

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

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

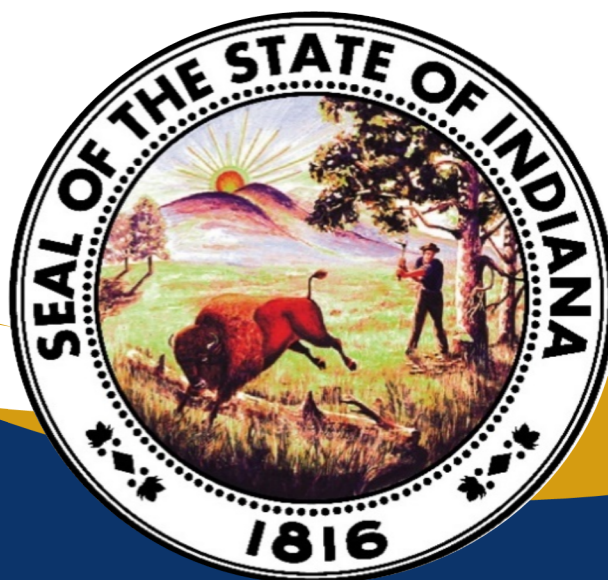
SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF PORTAGE

PORTER COUNTY, INDIANA

January 1, 2022 to December 31, 2023



**FILED**  
12/17/2024



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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nina Rivas	01-01-22 to 12-31-23
	Elizabeth Modesto	01-01-24 to 12-31-24
Mayor	Sue Lynch	01-01-22 to 12-31-23
	Austin H. Bonta	01-01-24 to 12-31-24
President of the Board of Public Works and Safety	Sue Lynch	01-01-22 to 12-31-23
	Austin H. Bonta	01-01-24 to 12-31-24
President Pro Tempore of the Common Council	Collin Czilli	01-01-22 to 12-31-22
	Debbie Podgorski	01-01-23 to 12-31-23
	Victoria Vasquez	01-01-24 to 12-31-24
Chair of the Sanitary Board	Sue Lynch	01-01-22 to 12-31-23
	Austin H. Bonta	01-01-24 to 12-31-24
Chair of the Storm Water Board	Sue Lynch	01-01-22 to 12-31-23
	Austin H. Bonta	01-01-24 to 12-31-24
President of the Redevelopment Commission	Sue Lynch	01-01-22 to 12-31-23
	Austin H. Bonta	01-01-24 to 12-31-24



Paul D. Joyce, CPA  
State Examiner

# INDIANA STATE BOARD OF ACCOUNTS

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Telephone: (317) 232-2513  
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TO: THE OFFICIALS OF THE CITY OF PORTAGE, PORTER COUNTY, INDIANA

This report is supplemental to the audit report of the City of Portage (City), for the period from January 1, 2022 to December 31, 2023. 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/](http://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

November 21, 2024



CLERK-TREASURER  
CITY OF PORTAGE

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

The same comment also appeared in five prior reports, including the three most recent Reports B58040, B58054, and B60449.

*Condition and Context*

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not separated incompatible activities related to all areas of the financial statement, including cash and investments, receipts, disbursements, journal entries, and reporting to ensure the accuracy and timeliness of the recordkeeping. A segregation of duties for each of these areas had not been designed or implemented to prevent, or detect and correct, errors.

*Cash and Investments (Bank Reconciliations)*

Internal controls were not consistently documented to ensure that reconcilements of the accounting record balances to the bank depository balances were completed at least monthly, as required by state statute.

In reviewing the internal control process and documentation provided, we noted the following deficiencies:

- A review process after bank reconciliations were prepared was designed; however, evidence of the process was not consistently documented.
- The City engaged consultants to assist with performing bank reconciliations. Evidence of an oversight or review process to ensure the accuracy and completeness of the reconciliations performed by the engaged consultant was not documented.
- Some monthly bank reconciliations had multiple versions without a documented review process on the final version.
- Reconciling items for a \$3,472,615 bank-to-bank transfer and a \$2,261,019 disbursement adjustment was included on several monthly bank reconciliations. Proper supporting documentation to validate the reconciling items were not readily available at the City upon request. Multiple requests were made to the City and of the consultant before proper supporting documentation was provided. The delayed response resulted in additional procedures to be performed and a delay to the audit.

