

**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, 2020 to December 31, 2020



**FILED**

10/08/2021



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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Yvonne Hoffmaster	01-01-20 to 12-31-21
Mayor	Duane Parry	01-01-20 to 12-31-21
President of the Board of Public Works and Safety	Keith Harris (Vacant) Andrew White	01-01-20 to 11-21-20 11-22-20 to 12-06-20 12-07-20 to 12-31-21
President of the Common Council	Sean Fitzpatrick Michael Mack	01-01-20 to 12-31-20 01-01-21 to 12-31-21
Superintendent of the Water Utility	Randall Russell Christopher Johnsen	01-01-20 to 01-25-21 01-26-21 to 12-31-21
President of the Water Utility Board of Directors	Kenneth Behrendt	01-01-20 to 12-31-21
General Manager of the Sanitary District	Michael Kuss	01-01-20 to 12-31-21
President of the Sanitary District Board of Commissioners	Garry Mitchell Tim Smith	01-01-20 to 06-30-21 07-01-21 to 12-31-21



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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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, 2020 to December 31, 2020. 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/](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 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 22, 2021

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CITY CONTROLLER  
CITY OF MICHIGAN CITY

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

The same comment also appeared in prior Report B56134.

*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 and financial reporting.

*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 reconciliations were performed accurately and timely. Internal controls were implemented in December 2020.

*Financial Reporting*

Financial information for the Annual Financial Report (AFR) was 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 financial reporting; however, nothing was provided to document that internal controls had been properly implemented.

*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. . . ."

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

**CERTIFICATION BY FISCAL OFFICER**

*Condition and Context*

The City had a system of internal controls in place to ensure complete and accurate payments were entered into the financial system. However, the payments were not always certified by the fiscal officer as required by Indiana Code 5-11-10-1.6.

One way for the fiscal officer to certify all vendor and payroll payments is to prepare and complete an Accounts Payable Voucher Register (claim docket). The City prepared claim dockets; however, 19 of the 25 claim dockets tested were not certified by the fiscal officer as required.

In addition, two interfund transfers were not listed on a claim docket for certification by the fiscal officer or board approval.

*Criteria*

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:

- (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. . . ."

ACCOUNTS PAYABLE VOUCHER REGISTER (General Form No. 364)

This form shall be prepared by, or filed with, the Clerk-Treasurer or Controller of the municipality together with the supporting account payable vouchers and all such documents shall be carefully preserved by the disbursing officer as a part of the official records of the office. It will be optional with each Clerk-Treasurer or Controller and each governing board having jurisdiction over the allowance of accounts payable vouchers as to whether to sign each voucher or to sign only General Form No. 364, Accounts Payable Voucher Register. [IC 5-11-10-2] (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 6)

# City of Michigan City



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

September 23, 2021

Indiana State Board of Accounts  
302 W. Washington Street  
Indianapolis, IN 46204

This is the official response of the City of Michigan City to the comments contained in your audit report for the year 2020.

## DEFICIENCIES IN INTERNAL CONTROLS

### Cash and Investments – City

Your comment states that effective internal controls were not in place to ensure that the depository reconciliations were performed accurately and timely. The Controller's Office staff spent much of 2020 reevaluating our procedures and processes. When we were made aware of additional documentation was required on our reconciliations in November 2020, we corrected the issue beginning with December 2020 and have continued this practice moving forward.

### Financial Reporting

Your comment states the City had designed internal controls over financial reporting, however nothing was provided to document that controls had been properly implemented. There was documentation that the report had been reviewed but no documentation was recorded on who entered the information into Gateway. This will be corrected with the completion of the attached form noted as Exhibit A.

## CERTIFICATION BY FISCAL OFFICER

Your comment states that the payments were not always certified by the fiscal officer as required by IC 5-11-10-1.6. All dockets were signed by either the City Controller or the Deputy City Controller. We were not aware that the Deputy City Controller should not be signing these documents. This practice ceased immediately upon your notification and the City Controller will be the only signature on all future claim dockets.

