

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF VALPARAISO

PORTER COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED
08/15/2023

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|---------------------------------|--|
| Clerk-Treasurer | Holly Taylor | 01-01-22 to 12-31-23 |
| Mayor | Matthew Murphy | 01-01-22 to 12-31-23 |
| President of the Board of Public Works and Safety | Matthew Murphy | 01-01-22 to 12-31-23 |
| President Pro Tempore of the Common Council | George Douglas Casey Schmidt | 01-01-22 to 04-10-22 04-11-22 to 12-31-23 |
| City Administrator | Mike Jessen Bill Oeding | 01-01-22 to 04-30-23 05-01-23 to 12-31-23 |
| Executive Director of Utilities | Steve Poulos | 01-01-22 to 12-31-23 |
| Utilities Chief Financial Officer | Alina Hahn | 01-01-22 to 12-31-23 |



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE CITY OF VALPARAISO, PORTER COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of Valparaiso (City), for the year ended December 31, 2022, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated July 25, 2023, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001.

City of Valparaiso's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

July 25, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF THE CITY OF VALPARAISO, PORTER COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Valparaiso's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2022. The City's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material non-compliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the City, as of and for the year ended December 31, 2022, and the related notes to the financial statement. We issued our report thereon dated July 25, 2023, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

July 25, 2023

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

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CITY OF VALPARAISO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2022

| Federal Grantor Agency Cluster Title/Program Title/Project Title | Pass-Through Entity or Direct Grant | Assistance Listings Number | Pass-Through Entity (or Other) Identifying Number | Passed Through to Subrecipient | Total Federal Awards Expended |
|---|---|----------------------------------|--|-----------------------------------|-------------------------------------|
| <u>Department of Transportation</u> | | | | | |
| Highway Planning and Construction Cluster | | | | | |
| Highway Planning and Construction | Indiana Department of Transportation | 20.205 | | | |
| SILHAVY/LAPORTE TO EVANS | | | 0900075 | \$ - | \$ 294,558 |
| US 30 CORRIDOR IMPROVEMENTS | | | 1298670 | - | 463,038 |
| Lincolnway/Campbell Roundabout | | | 1902686 | - | 13,548 |
| SR130 @ 400N | | | 2101133 | - | 28,619 |
| DOWNTOWN TO TOD PATHWAY | | | 2101141 | - | 51,843 |
| | | | | <u>-</u> | <u>851,606</u> |
| Total - Highway Planning and Construction Cluster | | | | - | 851,606 |
| <u>Federal Transit Cluster</u> | | | | | |
| Federal Transit Formula Grants | Northwestern Indiana Regional Planning Commission | 20.507 | | | |
| CHICAGO DASH | | | IN-2017-027 | - | 182,313 |
| V-LINE | | | IN-2018-026 | - | 46,282 |
| CHICAGO DASH | | | IN-2018-026 | - | 26,482 |
| DASH SS CONNECT | | | IN-2019-029 | - | 192,078 |
| DASH SS CONNECT | | | IN-2019-029 | - | 7,592 |
| SOOFA SIGNS | | | IN-2019-030 | - | 61,949 |
| V-LINE | | | IN-2019-030 | - | 197,959 |
| TOD PARKING LOT LIGHTING PROJECT | | | IN-2019-033 | - | 95,721 |
| | | | | <u>-</u> | <u>810,376</u> |
| Total - Federal Transit Cluster | | | | - | 810,376 |
| Total - Department of Transportation | | | | <u>-</u> | <u>1,661,982</u> |
| <u>Department of the Treasury</u> | | | | | |
| COVID-19 - Coronavirus State and Local Fiscal Recovery Funds | Direct Grant | 21.027 | | | |
| ARPA Grant Fund 2401 | | | ARP Act | - | 5,828,239 |
| | | | | <u>-</u> | <u>5,828,239</u> |
| Total - Department of the Treasury | | | | - | 5,828,239 |
| <u>Department of Homeland Security</u> | | | | | |
| Staffing For Adequate Fire And Emergency Response (SAFER) | Direct Grant | 97.083 | | | |
| SAFER GRANT | | | EMW-2019-FF-00895 | - | 332,122 |
| | | | | <u>-</u> | <u>332,122</u> |
| Total - Department of Homeland Security | | | | - | 332,122 |
| Total federal awards expended | | | | <u>\$ -</u> | <u>\$ 7,822,343</u> |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF VALPARAISO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

| | |
|--|---|
| Type of auditor's report issued: | Adverse as to GAAP; Unmodified as to Regulatory Basis |
| Internal control over financial reporting: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Noncompliance material to financial statement noted? | yes |

Federal Awards:

| | |
|--|---------------|
| Internal control over major program: | |
| Material weaknesses identified? | no |
| Significant deficiencies identified? | none reported |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | no |

Identification of Major Program and type of auditor's report issued on compliance for it:

| Assistance Listings Number | Name of Federal Program or Cluster | Opinion Issued |
|----------------------------|--|----------------|
| 21.027 | COVID-19 - Coronavirus State and Local Fiscal Recovery Funds | Unmodified |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2022-001

Subject: Financial Reporting
Audit Findings: Material Weakness, Noncompliance

Condition and Context

The City's internal control process was not effective to prevent, or detect and correct, errors related to financial reporting.

An oversight or review process had been implemented over the financial information submitted into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement. However, the internal controls were not effective which resulted in the double reporting of the financial activity of three stormwater funds. This resulted in the overstatement of the beginning cash and investments balances, receipts, disbursements, and ending cash and investments balances by \$10,975,629, \$3,288,586, \$2,383,285, and \$11,880,930, respectively.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Audit adjustments were proposed, accepted by the City, and made to the financial statement and Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statement Audit Report.

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

"The state examiner shall require from every audited entity 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](#)."

Cause

Management did not effectively implement a proper system of internal controls over financial reporting.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the Financial Statement remained undetected. The financial statement contained the errors identified in the *Condition and Context*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Section III - Federal Award Findings and Questioned Costs

No matters are reportable.

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



Office of the
Clerk-Treasurer
166 Lincolnway
Valparaiso, IN 46383
(219) 462-1161
Valpo.us

CORRECTIVE ACTION PLAN

FINDING 2022-001

Contact Person Responsible for Corrective Action: Holly Taylor, Clerk-Treasurer

Contact Phone Number: (219) 462-1161, extension 3307

Views of Responsible Official:

The finding regarding the Stormwater funds being duplicated on the 2022 AFR was due to issues concerning the Gateway system, along with the state requirement that local governments change their entire fund numbering system. The City of Valparaiso's was imported incorrectly with the previous number system and the Gateway issue was later resolved to accept the new numbering system mandated by the State Board of Accounts. After the resolution by the Gateway help desk, the new numbering system was accepted for publication. It was later learned that Stormwater funding was a double entry, with the new numbering system and then again published with the old numbering system.

Description of Corrective Action Plan:

Concerning the internal control finding, I believe the issues with Gateway are resolved going forward for importing data. Internal controls are now in place for the AFR.

Anticipated Completion Date:

Immediately following the SBOA Exit Conference (July 26, 2023)

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.