

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, 2021 to December 31, 2021



FILED

10/14/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Yvonne Hoffmaster	01-01-21 to 12-31-22
Mayor	Duane Parry	01-01-21 to 12-31-22
President of the Board of Public Works and Safety	Andrew White Virginia Keating	01-01-21 to 12-31-21 01-01-22 to 12-31-22
President of the Common Council	Michael Mack Angie Nelson Deutch	01-01-21 to 12-31-21 01-01-22 to 12-31-22
Superintendent of the Water Utility	Randall Russell Christopher Johnsen	01-01-21 to 01-25-21 01-26-21 to 12-31-22
President of the Water Utility Board of Directors	Kenneth Behrendt	01-01-21 to 12-31-22
General Manager of the Sanitary District	Michael Kuss Milorad Milatovic	01-01-21 to 01-29-22 01-30-22 to 12-31-22
President of the Sanitary District Board of Commissioner	Garry Mitchell Tim Smith	01-01-21 to 06-30-21 07-01-21 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2021 to December 31, 2021. 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

September 26, 2022

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WATER DEPARTMENT
CITY OF MICHIGAN CITY

WATER DEPARTMENT
CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting of the Water Department. There was a lack of segregation duties as the City had not separated incompatible activities related to receipts, disbursements, and financial reporting. The failure to establish these internal controls could enable material misstatements to be undetected.

The Water Department maintains a manual ledger. The accountant posts all receipt and disbursement transactions to the manual ledger. An oversight or review process has not been established to ensure that the receipt and disbursement transactions posted to the ledger were posted accurately and classified properly.

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. . . ."

CUSTOMER DEPOSIT REGISTER

Condition and Context

The Water Department requires a customer meter deposit on all accounts. The meter deposits are recorded in the Water Department Customer Deposit fund. A Guarantee Deposit Register was to be maintained for all meter deposits, less any refunds, by individual customer. The Guarantee Deposit Register shall be reconciled monthly with the cash balance in the Water Department Customer Deposit fund.

WATER DEPARTMENT
CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

However, this reconciliation was not performed, and the Water Department did not have adequate internal controls in place to ensure that the Guarantee Deposit Register agreed with the Water Department Customer Deposit fund cash and investment balance of \$698,540, on December 31, 2021.

A detailed Guarantee Deposit Register as of December 31, 2021, was not provided to verify the detail agreed to the cash balance in the Water Department Customer fund. The Water Department's Guarantee Deposit Register is time sensitive and cannot accurately be ran for a prior date. In addition, the Water Department had not monthly reconciled the Guarantee Deposit Register with the cash balance in the Water Department Customer Deposit fund cash balance as of June 2022.

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:

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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. . . ."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



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 5, 2022

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

Re: 2021 Audit – Finding 2021-001 – Financial Transactions

SENT VIA E-MAIL: officialresponse@sboa.in.gov

To Whom It May Concern,

The Department of Water Works has reviewed the results of the audit of the year 2021 that was recently completed by the State Board of Accounts and presented during the Exit Conference of September 26, 2022. Per the Schedule of Findings, the auditors noted that the internal controls were not in place to provide oversight or review to ensure that the receipt and disbursement transactions posted to the manual ledger were posted accurately and classified properly.

Our Official Response with regard to this finding is that we disagree with the necessity for this control. The annual audits by the SBoA of this decades-old process have never identified this control or concern, and, in fact, the audit showed that the data entered was accurate. The data is transcribed from several reports and checked for accuracy against a spreadsheet with the same data entry, which indicates that the requested control is nothing more than to verify that the Accountant is able to copy the information into the ledger. A benefit of the manual entry is that the Accountant is more likely to find an issue with the data in the reports he enters into the manual ledger than someone relying on an automated ledger through a computerized financial system, thus greatly increasing the accuracy of our data. Additionally, the task of verifying will add workload to a limited staff.