Furthermore, a process was not in place to ensure a combined summary monthly bank reconciliation was prepared to ensure that individual bank reconcilements, in total, agreed to the ledger and financial statement balance.

*Receipts*

A review process of the receipts posted to the records was designed; however, evidence of the process was not documented. Additionally, evidence of a review process of the deposit ticket to the receipt listing to ensure its accuracy and completeness was not properly designed.

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Vendor Disbursements*

Payments were made via electronic funds transfer (EFT) for debt agreements and transfers and reimbursements between funds. The EFTs were prepared by one individual without an oversight or review process to ensure that disbursements were proper and accurate.

*Payroll Disbursements*

- New employee information was entered into the payroll system by the Payroll Clerk. A review or verification of the accuracy of the information entered was not performed.
- Payroll was performed by an outside vendor. The final payroll report received from the vendor was not reviewed to ensure accuracy.
- Reconciliation of the payroll reports from the vendor and the information entered into the financial accounting system was not performed.

*Journal Entries*

The City did not have an effective system of internal controls to ensure that adjusting journal entries were posted accurately and timely.

- Adjusting journal entries were recorded in the records based on information provided by the consultant. However, evidence of an oversight or review process to ensure the accuracy and completeness of the journal entry was not documented.
- When a receipt or check were voided, the financial system overrode the date of the original posting with the date the transaction was voided. In addition, supporting documentation as to why transactions were voided was not provided. The timeliness of the original transaction, as well as the correcting entry, could not be determined.
- Multiple disbursements in the RDC Allocation Area fund totaling \$2,261,019 were recorded in the 2022 records and then reversed in the 2023 records even though the checks had cleared the bank. An adjusting journal entry to record the actual payments made was then recorded in the 2023 records.
- The City purchased equipment in 2022 and 2023 totaling \$584,634 from various funds. The equipment purchased were eligible to be paid from the general obligation bond proceeds secured in June 2023. To record the reimbursement from the bond proceeds, the City should have posted a disbursement to the General Improvement Bond (Proceeds) fund and receipts to the other funds classified as a reimbursement.

However, the City reversed the original disbursements recorded in the other funds to move the vendor disbursements to the General Improvement Bond (Proceeds) fund. This resulted in the understatement of receipts and disbursements by \$584,634. The financial statement was not adjusted for this item.

*Financial Close and Reporting*

An Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system, which was the source for the financial statement. An oversight or review process to prevent, or detect and correct, errors was not properly designed or implemented.

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

Due to the lack of internal controls over cash and investments, receipts, disbursements, and journal entries, the following adjustments were proposed, accepted by the City, and made to the financial statement and the Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the City.

- The financial activity of the Fronius -Refunding 2022 (Escrow Act) (US Bank) bonds were not recorded or reported in the AFR or financial statement, which resulted in the understatement of receipts and disbursements by \$4,130,000 each.
- As noted under *Journal Entries*, the RDC Allocation Area fund had an adjusting entry recorded in 2023 to correct an error from 2022. The 2023 adjusting journal entry was properly reported as disbursements in the RDC Allocation Area fund in the 2022 AFR, the date of the original transaction.

However, in the 2023 AFR, the City reported the total RDC Allocation Area fund disbursements, which included the \$2,261,019 amount already reported in 2022, and decreased the beginning cash and investment balance. This resulted in the 2023 AFR beginning cash and investment balances to not articulate with the 2022 ending cash and investment balances and an overstatement of the 2023 disbursements for the RDC Allocation Area fund by \$2,261,019.

- The AFR and financial statement are to be supported by the records of the City. However, a verification of the amounts reported in the AFR and financial statement noted variances in receipts, disbursements, and ending cash and investment balances for 18 funds. The City was unable to provide an explanation for the variances.

A review of the fund report ran for the audit to the fund report ran at the time the AFR was submitted noted variances. Either adjustments to the records were made or transactions were voided or back dated to 2023 after the AFR was submitted. The City did not ensure that once the AFR was submitted that the financial software was closed to not allow any further transactions to be back dated to 2023. This resulted in the overstatement of receipts and disbursements by \$810,614 and \$1,186,789, respectively, and the understatement of the ending cash and investment balances by \$376,175.

