

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF PORTAGE

PORTER COUNTY, INDIANA

January 1, 2016 to December 31, 2016



FILED
05/17/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	3
Transmittal Letter	4
Clerk-Treasurer:	
Federal Findings:	
Finding 2016-001	
Preparation of the Schedule of Expenditures of Federal Awards	6-8
Finding 2016-002	
Financial Transactions and Reporting	8-11
Finding 2016-003	
Assistance to Firefighters Grant - Activities Allowed or Unallowed, Allowable	
Costs/Cost Principles, Cash Management, Matching and Level of Effort -	
Maintenance of Effort (MOE), Period of Performance, Reporting	11-13
Finding 2016-004	
Assistance to Firefighters Grant - Equipment.....	13-15
Finding 2016-005	
Assistance to Firefighters Grant - Procurement and Suspension and Debarment	15-17
Corrective Action Plan	18-22
Audit Results and Comments:	
Annual Financial Report (AFR)	23
Temporary Transfer of Funds	23-24
Approval of Time Records.....	24
Overdrawn Cash Balances	25
Training on Internal Controls Standards	25
Exit Conference	26

TABLE OF CONTENTS
(Continued)

<u>Description</u>	<u>Page</u>
Water Reclamation Utility:	
Audit Results and Comments:	
Utility Capital Assets	28
Approval of Time Records.....	28-29
Utility Permanent Transfer Approval	29
Exit Conference	30
Redevelopment Commission:	
Audit Result and Comment:	
Redevelopment Commission General Fund.....	32
Official Response.....	33-34
Exit Conference	35
Fire Department:	
Federal Findings:	
Finding 2016-003	
Assistance to Firefighters Grant - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Matching and Level of Effort - Maintenance of Effort (MOE), Period of Performance, Reporting	38-39
Finding 2016-004	
Assistance to Firefighters Grant - Equipment.....	40-41
Finding 2016-005	
Assistance to Firefighters Grant - Procurement and Suspension and Debarment	41-43
Corrective Action Plan	44-46
Exit Conference	47
Common Council:	
Audit Result and Comment:	
Utility Service Board.....	50-51
Exit Conference	52

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Christopher Stidham	01-01-16 to 12-31-19
Mayor	James Snyder	01-01-16 to 12-31-19
President of the Board of Public Works	James Snyder	01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Mark Oprisko	01-01-16 to 12-31-18
Secretary/Treasurer of the Water Reclamation Utility	Sherry Smolar	01-01-16 to 02-23-17
President of the Utility Service Board	James Snyder Mark Oprisko Scott Williams	01-01-16 to 03-07-17 03-08-17 to 12-31-17 01-01-18 to 12-31-18
President of the Redevelopment Commission	James Snyder	01-01-16 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of Portage (City), for the period from January 1, 2016 to December 31, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

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

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

February 21, 2018

CLERK-TREASURER
CITY OF PORTAGE

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source for the SEFA. One employee prepared the grant information for the federal awards without a system of oversight, or review, to detect and correct errors before submission.

Context

The lack of controls was a systemic issue. Due to the lack of controls, the following errors resulted in the understatement of the SEFA by \$1,099,701:

1. The Coastal Zone Management Administration Awards were omitted, which understated the federal expenditures by \$5,500.
2. The Public Safety Partnership and Community Policing Grants were omitted, which understated the federal expenditures by \$174,239.
3. Four projects of the Highway Planning and Construction Cluster were omitted, which understated the federal expenditures by \$180,920.
4. The Highway Planning and Construction Cluster included traffic enforcement programs, which were funded by local and state sources, which overstated federal expenditures by \$46,840.
5. The Assistance to Firefighters Grant was omitted, which understated federal expenditures by \$785,882.
6. Three federal programs did not have the correct program title or CFDA number.

Audit adjustments were proposed, approved by the City, and made to the SEFA.

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.

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

Cause

Management of the City had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

The failure to establish and properly implement internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the City's management establish controls to ensure accurate reporting of the SEFA.

