

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF VALPARAISO UTILITIES

PORTER COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
04/21/2016

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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
President of the Utilities Board	David Bengs	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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TO: THE OFFICIALS OF THE CITY OF VALPARAISO UTILITIES, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the City of Valparaiso Utilities (Utilities), 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 Audit Results and Comments that pertain to the Utilities. 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/.

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

January 20, 2016

CITY OF VALPARAISO UTILITIES
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Utility's audited financial statements and then determining how those identified risks should be managed. The Utility had not identified risks to the preparation of reliable financial statements and as a result failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements. In addition, management of the Utility had not established a process for final review of the financial statements after compilation.

The Utility Controller was responsible for preparing the financial statements. The financial statements required the following adjustments:

1. An asset financed by a capital lease and the associated lease payable were not included in the financial statements totaling \$735,000 each for the Water Utility and Water Reclamation Utility.
2. Capital asset balances were adjusted based upon an evaluation. The differences between the net deletions to capital assets and accumulated depreciation for the Water and Water Reclamation Utilities were not recorded to the Statement of Net Position. Instead, the differences were recorded to accumulated depreciation totaling \$54,732 and \$56,668, respectively.
3. Contributions of Water Reclamation infrastructure for prior periods were not included in the capital assets and a prior period adjustment was not completed totaling \$578,814.
4. A Note Receivable and Deferred Inflow were not included in the Water Reclamation financial statements totaling \$117,500 for a Memorandum of Understanding for the dedication of a right-of-way with a homeowner's association.

Audit adjustments were proposed, accepted by the Controller of Utilities, and made to the financial statements. These adjustments resulted in a presentation of the financial statements that is materially correct.

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)

CITY OF VALPARAISO UTILITIES
AUDIT RESULTS AND COMMENTS
(Continued)

OFFICIAL BOND

1. The Director of Utilities did not obtain an individual surety bond as required.
2. The bonds obtained for the Board members were insufficient per the Indiana Code. The bond should have been for \$15,000 and the latest bond recorded was for \$14,375 for each Board member.
3. The employee dishonesty insurance certificate was not filed in the Office of the County Recorder.

Indiana Code 8-1.5-3-5(c) states:

"The superintendent shall give bond in the sum not less than double the estimated amount of money that may be in his hands at any time. The bond shall be conditioned upon the faithful discharge of his duties and the payment to the proper person of all money in his hands. The bond is subject to the approval of the executive of the municipality."

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

". . . the following city, town, county, or township officers and employees shall file an individual surety bond: . . .

5. Those employees directed to file an individual bond by the fiscal body of a city, town, or county. . . ."

Indiana Code 5-4-1-18(c)(2) states in part:

"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)."

Indiana Code 5-4-1-5.1(b) states in part:

"Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder in the county of residence of the officer, official, deputy, or employee."



Valparaiso City Utilities

205 Billings Street
Valparaiso, Indiana 46383-3699

"Water is our Most Valuable Natural Resource"

January 22, 2016

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

Re: 2014 Audit Results and Comments

"The Utility Controller is responsible for preparing the financial statements. The financial statements required the following adjustments:

- 1. An asset financed by a capital lease and the associated lease payable were not included in the financial statements totaling \$735,000 each for the Water Utility and Water Reclamation Utility.***
- 2. Capital asset balances were adjusted based upon an evaluation. The differences between the net deletions to capital assets and accumulated depreciation for the Water and Water Reclamation Utilities were not recorded to Net Position. Instead the differences were recorded to accumulated depreciation totaling \$54,732 and \$56,668, respectively.***
- 3. Contributions of Water Reclamation infrastructure for prior periods were not included in the capital assets and a prior period adjustment was not completed totaling \$578,814.***
- 4. A Note Receivable and Deferred Inflow were not included in the Water Reclamation financial statement totaling \$117,500 for a Memorandum of Understanding for the dedication of a right-of-way with a homeowner's association."***

Typically, common practice was to request guidance from the SBOA auditors when transactions of this sort have occurred. Items 1, 3 and 4 listed above in the internal controls comment section were brought to the attention of the field auditors prior to the audit. Valparaiso City Utilities (VCU) will proceed to record any future unique transactions as accounting methods may dictate and will make any recommended adjustments upon the results of the audit.

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Water Department

Visit our website at www.valparaisoutilities.org



Valparaiso City Utilities

205 Billings Street
Valparaiso, Indiana 46383-3699

"Water is our Most Valuable Natural Resource"

"Official Bond

- 1) *The director did not obtain an individual surety bond as required by law.*
- 2) *The bonds obtained for the board members were insufficient per the Indiana Code. The bond should have been for \$15,000 and the latest bond recorded was for \$14,375 for each board member.*
- 3) *The employee dishonesty insurance certificate was not filed in the Office of the County Recorder."*

Bond applications have been filed for the Utilities Director and the VCU Board of Directors for the appropriate amounts. VCU attempted to file the blanket bond with the Porter County Recorder's office however the County would not accept the blanket bond that was provided by the insurance carrier. In an attempt to alleviate confusion, VCU is working with our insurance carrier to modify the blanket bond in a similar format as the individual bonds in order to make them acceptable to the County. Once the applications have been processed, VCU will file and record these documents.

Respectfully submitted,

Alina Hahn

Valparaiso City Utilities Controller

CITY OF VALPARAISO UTILITIES
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; David Bengs, President of the Utilities Board; Steve Poulos, Director of Utilities; and Alina Hahn, Controller of Utilities.