*Criteria*

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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 as set forth in the uniform compliance guidelines. 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](#)."

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

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. . . ."

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

## **INTERNAL CONTROLS - COMPLIANCE**

### *Condition and Context*

Internal control deficiencies resulted in the noncompliance over:

- Annual Financial Report
- Capital Assets
- Overdrawn Cash Balances
- Temporary Transfer of Funds
- Compensation and Benefits

These internal control deficiencies are further detailed in the comments below.

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

*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. . . ."

**ANNUAL FINANCIAL REPORT**

The same comment also appeared in prior Report B60449.

*Condition and Context*

The Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system. Effective internal controls were not established to ensure the accuracy and completeness of the information submitted in the AFR, which resulted in the following errors:

The information for capital assets, accounts payable and receivable, leases and debt, and grants entered in the AFR contained the following errors:

*Capital Assets*

Amounts were reported for capital assets in the AFRs for 2022 and 2023. However, the reported amounts did not include values for the Wastewater or Storm Water Utilities' capital assets. This resulted in a material understatement of the capital assets information reported in the AFR.

The AFR is the basis for the other information presented. Due to the material errors noted, the City approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report of the City.

*Accounts Payable and Accounts Receivable*

Amounts were reported for accounts payable and accounts receivable in the AFRs for 2022 and 2023. However, we could not determine the validity of the amounts reported since supporting documentation was not provided for review for either accounts payable or the 2023 accounts receivable.

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

The AFR is the basis for the other information presented. Due to the material errors noted, the City approved the omission of the Schedule of Payables and Receivables from the Financial Statement Audit Report of the City.

*Grants*

The Grants reported in the AFR had the following errors:

- For 2022, the Highway Planning and Construction grant expenditures were understated by \$345,299.
- For 2023, the Highland Planning and Construction grant expenditures were overstated by \$3,145,886.

*Criteria*

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 as set forth in the uniform compliance guidelines. 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](#)."

**CAPITAL ASSETS**

A similar comment also appeared in six prior reports, including the three most recent Reports B58040 and B58054, entitled *UTILITY CAPITAL ASSETS*; and B60449, entitled *CAPITAL ASSETS*.

A similar comment appeared in a Management Letter addressed to the Mayor, the Common Council, and the Clerk-Treasurer for the audit period ending December 31, 2020.

*Condition and Context*

Internal controls were not in place to ensure a complete and accurate capital assets listing was maintained.

The City's detailed capital assets listing was not complete; it did not include the date of disposal or amount recovered from a capital asset disposal. The City was requested to print another detailed listing of its capital assets with different parameters to include a date of disposal. However, the City was unable to generate any additional capital asset reports beyond its printed copy, which covered assets through 2017, due to a complete data loss of its capital assets listing. A new capital asset listing was started; however, it primarily consists of assets acquired between 2021 through 2024.

A review of the capital assets listings provided noted the following deficiencies:

- Only three assets in the new listing had purchase dates prior to 2021.
- The current police and fire station buildings were not included in either listing. The listing did include the old police station, which has been demolished.

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

- The listings provided did not include items such as the Utility's sewer lines or the wastewater treatment plant. The Utility historically reported over \$59,000,000 in capital assets.

Furthermore, the City had not performed a complete physical inventory of the capital assets every two years as required.

*Criteria*

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**OVERDRAWN CASH BALANCES**

The same comment also appeared in five prior reports, including the three most recent Reports B58040, B58054, and B60449.

*Condition and Context*

Internal controls were not in place to ensure cash balances were not overdrawn.

The financial statement presented included overdrawn cash balances for the Payroll: Net Wages fund of \$62,954, and \$25,894 at December 31, 2022 and 2023, respectively; as well as the Utility Operating fund of \$172,338 at December 31, 2023.

In addition, the Municipal Wheel Tax fund received a \$350,000 temporary loan from the Municipal Vehicle Excise Tax Fund (formerly Surtax) that remained unpaid at December 31, 2023. Without the temporary loan, the Municipal Wheel Tax fund would have an overdrawn cash balance of \$342,564 at December 31, 2023.