Views of Responsible Officials

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

FINDING 2016-002

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were several 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, and Financial Close and Reporting. A separation of duties for each of these areas had not been designed or implemented, to prevent or detect and correct errors.

The City also had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the City to monitor and assess the quality of the system of internal control.

Cash

The reconciliation of the bank and ledger activity was prepared by one employee without an oversight or review process. There were no assurances that all City bank accounts were included in the reconciliation.

The City bank reconciliements presented for audit had the following deficiencies:

- a. Bank reconciliements were not prepared monthly. All reconciliements for 2016 were prepared in January 2018. The most current reconciliation prepared as of the date of this report was for January 2017. Because reconciliements were not prepared timely, uncorrected errors, which overstated receipts by \$630,674, were recorded in the financial statement. Adjustments were proposed, approved by the City, and made to the financial statement.

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

- b. Adjusted bank balances did not agree to the financial statement and ledger balances.
- c. The bank reconcilements and ledgers excluded financial activity accounted for in trust accounts.

The financial activity of the 2015 Redevelopment District TIF Refunding Revenue Bonds fund was not recorded in the ledgers or reported in the financial statement. Excluded activity included the beginning Cash and Investment balance of \$13,340,482, Receipts of \$80,613, and Disbursements of \$13,421,095. Audit adjustments were proposed, approved by the City, and made to the financial statement.

Receipts

Daily utility payments were collected and a batch report of those collections was prepared. There was no documentation that utility collections and deposits were verified to the batch reports prior to posting the collections to the ledgers.

Disbursements

- a. Payroll Disbursements - There was no documentation of a review of payroll by a department head or fiscal officer before it was submitted for direct deposit for both the City and the Utility.
- b. Utility Vendor Disbursements - There was no segregation of duties. The Chief Utility Clerk authorized purchases, approved claims, wrote and signed checks, posted disbursements, and approved adjustments without a system of oversight or review.

Financial Close and Reporting

The financial information was prepared and electronically submitted through Gateway without an oversight or review process to prevent, or detect and correct, errors. The City did not have procedures in place to ensure that the financial information recorded and reported as provided by the Utility was accurate and complete.

Wastewater Revenue II fund receipts of \$13,075,181, and six utility fund's disbursements, which totaled \$23,092,474, were not reported. Adjustments were proposed, approved by the City, and made to the financial statement.

Context

The lack of internal controls was a systemic issue throughout the audit period.

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:

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

"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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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."

The record balance at the end of every month shall be reconciled with the bank balance. (IC 5-13-6-1) Thus, any errors may be discovered and adjusted monthly. This procedure will localize any errors within the month and will prevent the necessity of a long and tedious search to trace errors covering transactions over a long period of time and will serve to expedite audits by the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

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)

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 Indiana Code 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Cause

Management of the City had not established a proper system of internal control that segregated key functions. Management also had not conducted a risk assessment related to the City's Financial Reporting and Transactions.

Effect

The failure to establish controls enabled material misstatements to remain undetected. The failure to monitor the internal control system placed the City at risk that controls were either not designed properly or not operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the City's management design and implement a proper system of internal controls, which would segregate key functions and also perform periodic monitoring of its system of internal control. Internal controls should be developed in a way to prevent, or detect and correct, errors in Financial Transactions and Reporting.

Views of Responsible Officials

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

FINDING 2016-003

Subject: Assistance to Firefighters Grant - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Matching and Level of Effort - Maintenance of Effort (MOE), Period of Performance, Reporting

Federal Agency: Department of Homeland Security

Federal Program: Assistance to Firefighters Grant

CFDA Number: 97.044

Federal Award Number and Year (or Other Identifying Number): EMW-2014-FR-00328

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; Period of Performance; Reporting

Audit Finding: Material Weakness

Condition

A documented internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; matching and level of effort requirements of Matching, Level of Effort, Earmarking; Period of Performance; and Reporting.

