

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF VALPARASIO

PORTER COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
04/21/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Result and Comment:	
Annual Financial Report.....	6
Official Response.....	7
Exit Conference	8
Planning Department:	
Federal Finding:	
Finding No. 2014-002 - Internal Control Over Federal Transit Formula Grants	10
Corrective Action Plan	11-13
Exit Conference	14
Parks Department:	
Federal Finding:	
Finding 2014-001 - Financial Transactions and Reporting	16
Corrective Action Plan.....	17
Audit Result and Comment:	
Annual Financial Report	18
Official Response.....	19
Exit Conference	20
Police Pension:	
Audit Results and Comments:	
Official Bond.....	22
Police Pension Board.....	22
Exit Conference	23
Valparaiso City Utilities:	
Audit Result and Comment:	
Annual Financial Report.....	26
Official Response.....	27
Exit Conference	28

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Emerson Swihart	01-01-12 to 12-31-19
Mayor	Jon Costas	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Jon Costas	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Jan Dick John Bowker	01-01-14 to 12-31-15 01-01-16 to 12-31-16
City Administrator	Bill Oeding	01-01-14 to 12-31-16
Director of Utilities	Steve Poulos	01-01-14 to 12-31-16
Controller of Utilities	Alina Hahn	01-01-14 to 12-31-16



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 VALPARASIO, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the City of Valparaiso (City), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

January 20, 2016

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CLERK-TREASURER
CITY OF VALPARASIO

CLERK-TREASURER
CITY OF VALPARASIO
AUDIT RESULT AND COMMENT

ANNUAL FINANCIAL REPORT

The 2014 Annual Financial Report did not accurately report or include all capital assets of the City. The capital asset schedule failed to include the 2014 capital asset additions for the City. The City reported the net book value of the Parks Department capital assets instead of the acquisition cost. In addition, the cost of land of the Storm Water Department was reported twice; as Governmental Activities and as Storm Water. The reporting errors resulted in the schedule being understated by \$11,565,756.

Furthermore, the reported classifications for the Water Reclamation and Water Utilities did not agree to the detail capital asset ledger.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

OFFICIAL RESPONSE

January 26, 2016

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2768

RE: 2014 City of Valparaiso Audit Results and Comments

"ANNUAL REPORT The City reported the net book value of the Park Department capital assets instead of the acquisition cost."

The Valparaiso Parks Department is in the process currently of making adjustments to its capital asset records, reviewing each record and recording them by location as well as category by cost of acquisition. This should bring the Park's capital asset figures in line for the 2015 Annual Report on the Gateway.

Respectfully,



Sharon Emerson Swihart
Clerk-Treasurer
City of Valparaiso



John Seibert
Director of Parks and Recreation
City of Valparaiso

Our City...Our Values

Honestly Accountable Surprisingly Responsive Boldly Proactive Creatively Frugal Respectfully Compassionate

CLERK-TREASURER
CITY OF VALPARASIO
EXIT CONFERENCE

The contents of this report were discussed on January 20, 2016, with Sharon Emerson Swihart, Clerk-Treasurer; Jon Costas, Mayor; and John Bowker, President Pro Tempore of the Common Council.

PLANNING DEPARTMENT
CITY OF VALPARASIO

PLANNING DEPARTMENT
CITY OF VALPARASIO
FEDERAL FINDING

FINDING 2014-002 - INTERNAL CONTROL OVER FEDERAL TRANSIT FORMULA GRANTS

Federal Agency: Department of Transportation
Federal Program: Federal Transit-Formula Grants
CFDA Number: 20.507
Federal Award Numbers: IN-90-X636, IN-90-X609, IN-90-X653, IN-95-X035
Pass-Through Entity: Northwestern Indiana Regional Planning Commission

The City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management, Matching and Reporting compliance requirements. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The City has not designed or implemented adequate policies or procedures to ensure that requests for reimbursement, matching percentage calculations, or required reports were accurately prepared. One person was responsible for preparing and submitting all requests for reimbursements and reports

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: Taylor Wegrzyn, Assistant Planner
Contact Phone Number: (219) 462-1161

Description of Corrective Action Plan:

The City of Valparaiso participates in Federal Transportation Administration programs. As such, it is the City's responsibility to maintain internal control over these Federal programs. Currently, one City employee is responsible for preparing and submitting all requests for reimbursements and reports. The City will take the actions stated in this plan in order to correct these internal control deficiencies.