*Criteria*

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**TEMPORARY TRANSFER OF FUNDS**

The same comment also appeared in six prior reports, including the three most recent Reports B58040, B58054, and B60449.

*Condition and Context*

Internal controls were not in place over temporary transfer of funds to ensure compliance with state statute.

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

In 2022, the Clerk-Treasurer made temporary transfers of funds totaling \$2,150,000. Resolution 22-05 was not adopted by the Common Council authorizing the transactions until 117 days after the temporary transfers were made and recorded in the records.

On June 26, 2020, a \$350,000 temporary loan was made from the Municipal Vehicle Excise Tax Fund (formerly Surtax) to the Municipal Wheel Tax fund. Resolution 21-01 authorizing this transfer was adopted on January 5, 2021, and extended the loan to June 30, 2021. However, the temporary transfer was still outstanding as of December 31, 2023.

*Criteria*

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
  - (A) A statement that the fiscal body has determined that an emergency exists.
  - (B) A brief description of the grounds for the emergency.
  - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

**COMPENSATION AND BENEFITS**

The same comment also appeared in prior Reports B58040, B58054, and B60449.

CLERK-TREASURER  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Condition and Context*

Internal controls were not in place to ensure hours worked were properly verified by the appropriate department head. Time records for the police department were not always approved by the department head as required. Without the certification by the department head, verification of hours worked before the employees were paid did not occur.

*Criteria*

This form (Payroll Schedule and Voucher General Form No. 99) should be used for all payrolls.

Each claim should be certified to by the department head and the Clerk-Treasurer in the appropriate sections provided thereon. The Clerk-Treasurer may elect to certify on the Accounts Payable Voucher Register, General Form No. 364, in lieu of certifying each Payroll Schedule and Voucher.

Payroll claims should be numbered along with other claims.

Approval signatures by a majority of the board is required in the appropriate section unless the Accounts Payable Voucher Register, General Form No. 364, is signed.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

# CITY OF PORTAGE, INDIANA PORTER COUNTY

## 2024 CITY ADMINISTRATION OFFICIAL RESPONSES TO INDIANA STATE BOARD OF ACCOUNTS 2022-2023 AUDIT FINDINGS

December 3<sup>rd</sup>, 2024

It is important to note that these audit findings and comments pertain to the City's previous Administration, as the current City Administration inherited what can only be described as a financial mess – as anyone that reads the SBOA report can conclude. That said, the current City Administration very much appreciates the SBOA for their prompt audit services. This SBOA audit creates a “clean break” between the previous and current Administrations. The SBOA's audit findings and comments also provide guidance for the current Administration to make necessary changes that address the deficiencies that were consistently ignored by the previous Administration – as noted in the SBOA's repeated findings from the past 3 audits.

The various supplemental audit results and comments addressed to the City's various governing bodies (Common Council, Redevelopment Commission, Redevelopment Authority, Clerk Treasurer, Utility Boards, including the City's Management Letter and Internal Control Noncompliance Letter) all echoed common themes:

1. Adequacy of Internal Controls
2. Accuracy of Accounting Records & Financial Reports
3. Timeliness of Bank Reconciliations & Financial Reports
4. Oversight, Review & Documentation related thereto

While this current Administration continues its “learning curve”, the SBOA audit findings and comments present a roadmap for areas that require significant improvement. Rest assured that this Administration takes these findings and recommendations very seriously and our goal is to eliminate all of such findings in the City's next SBOA audit. While the City is leaning on consultants to help perform bank reconciliations and monthly reports on a timely basis (as one example), the consultants are training the City's staff how to perform these functions “in house”. Emphasis is also being given to improve documentation on the checks and balances leading to the authorization of cash expenditures and cash receipt records. Pursuant to the SBOA audit findings, the City will focus on major improvements to its internal control practices and documentation related thereto with all of the City's governing bodies. As noted in the audit report, additional staff will likely be required to improve the City's internal controls, reporting timeliness and accuracy. There were certain adjustments that were recorded on the Key Fund Software in 2024 that should have been recorded in 2023. The City will document any and all “correcting entries” so that future auditors will have a detailed audit trail to follow.