Activities Allowed or Unallowed, Allowable Cost/Cost Principles

The Assistant Fire Chief was responsible for receiving invoices and reviewing them to ensure that they were for allowable activities and were allowable costs. The invoices were subsequently provided to the Clerk-Treasurer for review; however, there was no documentation that the Assistant Fire Chief received or reviewed the invoices.

Cash Management

The City had not designed effective internal controls to ensure that federal funds were expended timely. The Clerk-Treasurer was solely responsible for ensuring that the advances of federal grant funds were disbursed without unreasonable delay.

Matching and Level of Effort - Maintenance of Effort (MOE)

The City had not established effective internal controls over matching and MOE to ensure compliance. The Clerk-Treasurer was solely responsible for ensuring that cash matching requirements were met.

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

The City was unaware of the MOE requirements; therefore, they did not have a system in place for determining whether or not they met the MOE requirement that grantee operating expenses must be equal to or greater than the operating expenses in the two years preceding the grant period of performance.

Period of Performance

The City had not established controls to ensure that grant expenditures were obligated or paid within the period of performance. The Assistant Fire Chief was designated to ensure that the disbursements from the federal grant were within the period of performance. The Clerk-Treasurer, subsequently, reviewed the disbursements for compliance with period of performance; however, there was no documentation of the initial determination by the Assistant Fire Chief.

Reporting

The City had not established an effective internal control system to ensure accurate reporting of the grant receipts and disbursements. The Assistant Fire Chief prepared and submitted all federal reports without a proper system of oversight or review before submission.

Context

The lack of properly documented controls was a systemic issue throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
..."

Cause

The City had not developed a system of internal controls to ensure compliance with the grant agreement and the compliance requirements noted in the *Condition*.

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls to ensure compliance with the following compliance requirements noted in the *Condition*.

Views of Responsible Officials

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

FINDING 2016-004

Subject: Assistance to Firefighters Grant - Equipment
Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2014-FR-00328
Compliance Requirement: Equipment and Real Property Management
Audit Findings: Material Weakness, Modified Opinion

Condition

The City had not established an effective internal control system to ensure compliance with the grant agreement and equipment requirements of the Equipment and Real Property Management compliance requirement.

The City failed to comply with the equipment requirements that equipment purchased with federal funds must be added to the capital assets listing and include the percentage of federal funding, that any disposal of assets acquired with federal funds must be reported, and that a physical inventory of the equipment must be performed at least every two years. The equipment purchased with federal funds was not included on the City's capital assets detail listing. In addition, no documentation of a physical inventory of equipment was provided for audit.

Context

The lack of controls and the noncompliance were systemic issues, which occurred throughout the audit period. Equipment purchased totaled \$890,147, of which \$785,882 was from the federal grant and was the only expenditure of this grant.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.313(d) states:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Cause

Management had not developed a system of internal controls to ensure compliance with the equipment requirements of the Equipment and Real Property Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City establish controls to ensure compliance and comply with the Equipment and Real Property Management compliance requirement.

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2016-005

Subject: Assistance to Firefighters Grant - Procurement and Suspension and Debarment
Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2014-FR-00328
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Condition

The City had not established an effective internal control system related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Procurement

The City had not established effective controls to ensure that proper procurement policies were followed.

The City did not comply with the procurement requirements of the Procurement and Suspension and Debarment compliance requirement. They had not adopted a written public purchase policy for purchases over \$50,000, which would have complied with federal and state rules for procurement.

Suspension and Debarment

The City had not established effective controls to ensure that vendors were not suspended or debarred or otherwise excluded from participation in federal assistance programs.

The City did not comply with the suspension and debarment requirements of the Procurement and Suspension and Debarment compliance requirement. They did not perform any procedures to verify that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

The lack of controls and the noncompliance were systemic issues throughout the audit period. There was no policy for purchases over \$50,000 and no verification procedures were performed for the vendor paid from the grant.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.318 states in part:

"(a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.

(b) Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. . . ."

2 CFR 200.213 states:

"Non-federal entities and contractors are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal controls to ensure compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the City.