However, to satisfy the request, the Department has provided a corrective action plan to Controller Hoffmaster that was to be included with the City's response to the 2021 Federal Compliance report. A copy of which is attached to this letter.

Please let me know if you have any questions.

Sincerely,

Christopher Johnsen
Superintendent

Attachment

Cc: Water Works Board of Directors
Chris Wolfe, Accountant
Alison Foster, State Board of Accounts
Yvonne Hoffmaster, City Controller



DEPARTMENT OF WATER WORKS

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September 23, 2022

Ms. Yvonne Hoffmaster, Controller
City of Michigan City, Indiana
100 E Michigan Blvd.
Michigan City, IN 46360

RE: Corrective Action Plan for Exit Conference of 2021 Audit – Finding 2021-001

SENT VIA E-MAIL: yvonneh@emichigancity.com

Dear Yvonne,

The Department of Water Works has reviewed the results of the audit of the year 2021 that was recently completed by the State Board of Accounts and discussed during a virtual meeting held September 22, 2021, in preparation for the scheduled exit conference. The attendees of the meeting are copied.

Per the Schedule of Findings, the auditors noted that the internal controls were not in place to ensure that the receipt and disbursement transactions posted to the ledger were posted accurately and classified properly. The resolution discussed at the meeting is the following:

The Superintendent of the Department of Water Works will review the entries posted to the ledger by the Accountant of the Department of Water Works monthly after the financial report is prepared. The Superintendent will produce documentation of the review of all of the accounts in the ledger monthly. The documentation will be on file in the Department office.

The document to be used is attached to this letter. Please let me know if you have any questions.

Sincerely,

Christopher Johnsen
Superintendent

Attachments

Cc: Water Works Board of Directors
Chris Wolfe
Alison Foster, State Board of Accounts
Lori Adney, State Board of Accounts

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Department of Water Works Ledger Verification