The 2022-2023 audit report findings and comments regarding the previous Administration's practices have been taken seriously. The current Administration intends to implement SBOA recommendations immediately. We look forward to the next SBOA audit where we certainly intend to eliminate as many, if not all, of the deficiencies noted in the past 3 audits.

We will also attempt to recreate the Capital Asset Records that seem to have fallen off the radar between 2017 and 2021. We will consider whether a formal capital asset inventory valuation should be conducted by independent appraisers. Hopefully, City personnel can perform most of the legwork in recreating a comprehensive capital asset inventory. That is another goal that should improve the quality and completeness of the City's Annual Financial Reporting requirements.

The City will also address specific recommendations to: (1) repay a \$350,000 inter-departmental loan from the Municipal Vehicle Excise Tax Fund to the Municipal Wheel Tax Fund that was made on June 26, 2020 that remained outstanding at 12-31-2023; and, (2) require every City employee to contribute to a portion of the employee's health insurance premiums. Due to Union contractual obligations, this will need to be addressed in a future Union contract.

On behalf of the City of Portage, we want to thank the SBOA for providing this audit so quickly after the change of Administrations. We appreciate having a clean cut-off between the previous and current Administration and needed the current audit report for the City's upcoming SRF bond issue in 2025. We also appreciate the roadmap to improving the City's internal control practices that should improve timeliness and accuracy of financial reporting going forward.

*Austin H. Bonta*

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Austin Bonta, Mayor

*Elizabeth Modesto*

---

Elizabeth Modesto, Clerk Treasurer

CLERK-TREASURER  
CITY OF PORTAGE  
EXIT CONFERENCE

The contents of this report were discussed on November 21, 2024, with Elizabeth Modesto, Clerk-Treasurer; Austin H. Bonta, Mayor; Gina Giese-Hurst, Common Council member; Edward P. Graham, City Attorney; Carrie Belt, Chief Deputy Clerk-Treasurer; Lee Ann Van Curen, Chief of Staff; Michelle Walbright, Chief Deputy Utility; Buzz Krohn, financial consultant; Nathan Fox, financial consultant; and Michelle Davis, financial consultant.

The contents of this report were communicated on November 26, 2024, with Nina Rivas, former Clerk-Treasurer.



COMMON COUNCIL  
CITY OF PORTAGE

COMMON COUNCIL  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS - COMPLIANCE**

*Condition and Context*

Internal control deficiencies resulted in the noncompliance over:

- Overdrawn Cash Balances
- Temporary Transfer of Funds
- Group Health Insurance Premiums

These internal control deficiencies are further detailed in the comments below.

*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. . . ."

**OVERDRAWN CASH BALANCES**

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*Condition and Context*

Internal controls were not in place to ensure cash balances were not overdrawn.

The financial statement presented included overdrawn cash balances for the Payroll: Net Wages fund of \$62,954 and \$25,894 at December 31, 2022 and 2023, respectively; as well as the Utility Operating fund of \$172,338 at December 31, 2023.

In addition, the Municipal Wheel Tax fund received a \$350,000 temporary loan from the Municipal Vehicle Excise Tax Fund (formerly Surtax) that remained unpaid at December 31, 2023. Without the temporary loan, the Municipal Wheel Tax fund would have an overdrawn cash balance of \$342,564 at December 31, 2023.

COMMON COUNCIL  
CITY OF PORTAGE  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Criteria*

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**TEMPORARY TRANSFER OF FUNDS**

The same comment also appeared in six prior reports, including the three most recent Reports B58040, B58054, and B60449.

*Condition and Context*

Internal controls were not in place over temporary transfer of funds to ensure compliance with state statute.

In 2022, the Clerk-Treasurer made temporary transfers of funds, totaling \$2,150,000. Resolution 22-05 was not adopted by the Common Council authorizing the transactions until 117 days after the temporary transfers were made and recorded in the records.