CLERK-TREASURER
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

Purpose: To document the Auditee Prepared Corrective Action Plans for each federal finding in the 2016 report

Source: Corrective Action Plans prepared by Clerk-Treasurer Christopher D. Stidham

Procedure: Obtained Corrective Action Plans from the Clerk-Treasurer on 02/20/2018 for each federal finding in the 2016 report. Added to the project for audit documentation.

Conclusion: The Auditee Prepared Corrective Action Plans for each federal finding in the 2016 report have been documented.



Christopher D. Stidham Clerk-Treasurer

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2016-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Clerk-Treasurer Christopher D. Stidham

Contact Phone Number: (219) 762-7784

We concur with the finding.

Description of Corrective Action Plan:

The City of Portage will establish a process to review entries into the Gateway system for the Schedule of Expenditures of Federal Awards. The review process will create an internal control to ensure compliance with state and federal requirements.

Anticipated Completion Date:

On or before March 1, 2018.



Christopher D. Stidham Clerk-Treasurer

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2016-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Clerk-Treasurer Christopher D. Stidham

Contact Phone Number: (219) 762-7784

We concur with the finding.

Description of Corrective Action Plan:

The City of Portage will establish and implement a system of internal controls which will segregate key functions. Management will perform periodic review of the system of internal controls to ensure employees' compliance. The internal controls will be developed in a way to prevent or detect errors in financial transactions and reporting.

Anticipated Completion Date:

On or before April 1, 2018.



Christopher D. Stidham Clerk-Treasurer

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2016-003 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Clerk-Treasurer Christopher D. Stidham
Contact Phone Number: (219) 762-7784

We concur with the finding.

Description of Corrective Action Plan:

The City of Portage will establish and implement a system of internal controls to comply with the requirements of each federal grant award including: internal control for allowable cost(s), effective cash management, ensuring grant funds are expended within the period of performance, internal controls for external report and any Matching and Level of Effort requirements.

Anticipated Completion Date:

On or before April 1, 2018.

Purpose: To document the Auditee Prepared Corrective Action Plans for each federal finding in the 2016 report

Source: Corrective Action Plans prepared by Clerk-Treasurer Christopher D. Stidham

Procedure: Obtained Corrective Action Plans from the Clerk-Treasurer on 02/20/2018 for each federal finding in the 2016 report. Added to the project for audit documentation.

Conclusion: The Auditee Prepared Corrective Action Plans for each federal finding in the 2016 report have been documented.



Christopher D. Stidham Clerk-Treasurer

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2016-004 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Clerk-Treasurer Christopher D. Stidham

Contact Phone Number: (219) 762-7784

We concur with the finding.

Description of Corrective Action Plan:

The City of Portage will establish and implement a system of internal controls to ensure all assets are included in the City's capital assets records and reported accordingly. The City of Portage will comply with the Equipment and Real Property Management compliance requirement.

Anticipated Completion Date:

On or before April 1, 2018.

Purpose: To document the Auditee Prepared Corrective Action Plans for each federal finding in the 2016 report

Source: Corrective Action Plans prepared by Clerk-Treasurer Christopher D. Stidham

Procedure: Obtained Corrective Action Plans from the Clerk-Treasurer on 02/20/2018 for each federal finding in the 2016 report. Added to the project for audit documentation.

Conclusion: The Auditee Prepared Corrective Action Plans for each federal finding in the 2016 report have been documented.



Christopher D. Stidham Clerk-Treasurer

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2016-005 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Clerk-Treasurer Christopher D. Stidham

Contact Phone Number: (219) 762-7784

We concur with the finding.

Description of Corrective Action Plan:

The City of Portage will establish and implement a system of internal controls to ensure compliance with the federal suspension and debarment requirements. The City of Portage will include a provision in all contracts requiring compliance by the vendor with this system.

Anticipated Completion Date:

On or before April 1, 2018.

CLERK-TREASURER
CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT (AFR)

A similar comment also appeared in prior Report B49453, entitled *ANNUAL FINANCIAL REPORT*.