Month:				Year:															
Account Name	Ledger No.	M a t c h	N o M a t c h	C o r r e c t e d	Account Name	Ledger No.	M a t c h	N o M a t c h	C o r r e c t e d	Account Name	Ledger No.	M a t c h	N o M a t c h	C o r r e c t e d	Account Name	Ledger No.	M a t c h	N o M a t c h	C o r r e c t e d
Utility plant in service	1101-00				Long term debt, 2015 bonds	2221-04				Interest income	4419-01				Miscellaneous expense	5675-03			
Construction work in progress	1105-00				Unamortized bond premium, 2014 bonds	2221-31				Metered sales, residential & commercial	4461-01				Salaries & wages	5601-05			
Reserve for depreciation	1108-00				Unamortized bond premium, 2015 bonds	2221-41				Metered sales, industrial & governmental	4461-03				Salaries & wages	5601-06			
Redemption fund	1125-01				Accounts payable	2231-00				Public fire protection	4462-01				Purchased power	5615-05			
Debt service reserve	1125-09				Accounts payable, SD	2231-01				Private fire protection	4462-02				Materials & supplies	5620-06			
Improvement fund	1126-01				Payroll clearing	2232-00				Sales for resale	4466-00				Contracted services, other	5636-05			
Improvement fund, bond projects	1126-02				Payroll tax clearing, federal	2232-01				Penalties	4470-00				Transportation expense	5650-06			
Payroll account	1131-01				Payroll tax clearing, state	2232-02				Service charges	4471-00				Miscellaneous expense	5675-05			
Customer deposits	1131-03				Payroll tax clearing, other	2232-03				Other water revenue	4474-00				Salaries & wages	5601-07			
Disbursement fund	1131-04				Payment in lieu of taxes payable	2233-00				Depreciation expense	5403-00				Materials & supplies	5620-07			
Operating fund	1131-08				Customer deposits	2235-00				Payment in lieu of tax expense	5408-11				Contracted services, other	5636-07			
Transfer fund	1131-0D				Accrued tax, FICA	2236-02				Payroll tax expense	5408-12				Bad debt expense	5670-07			
Tax deposit fund	1131-0T				Accrued utility receipts tax	2236-03				Utility receipts tax	5408-14				Miscellaneous expense	5675-07			
Tank painting fund	1132-01				Accrued interest, 2014 bonds	2237-16				Interest on long term debt, 2014 bonds	5427-34				Salaries & wages	5601-08			
Intake cleaning fund	1132-02				Accrued interest, 2015 bonds	2237-17				Interest on long term debt, 2015 bonds	5427-35				Salaries & wages, officers	5603-08			
Payment in lieu of taxes fund	1133-00				Sale & use tax payable	2241-03				Amortization expense	5428-03				Employee benefits	5604-08			
Accounts receivable	1141-00				Miscellaneous liabilities	2242-04				Salaries & wages	5601-01				Purchased power	5615-08			
Accounts receivable, other	1142-02				PREPAYMENTS	2242-06				Salaries & wages	5601-02				Materials & supplies	5620-08			
Reserve for doubtful accounts	1143-00				ADVANCES FOR CONSTRUCTION	2252-00				Purchased power	5615-01				Contracted services, engineering	5631-08			
Stock, mains	1151-01				Unappropriated retained earnings	3215-00				Materials & supplies	5620-02				Contracted services, accounting	5632-08			
Stock, meters	1151-02				Current year P&L	3215-01				Contracted services, other	5636-02				Contracted services, legal	5633-08			
Stock, services & hydrants	1151-03				Proprietary capital	3218-00				Miscellaneous expense	5675-01				Contracted services, mgmt. fees	5634-08			
Stock, chemicals	1151-04				Contributions for construction	3271-00				Salaries & wages	5601-03				Contracted services, other	5636-08			
Prepaid insurance	1162-00				Contributions for construction, PP	3271-01				Salaries & wages	5601-04				Insurance, vehicles	5656-08			
Unamortized deferred amount, 2014 bonds	1181-03				Equity	3303-00				Purchased power	5615-03				Insurance, property	5657-08			
Unamortized bond costs, prepaid surety	1181-04				BUDGET CONTROL	3400-00				Chemical expense	5618-03				Insurance, workers comp	5658-08			
Unamortized bond costs, prepaid insurance	1181-05				ENCUMBRANCE CONTROL	3500-00				Lab supplies	5620-03				Insurance, liability	5659-08			
ACCOUNTS RECEIVABLE	1200-00				ENCUMBRANCE RESERVE	3550-00				Materials & supplies	5620-04				Miscellaneous expense	5675-08			
ACCOUNTS PAYABLE	2202-00				GENERAL JOURNAL SUSPENSE	3600-00				Contracted services, tests	5635-03				Promotional expense	5676-08			
Long term debt, 2014 bonds	2221-03				GENERAL JOURNAL REV/EXP CONTROL	3700-00				Contracted services, other	5636-03								

I have reviewed the postings in the ledger for the listed accounts for the referenced month and year. Unless otherwise noted, I have found the entries to be in order.

Signature _____

Date _____

WATER DEPARTMENT
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on September 26, 2022, with Duane Parry, Mayor; Christopher Johnsen, Superintendent of the Water Utility; Kenneth Behrendt, President of the Water Utility Board of Directors; and Christopher Wolfe, Water Utility Accountant.

The contents of this report were also discussed on September 26, 2022, with Yvonne Hoffmaster, City Controller; Duane Parry, Mayor; Mary-Lynn Wall, Assistant City Controller; Tamiko Smith, 2nd Assistant City Controller; Angie Nelson Deutch, President of the Common Council; Tracie Tillman, Common Council member; Milorad Milatovic, General Manager of the Sanitary District; Scott Kistler, Financial Manager of the Sanitary District; Amber Lapaich-Stalbrink, Corporation Counsel; and Christopher Yagelski, Administrative Assistant to the Mayor.