In order to obtain proper internal control, the City shall implement these additional oversight measures:

- 1. Compliance with the City of Valparaiso Grant Policy**
 - A. *Prior to and while requesting Federal and State grant reimbursements, the Assistant Planner will work according to the City of Valparaiso's Federal and State Grant Policy approved by the Board of Public Works and Safety, Resolution NO. 1, 2015. The Assistant Planner will comply with all components of the policy to ensure proper authorization for the requests is obtained and to inform the Clerk-Treasurer's Office of all requirements associated with each grant.*
- 2. Preparation of Requests for Reimbursement:**
 - A. *Quarterly/Annual Reimbursements: Upon the end of a fiscal quarter or year, the Assistant Planner shall prepare requests for transit reimbursements along with any additional reports required by the FTA, DOT, INDOT, The City of Valparaiso, NIRPC, or associated grant recipients.*
 - B. *Other Reimbursements: Requests for reimbursements which are not required to be submitted at quarterly or annual intervals shall be prepared by the Assistant Planner as necessary. The requests shall include any additional reports required by the FTA, DOT, INDOT, the City of Valparaiso, NIRPC, or any associated grant recipients.*
- 3. Review of Requests for Reimbursement:**
 - a. *Delivery: Any requests for transit reimbursements will be delivered to the Planning Director in full for their review. The requests along with any associated reports will be delivered to the Planning Director on a timely*

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basis allowing for their review prior to any required reporting/reimbursement deadlines.

- b. Review: The Planning Director, working with the Clerk-Treasurer's Office, will review said documents for compliance requirements within the federal program and the City's Grant Policy.*
- c. Approval: If the requests for reimbursement are found to be in compliance, the Planning Director will sign all requests for reimbursement with his/her initials.*
- d. Disapproval: If the Director finds the requests for reimbursement to be noncompliant, he/she will return the requests to the Assistant Planner for correction.*
- e. Continued Disapproval: If the Planning Director finds that the requests for reimbursement have been intentionally misused or the Assistant Planner has continually failed to correct requests, the Planning Director will relieve the Assistant Planner of the requests and undertake the duty of preparing the requests. The Planning Director will submit the revised requests for reimbursement to the Clerk-Treasurer's Office for their approval. The Deputy Clerk-Treasurer will review the requests for compliance and initial the requests should they approve.*

4. Submittals:

- a. Upon approval and signature by the Planning Director, the Assistant Planner will submit all requests for reimbursement to the applicable parties. The Planning Director will be copied on all electronic mail submittals. For in-print submittals, the Assistant Planner will submit only copies containing the Planning Director's original signatures.*

5. Receiving of Funds:

- a. When funds are received from the awarding agency, the Clerk-Treasurer's Office will record the amount received in the fund records and ensure that the funds received are consistent with the requests for reimbursement approved by the Planning Director.*

Anticipated Completion Date: Effective Immediately (January 13, 2015)

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(Signature)

Assistant Planner
(Title)

1/26/16
(Date)

PLANNING DEPARTMENT
CITY OF VALPARASIO
EXIT CONFERENCE

The contents of this report were discussed on January 20, 2016, with Sharon Emerson Swihart, Clerk-Treasurer; Jon Costas, Mayor; and John Bowker, President Pro Tempore of the Common Council.

The contents of this report were discussed on January 26, 2016, with Tyler Kent, Planning Director, and Taylor Wegrzyn, Assistant Planner.

PARKS DEPARTMENT
CITY OF VALPARASIO

PARKS DEPARTMENT
CITY OF VALPARASIO
FEDERAL FINDING

FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the City related to financial transactions and reporting. The City has not separated incompatible activities related to receipts and cash and investment balances.

The Parks Department processes approximately \$850,000 annually in credit card payments. The Bookkeeper at the Parks Department reconciles the credit card bank account without an oversight, review, or approval process. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



3210 N. Campbell • Valparaiso, IN 46385 • 219-462-5144 phone • 219-465-0098 fax • www.ValpoParks.org

FINDING 2014-01

Contact Person Responsible for Corrective Action: Brenda Piper – Bookkeeper
Contact Phone Number: 219-462-5144

Description of Corrective Action Plan: Reconciliation of the credit card bank account will be reconciled by the Bookkeeper each month. The Assistant Bookkeeper will review and indicate, with a check mark and initial that she concurs that the credit card bank statement balances.