Schedule of Payables and Receivables

The 2016 AFR did not include amounts for Accounts Payables or Accounts Receivables for the City as of December 31, 2016. The reporting errors resulted in Accounts Payables and Accounts Receivables being understated by approximately \$3,598,617 and \$2,481,488, respectively.

Schedule of Leases and Debt - Bonds

The Schedule of Leases and Debt did not include \$18,075,000 of ending bond principal balance that should have been included. Also, the Schedule of Leases and Debt included \$2,884,993 of ending bond principal balance that should have been excluded. The Schedule of Leases and Debt did not include \$1,303,818 of principal and interest due within one year for the City as of December 31, 2016, that should have been included, and included \$520,862 that should have been excluded. A revised Schedule of Leases and Debt was presented by the Clerk-Treasurer during the audit. The revised Schedule of Leases and Debt was presented in the Financial Statement and Federal Single Audit Report.

Schedule of Leases and Debt - Capital Leases

The capital lease information in the Schedule of Leases and Debt was incomplete. A capital lease with annual lease payments of \$548,000 was not reported in the capital lease section. A revised Schedule of Leases and Debt was presented by the Clerk-Treasurer during the audit. The revised capital lease information was presented in the Financial Statement and Federal Single Audit Report.

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

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

TEMPORARY TRANSFER OF FUNDS

A similar comment also appeared in prior Report B49453, entitled *TEMPORARY TRANSFER OF FUNDS*.

The Clerk-Treasurer made temporary transfers of funds totaling \$2,970,031 for which ordinances or resolutions had not been adopted by the fiscal body.

Indiana Code 36-1-8-4, concerning temporary transfer 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.

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

- (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."

APPROVAL OF TIME RECORDS

A similar comment also appeared in prior Report B49453, entitled *APPROVAL OF TIME RECORDS*.

The City changed from processing its payroll in-house to outsourcing the process to a third-party payroll provider. The time records were maintained electronically on payroll software through the payroll provider. However, we were unable to determine that each time record was approved by the appropriate official or department head based upon the reports that were provided for audit.

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)

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

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2016:

Fund	Amount Overdrawn
General Fund	\$ (3,415)
Payroll Withholding Civil PERF	(3,400)
Payroll Withholding Police/Fire PERF	(12,958)
Payroll Withholding Flex Plan	(1,924)
Payroll Withholding Def Comp Valic	(25)
Payroll Withholding Local 150 Admin	(59,464)
Payroll Withholding Aflac	(1,252)
Payroll Direct Deposit	(18,174)
 Total Overdrawn Funds	 \$ (100,612)

The City had eight additional payroll withholding funds with positive cash balances at year end. No reconciliation of the balances in the payroll and payroll withholding funds was provided for audit.

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)

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."

TRAINING ON INTERNAL CONTROLS STANDARDS

The City did not retain documentation as evidence that personnel received training on the internal control standards and procedures adopted by the political subdivision, as required by Indiana Code 5-11-1-27(g).

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CLERK-TREASURER
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2018, with Christopher Stidham, Clerk-Treasurer; James Snyder, Mayor; Collin Czilli, Common Council member; and Sue Lynch, Common Council member.

WATER RECLAMATION UTILITY
CITY OF PORTAGE

WATER RECLAMATION UTILITY
CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS

UTILITY CAPITAL ASSETS

The same comment also appeared in prior Report B49453, entitled *UTILITY CAPITAL ASSETS*. A similar comment appeared in prior Report B44823, entitled *CAPITAL ASSET RECORDS*.

The Wastewater Utility did not report any capital assets in the Schedule of Capital Assets. A capital assets listing was not maintained although the utility had capital assets. In the past over \$59,000,000 was reported in the capital assets for the Wastewater Utility.

The Stormwater Utility did not report any capital assets in the Schedule of Capital Assets. A capital assets listing was not maintained although the utility has capital assets such as infrastructure storm water lines.