On June 26, 2020, a \$350,000 temporary loan was made from the Municipal Vehicle Excise Tax Fund (formerly Surtax) to the Municipal Wheel Tax fund. Resolution 21-01 authorizing this transfer was adopted on January 5, 2021, and extended the loan to June 30, 2021. However, the temporary transfer was still outstanding as of December 31, 2023.

*Criteria*

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:

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- (A) A statement that the fiscal body has determined that an emergency exists.
  - (B) A brief description of the grounds for the emergency.
  - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

**GROUP HEALTH INSURANCE PREMIUMS**

The same comment also appeared in prior Reports B58040, B58054, and B60449.

*Condition and Context*

The City did not have internal controls in place to ensure compliance with statutory requirements. The City entered into various bargaining agreements with several employee groups. As part of the bargaining agreements, the City agreed to provide health insurance through the union that represented the bargaining groups. The bargaining agreements state that "the Employer shall pay one hundred percent (100%) of the cost of the insurance for both single and family coverage." The City also extended the same health coverage to employees not covered by collective bargaining agreements. As a result, the City paid 100 percent of its employees' group health insurance premiums, which was not in compliance with Indiana Code 5-10-8.

*Criteria*

Indiana Code 5-10-8-2.6(c) states:

"A public employer may pay a part of the cost of group insurance, but shall pay a part of the cost of group life insurance for local employees. A public employer may pay, as supplemental wages, an amount equal to the deductible portion of group health insurance as long as payment of the supplemental wages will not result in the payment of the total cost of the insurance by the public employer."

Indiana Code 5-10-8-2.2(e) states:

"A local unit public employer may pay a part of the cost of group insurance for its active and retired public safety employees. However, a local unit public employer that provides group life insurance for its active and retired public safety employees shall pay a part of the cost of that insurance."

Attorney General Official Opinion 2002-5 states in part:

". . . It is our opinion that public employers may not pay the full amount of group health insurance premiums for their employees. Indiana Code 5-10-8-2.6(c) clearly states that employers may pay 'a part' of the cost of group insurance and this language has been interpreted by past Attorneys General to exclude the possibility of allowing employers to pay the full amount. Because it is not permissible to bargain for a term that is contrary to statute or public policy, the existence of a collective bargaining agreement allowing full payment by employers would not alter this conclusion. See *Ahuja v. Lynco Ltd. Medical Research*, 675 N.E.2d 704 (Ind. Ct. App. 1997); *Gary Teachers Union, Local No. 4 v. School City of Gary*, 165 Ind. App. 314, 332 N.E.2d 256 (1975)."

# CITY OF PORTAGE, INDIANA PORTER COUNTY

## 2024 CITY ADMINISTRATION OFFICIAL RESPONSES TO INDIANA STATE BOARD OF ACCOUNTS 2022-2023 AUDIT FINDINGS

December 3<sup>rd</sup>, 2024

It is important to note that these audit findings and comments pertain to the City's previous Administration, as the current City Administration inherited what can only be described as a financial mess – as anyone that reads the SBOA report can conclude. That said, the current City Administration very much appreciates the SBOA for their prompt audit services. This SBOA audit creates a “clean break” between the previous and current Administrations. The SBOA's audit findings and comments also provide guidance for the current Administration to make necessary changes that address the deficiencies that were consistently ignored by the previous Administration – as noted in the SBOA's repeated findings from the past 3 audits.

The various supplemental audit results and comments addressed to the City's various governing bodies (Common Council, Redevelopment Commission, Redevelopment Authority, Clerk Treasurer, Utility Boards, including the City's Management Letter and Internal Control Noncompliance Letter) all echoed common themes:

1. Adequacy of Internal Controls
2. Accuracy of Accounting Records & Financial Reports
3. Timeliness of Bank Reconciliations & Financial Reports
4. Oversight, Review & Documentation related thereto

While this current Administration continues its “learning curve”, the SBOA audit findings and comments present a roadmap for areas that require significant improvement. Rest assured that this Administration takes these findings and recommendations very seriously and our goal is to eliminate all of such findings in the City's next SBOA audit. While the City is leaning on consultants to help perform bank reconciliations and monthly reports on a timely basis (as one example), the consultants are training the City's staff how to perform these functions “in house”. Emphasis is also being given to improve documentation on the checks and balances leading to the authorization of cash expenditures and cash receipt records. Pursuant to the SBOA audit findings, the City will focus on major improvements to its internal control practices and documentation related thereto with all of the City's governing bodies. As noted in the audit report, additional staff will likely be required to improve the City's internal controls, reporting timeliness and accuracy. There were certain adjustments that were recorded on the Key Fund Software in 2024 that should have been recorded in 2023. The City will document any and all “correcting entries” so that future auditors will have a detailed audit trail to follow.