Anticipated Completion Date: January 15, 2016



(Signature)

Director of Parks

(Title)

1/20/16

(Date)

PARKS DEPARTMENT
CITY OF VALPARASIO
AUDIT RESULT AND COMMENT

ANNUAL FINANCIAL REPORT

The 2014 Annual Financial Report did not accurately report or include all capital assets of the City. The City reported the net book value of the Parks Department capital assets instead of the acquisition cost.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

OFFICIAL RESPONSE

January 26, 2016

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2768

RE: 2014 City of Valparaiso Audit Results and Comments

"ANNUAL REPORT The City reported the net book value of the Park Department capital assets instead of the acquisition cost."

The Valparaiso Parks Department is in the process currently of making adjustments to its capital asset records, reviewing each record and recording them by location as well as category by cost of acquisition. This should bring the Park's capital asset figures in line for the 2015 Annual Report on the Gateway.

Respectfully,



Sharon Emerson Swihart
Clerk-Treasurer
City of Valparaiso



John Seibert
Director of Parks and Recreation
City of Valparaiso

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PARKS DEPARTMENT
CITY OF VALPARASIO
EXIT CONFERENCE

The contents of this report were discussed on January 20, 2016, with Sharon Emerson Swihart, Clerk-Treasurer; Jon Costas, Mayor; John Bowker, President Pro Tempore of the Common Council; John Seibert, Park Director; and Brenda Piper, Park Bookkeeper.

POLICE PENSION
CITY OF VALPARASIO

POLICE PENSION
CITY OF VALPARASIO
AUDIT RESULTS AND COMMENTS

OFFICIAL BOND

The \$8,500 official bond for the police pension secretary was insufficient per the Indiana Code.

Indiana Code 36-8-6-3(e) for the 1925 Police Pension Fund states in part: "The secretary shall, in a manner prescribed by IC 5-4-1, execute a bond conditioned upon the faithful discharge of the secretary's duties."

Indiana Code 5-4-1-18(c) states in part:

"Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee. County auditors shall file bonds in amounts of not less than thirty thousand dollars (\$30,000), as fixed by the fiscal body of the county. The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000)."

POLICE PENSION BOARD

The Police Pension Board did not meet as required by state statute nor were the actions of the Board conducted at public meetings memorialized in minutes.

Indiana Code 36-8-6-2(c) states:

"The trustees under subsections (b)(2) and (b)(3) shall be elected at a meeting of the members of the police department at the central police station on the second Monday in February of each year. The trustees are elected for terms of three (3) years, succeeding those trustees whose terms of office expire on that date. The trustees hold their offices until their successors are elected and qualified."

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5."

POLICE PENSION
CITY OF VALPARASIO
EXIT CONFERENCE

The contents of this report were discussed on January 20, 2016, with Sharon Emerson Swihart, Clerk-Treasurer; Jon Costas, Mayor; John Bowker, President Pro Tempore of the Common Council; and Jeff Balon, Police Pension Secretary.

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VALPARAISO CITY UTILITIES
CITY OF VALPARASIO

VALPARAISO CITY UTILITIES
CITY OF VALPARASIO
AUDIT RESULT AND COMMENT

ANNUAL FINANCIAL REPORT

The 2014 Annual Financial Report did not accurately report or include all capital assets of the City. The reported classifications for the Water Reclamation and Water Utilities did not agree to the detail capital asset ledger.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."



Valparaiso City Utilities

205 Billings Street
Valparaiso, Indiana 46383-3699

"Water is our Most Valuable Natural Resource"

January 25, 2016

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2769

RE: 2014 City of Valparaiso Audit Result and VCU Comment

"Futhermore, the reported classifications for the Water Reclamation and Water Utilities did not agree to the detail capital asset ledger."

Valparaiso City Utilities (VCU) is making adjustments to the Schedule 9 of capital assets that are included within the VCU financial statements. These changes will include additional categories that will align with what is reported in the City's Annual Financial Report on Gateway. These changes will be reflected in the 2015 financial statements.

Respectfully submitted,

Alina Hahn
Financial Controller
Valparaiso City Utilities

Sharon Swihart
Clerk-Treasurer
City of Valparaiso

Phone: (219) 462-6174 x1323 Fax: (219) 477-4254 E-Mail: ahahn@valpo.us

Water Department

Visit our website at www.valparaisoutilities.org

VALPARAISO CITY UTILITIES
CITY OF VALPARASIO
EXIT CONFERENCE

The contents of this report were discussed on January 20, 2016, with Sharon Emerson Swihart, Clerk-Treasurer; Jon Costas, Mayor; John Bowker, President Pro Tempore of the Common Council; Steve Poulos, Director of Utilities; Alina Hahn, Controller of Utilities; and David Bengs, President of the Utilities Board.