

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

SUPPLEMENTAL COMPLIANCE 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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to the audit report of the City of Valparaiso (City), for the period from January 1, 2022 to December 31, 2022. 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 the 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

July 25, 2023

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CLERK-TREASURER
CITY OF VALPARAISO

CLERK-TREASURER
CITY OF VALPARAISO
AUDIT RESULT AND COMMENT

ANNUAL FINANCIAL REPORT

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 and other information submitted into the Annual Financial Report via the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement and other information. The internal controls were not effective which resulted in the following errors:

Financial Statement Data

The City double reported 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.

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.

Leases and Debt:

1. The Taxable Economic Development Lease Rental Revenue Bonds Series 2022 (Parking Garage) were reported as governmental activities bond issue but should have been reported as a lease. This resulted in an understatement of Annual Lease Payments by \$523,000 and an overstatement of the Governmental Activities Ending Principal Balance and Principal Due Within One Year by \$15,560,000 each.
2. The Taxable Economic Development Increment Revenue Bonds Series 2022 (Hageman Project) were reported as an outstanding debt as of December 31, 2022; however, the issue had been paid off in 2022. This resulted in an overstatement of the Ending Principal Balance and Principal Due Within One Year by \$3,239,000 each.

CLERK-TREASURER
CITY OF VALPARAISO
AUDIT RESULT AND COMMENT
(Continued)

Adjustments were proposed, accepted by the City, and made to the Schedule of Leases and Debt presented as Other 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:

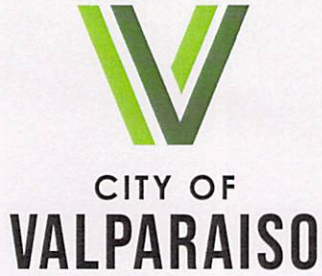
"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention 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](#)."



Office of the
Clerk-Treasurer

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July 25, 2023

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


OFFICIAL RESPONSE

Financial Statement Data:

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.

Leases & Debt:

Response regarding SBOA comments for the Parking Garage and Hageman projects for the City's debt listed on Gateway for above mentioned bonds/leases: Baker-Tilly, our financial contractor, enters certain pieces of the City's debt information into Gateway, including these two projects. The Parking Garage was entered as a Taxable Economic Development Lease Rental Revenue Bond. It was my understanding this debt was a bond. As I completed my AFR, it was entered as a bond from the limited information provided to me. Only after the AFR was completed did it come to my attention that this was a lease debt and not classified as a bond. Concerning the Hageman project entered with an amortization schedule with January 2023 listed as the payoff month: I included this as 2022 debt because of the amortization schedule.


Holly Taylor
Clerk-Treasurer
City of Valparaiso

CLERK-TREASURER
CITY OF VALPARAISO
EXIT CONFERENCE

The contents of this report were discussed on July 25, 2023, with Holly Taylor, Clerk-Treasurer; Matthew Murphy, Mayor; Bill Oeding, City Administrator; Diana Reed, Common Council member; and Robert Cotton, Common Council member.