We appreciate the opportunity to respond to your comments.

Sincerely,

A handwritten signature in cursive script that reads "Yvonne Hoffmaster".

Yvonne Hoffmaster  
City Controller

DUANE PARRY ~ MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Blvd, Michigan City IN 46360  
WEB ~ [emichigancity.com](http://emichigancity.com)

CITY CONTROLLER  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2021, with Yvonne Hoffmaster, City Controller; Duane Parry, Mayor; Andrew White, President of the Board of Public Works and Safety; Mary-Lynn Wall, Assistant City Controller; Tamiko Smith, 2nd Assistant City Controller; Angie Nelson Deutch, Vice President of the Common Council; Sean Fitzpatrick, Common Council member; Tracie Tillman, Common Council member; Michael Kuss, General Manager of the Sanitary District; Scott Kistler, Financial Manager of the Sanitary District; Jeff Wright, City Engineer; James Meyer, Board Attorney; Amber Lapaich-Stalbrink, Corporation Counsel; and Christopher Yagelski, Administrative Assistant to the Mayor.

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WATER DEPARTMENT  
CITY OF MICHIGAN CITY

WATER DEPARTMENT  
CITY OF MICHIGAN CITY  
AUDIT RESULT AND COMMENT

**FINANCIAL TRANSACTIONS**

A similar comment also appeared in prior Report B56134, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

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

*Cash and Investments*

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 reconciliations were performed accurately and timely. The Water Transfer Bank Account was not being reconciled timely as of December 31, 2020. Reconciliations for 2020 were not completed when the prior audit was completed in November 2020, but have been completed as of July 2021. However, there was no documentation of a review or oversight process for the Water Transfer Bank Account.

*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. . . ."

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."



# DEPARTMENT OF WATER WORKS

*Pure Filtered Water*

DISTRIBUTION CENTER  
701 GRAND STREET  
MICHIGAN CITY, INDIANA 46360  
219/874-6683  
FAX: 219/874-8064

MAIN OFFICE  
532 FRANKLIN SQUARE  
P.O. BOX 888  
MICHIGAN CITY, INDIANA 46361  
219/874-3228  
FAX: 219/874-1433

FILTRATION PLANT  
111 LAKE SHORE DRIVE  
MICHIGAN CITY, INDIANA 46360  
219/872-4430  
FAX: 219/873-9323

## OFFICIAL RESPONSE

October 6, 2021

State Board of Accounts  
302 West Washington Street, Room E 418  
Indianapolis, IN 46204-2765

RE: 2020 Audit – Finding 2020-001 – Financial Transactions

SENT VIA E-MAIL: [officialresponse@sboa.in.gov](mailto:officialresponse@sboa.in.gov)

To Whom It May Concern,

The Department of Water Works has reviewed the results of the audit of the year 2020 that was recently completed by the State Board of Accounts and presented during the Exit Conference of September 22, 2021. Per the Schedule of Findings, the auditors noted that the internal controls were not in place to ensure that the depository reconcilements were performed accurately and timely as of December 31, 2020 and that there was no documentation of a review or oversight process for the Water Transfer Bank Account.

Our Official Response with regard to this finding is that we agree with the repeat finding identified. A corrective action plan is to be submitted separate of this response.

Please let me know if you have any questions.

Sincerely,  
DEPARTMENT OF WATER WORKS

Christopher Johnsen  
Superintendent

Cc: Water Works Board of Directors  
Chris Wolfe  
Sara Prybylla, State Board of Accounts  
Yvonne Hoffmaster, City Controller

WATER DEPARTMENT  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2021, with Christopher Johnsen, Superintendent of the Water Utility; Kenneth Behrendt, President of the Water Utility Board of Directors; Davis Bush, Water Utility Board of Directors member; and Christopher Wolfe, Water Utility Accountant.