The 2022-2023 audit report findings and comments regarding the previous Administration's practices have been taken seriously. The current Administration intends to implement SBOA recommendations immediately. We look forward to the next SBOA audit where we certainly intend to eliminate as many, if not all, of the deficiencies noted in the past 3 audits.

We will also attempt to recreate the Capital Asset Records that seem to have fallen off the radar between 2017 and 2021. We will consider whether a formal capital asset inventory valuation should be conducted by independent appraisers. Hopefully, City personnel can perform most of the legwork in recreating a comprehensive capital asset inventory. That is another goal that should improve the quality and completeness of the City's Annual Financial Reporting requirements.

The City will also address specific recommendations to: (1) repay a \$350,000 inter-departmental loan from the Municipal Vehicle Excise Tax Fund to the Municipal Wheel Tax Fund that was made on June 26, 2020 that remained outstanding at 12-31-2023; and, (2) require every City employee to contribute to a portion of the employee's health insurance premiums. Due to Union contractual obligations, this will need to be addressed in a future Union contract.

On behalf of the City of Portage, we want to thank the SBOA for providing this audit so quickly after the change of Administrations. We appreciate having a clean cut-off between the previous and current Administration and needed the current audit report for the City's upcoming SRF bond issue in 2025. We also appreciate the roadmap to improving the City's internal control practices that should improve timeliness and accuracy of financial reporting going forward.

*Austin H. Bonta*

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Austin Bonta, Mayor

*Elizabeth Modesto*

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Elizabeth Modesto, Clerk Treasurer

COMMON COUNCIL  
CITY OF PORTAGE  
EXIT CONFERENCE

The contents of this report were discussed on November 21, 2024, with Elizabeth Modesto, Clerk-Treasurer; Austin H. Bonta, Mayor; Gina Giese-Hurst, Common Council member; Edward P. Graham, City Attorney; Carrie Belt, Chief Deputy Clerk-Treasurer; Lee Ann Van Curen, Chief of Staff; Michelle Walbright, Chief Deputy Utility; Buzz Krohn, financial consultant; Nathan Fox, financial consultant; and Michelle Davis, financial consultant.



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**TAX INCREMENT FINANCING (TIF) ALLOCATION FUNDS**

*Condition and Context*

There were deficiencies in the internal control system of the City related to ensuring Tax Increment Financing (TIF) Allocation Funds were expended within the restricted uses authorized by Indiana Code.

A Redevelopment Commission (Commission) has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition development, and disposal of property in "areas needing redevelopment." The powers granted to a redevelopment commission in Indiana Code 36-7-14-12.2 allow the commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

The expenses noted below from TIF allocation were not within the allocation areas or for the restricted uses authorized in Indiana Code 36-7-14-39(b)(3) (West 2022) or 36-7-14-39(b)(4) (West 2023):

- Demolition and underground storage tank system removal work associated with a property outside of the allocation area totaling \$84,431.
- A contribution to support the operations of the Portage Economic Development Corporation totaling \$40,000. Evidence the funds were used within the allocation area or for one of the restricted uses was not provided.

An operating disbursement of the Commission for a park department floor scrubber totaling \$12,594 was also paid from TIF allocation funds. This purchase was determined to be an operating expense and was not related to any project.

*Criteria*

Indiana Code 36-7-14-39(b)(4) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

(A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.

(B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.

(C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

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(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under [IC 36-1-10](#).

(I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. . . .

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

- (i) in the allocation area; and
- (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in [IC 36-9-41-1.5](#)) within the unit that established the redevelopment commission. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following: . . .

(M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

The allocation fund may not be used for operating expenses of the commission."

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

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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"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. . . ."

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