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)

APPROVAL OF TIME RECORDS

A similar comment also appeared in prior report B49453, entitled *APPROVAL OF TIME RECORDS*.

The Water Reclamation Utility (Utility) changed from processing its payroll in-house to outsourcing the process to a third-party payroll provider. The time records were maintained electronically on payroll software through the payroll provider. However, we were unable to determine that each time recorded was approved by the appropriate official or department head based upon the reports that were provided for audit.

WATER RECLAMATION UTILITY
CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS
(Continued)

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)

UTILITY PERMANENT TRANSFER APPROVAL

The same comment also appeared in prior Report B49453, entitled *UTILITY PERMANENT TRANSFER APPROVAL*.

The Utility made permanent transfers from one fund to another in the normal course of operations. An accounts payable voucher was created for each permanent transfer; however, the permanent transfers between funds were not included in the list of accounts payable vouchers approved by the Utility Services Board. Utility permanent transfers totaled \$11,797,317.

Indiana Code 5-11-10-1.6 (c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

WATER RECLAMATION UTILITY
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2018, with Christopher Stidham, Clerk-Treasurer; James Snyder, Mayor; Collin Czilli, Common Council member; and Sue Lynch, Common Council member.

REDEVELOPMENT COMMISSION
CITY OF PORTAGE

REDEVELOPMENT COMMISSION
CITY OF PORTAGE
AUDIT RESULT AND COMMENT

REDEVELOPMENT COMMISSION GENERAL FUND

A similar comment also appeared in prior Reports B44823 and B49453, entitled *REDEVELOPMENT COMMISSION GENERAL FUND*.

Background Information

The establishment of a Redevelopment General Fund is authorized by Indiana Code 36-7-14-28(c). An ordinance describing the sources and uses of the Redev: General (Redevelopment General Fund) was not presented for audit. The Redevelopment General fund revenue sources were tax abatement fees, sale of property proceeds, rental income, and interest earned.

A Redevelopment 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.

City Operating Costs Paid Through Redevelopment General Fund

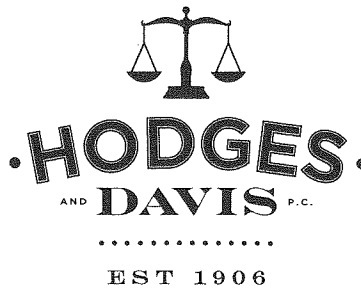
Certain disbursements from the Redevelopment General Fund were determined to be operating costs of the City, which were not in compliance with the duties and powers of the Redevelopment Commission as stated in Indiana Code 36-7-14-11 and Indiana Code 36-7-14-12.2.

1. In 2016, the City disbursed \$142,298 from the Redevelopment General Fund for computer services for all the City's departments. Redevelopment Commission funds may be spent to procure computer and phone messaging equipment and services when such equipment and services are used in the offices of the department of redevelopment pursuant to Indiana Code 36-7-14-12.2(a)(19). However, the statute does not provide the payment of City operating costs by the Redevelopment Commission.
2. In 2016, the City disbursed \$77,980 from the Redevelopment General Fund for miscellaneous marketing purchases. A Redevelopment Commission does not have the specific authority to procure miscellaneous marketing purchases under Indiana Code 36-7-14-12.2. Marketing purchases are not listed as a redevelopment activity under Indiana Code 36-7-1-18.

The general operating costs of the City, such as computer and phone messaging equipment and services, should be paid from the City's General Fund as set forth in the Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 4:

"GAAFR defines the General Fund as the fund used to account for all financial resources except those required to be accounted for in another fund. The General Fund is the general operating fund of the municipality. Tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The general operating expenditures of the municipality are paid from the General Fund.

To summarize, the General Fund shall be used for current general operations of the city or town."



