital Asset Management Plan.

A totally virtual audit was challenging but as always, the audit team assigned to the City was professional, courteous and helpful.

Respectfully,



Yvonne Hoffmaster
City Controller

DUANE PARRY ~ MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Blvd, Michigan City IN 46360
WEB ~ emichigancity.com

CITY CONTROLLER
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on December 2, 2020, with Yvonne Hoffmaster, City Controller; Mary-Lynn Wall, Assistant Controller; Tamiko Smith, 2nd Assistant Controller; Duane Parry, Mayor; Dalia Zygas, Common Council member; James Meyer, Common Council Attorney; and Amber Lapaich-Stalbrink, Corporate City Council.

(This page intentionally left blank.)

WATER DEPARTMENT
CITY OF MICHIGAN CITY

WATER DEPARTMENT
CITY OF MICHIGAN CITY
AUDIT RESULT AND COMMENT

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B53223, entitled *Finding 2018-001*.

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting. There was a lack of segregation of duties as the City had not separated incompatible activities related to cash and investments, financial reporting, and transfer receipts and disbursements.

Cash and Investments

City

The City had employees who were responsible for ensuring that their respective ledgers were reconciled with the bank depository balances. Effective internal controls were not in place to ensure that the depository reconciliements were performed accurately and timely. Reconciliements for 2019 were not all performed until February 2020.

Water Department

The Water Department had employees who were responsible for ensuring that their ledgers were reconciled with the bank depository balances. Effective internal controls were not in place to ensure that the depository reconciliements were performed accurately and timely. The Water Transfer Bank Account was not being reconciled timely, and at December 31, 2019, there was an unidentified variance of \$4,221. Reconciliements for 2019 were not completed when we arrived in October 2020, nor when we completed the audit in November 2020.

Transfer Receipts and Disbursements

Internal controls were not designed and implemented properly over transfer receipts and disbursements. The following errors in transfers were not detected or corrected:

1. Transfers totaling \$2,243,289 were not certified by the fiscal officer or approved by the governing board either on an Accounts Payable Voucher (APV) or register of APVs.
2. Ordinance 4525, approved on August 20, 2019, authorized the transfer of funds (\$100,000) within the Riverboat Gaming fund, but funds were instead transferred to the General Fund.
3. Ordinance 4541, approved on December 17, 2019, authorized the transfer of funds within the Riverboat Gaming fund, but the funds were instead transferred to the General Fund (\$22,210) and the MC Promise Scholarship Fund (\$1,815).

Financial Reporting - City

Financial information for the Annual Financial Report (AFR) is submitted through the Indiana Gateway for Government Units financial reporting system. The AFR was the source for the City's financial statement. The City had designed controls over the financial transactions regarding the financial report; however, no documentation was provided to document that controls had been properly implemented. The lack of controls could have allowed errors on the financial statement to occur and not be detected.

WATER DEPARTMENT
CITY OF MICHIGAN CITY
AUDIT RESULT AND COMMENT
(Continued)

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. . . ."

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."

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.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

WATER DEPARTMENT
CITY OF MICHIGAN CITY
AUDIT RESULT AND COMMENT
(Continued)

- (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. . . ."

WATER DEPARTMENT
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on December 2, 2020, with Christopher Wolfe, Water Accountant; Randall Russell, Superintendent of the Water Utility; Christopher Johnsen, Assistant Superintendent of the Water Utility; and Kenneth Behrendt, President of the Water Utility Board of Directors.