February 28, 2018

EARLE F. HITES
R. LAWRENCE STEELE
GREGORY A. SOBKOWSKI
BONNIE C. COLEMAN
LAURA B. FROST
BENJAMIN T. BALLOU
STEVEN J. SCOTT
SHAWN D. COX
DANIEL W. BLANKENBURG

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

OF COUNSEL:
CLYDE D. COMPTON
EDWARD J. HUSSEY

Re: Portage Redevelopment Commission Audit Report
01/01/16 to 12/31/16

JASPER COUNTY OFFICE:
EDWARD P. DUMAS

To Whom It May Concern:

LAKE COUNTY
8700 BROADWAY
MERRILLVILLE, IN 46410
P (219) 641.8700
F (219) 641.8710

I represent the City of Portage Redevelopment Commission (Commission), and am writing in response to the above audit report for the Commission.

PORTER COUNTY
P.O. BOX 476
PORTAGE, IN 46368
P (219) 762.9129

I disagree with the conclusion that the disbursements from the Redevelopment General Fund for computer services for all the City's departments and phone messaging services are not allowable uses of the Fund. There is nothing in state law or city ordinance which specifically restricts what the Redevelopment General Fund may be used for. The purpose of the Redevelopment statute is to promote economic development and redevelopment. In accordance with I.C. § 36-7-14-11, the Commission has a duty to combat the causes of areas needing redevelopment and to cooperate with the City in the manner that best serves the purposes of I.C. § 36-7-14. Promoting the effective and efficient operation of government enhances the City's ability to attract economic development/redevelopment. In this way, the 2015 disbursements for computer and phone messaging services promote economic development/redevelopment.

JASPER COUNTY
119 W. HARRISON STREET
RENSSELAER, IN 47978
P (219) 866.4158
F (219) 866.2274


HODGESDAVIS.COM

Indiana State Board of Accounts
February 28, 2018
Page Number Two

I also disagree with the conclusion that the \$77,980 disbursed from the Redevelopment General Fund for miscellaneous marketing purchases are not allowable uses of the Fund. One of the Commission's duties under I.C. § 36-7-4-11 is to promote the use of land in the manner that best serves the interest of the unit and its inhabitants. The definition of redevelopment includes "performing all acts incident to the statutory powers and duties of a redevelopment commission." I.C. § 36-7-1-18(12). The purpose of marketing items is to promote development which helps the Commission fulfill its duty to promote the use of land in the manner that best serves the interest of the unit and its inhabitants. Nothing in the statute prohibits use of general fund revenues to purchase marketing items. Consequently, purchase of these items is a redevelopment activity as defined by applicable law conducted in furtherance of the duties of the Commission.

Very truly yours,

HODGES AND DAVIS, P.C.

By: 
Gregory A. Sobkowski

GAS:dwb:360243.1

REDEVELOPMENT COMMISSION
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2018, with Christopher Stidham, Clerk-Treasurer; James Snyder, Mayor; Collin Czilli, Common Council member; and Sue Lynch, Common Council member.

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FIRE DEPARTMENT
CITY OF PORTAGE

FIRE DEPARTMENT
CITY OF PORTAGE
FEDERAL FINDINGS

FINDING 2016-003

Subject: Assistance to Firefighters Grant - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Matching and Level of Effort - Maintenance of Effort (MOE), Period of Performance, Reporting
Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number and Year (or Other Identifying Number): EMW-2014-FR-00328
Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; Period of Performance; Reporting
Audit Finding: Material Weakness

Condition

A documented internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; matching and level of effort requirements of Matching, Level of Effort, Earmarking; Period of Performance; and Reporting.

Activities Allowed or Unallowed, Allowable Cost/Cost Principles

The Assistant Fire Chief was responsible for receiving invoices and reviewing them to ensure that they were for allowable activities and were allowable costs. The invoices were subsequently provided to the Clerk-Treasurer for review; however, there was no documentation that the Assistant Fire Chief received or reviewed the invoices.

Cash Management

The City had not designed effective internal controls to ensure that federal funds were expended timely. The Clerk-Treasurer was solely responsible for ensuring that the advances of federal grant funds were disbursed without unreasonable delay.

Matching and Level of Effort - Maintenance of Effort (MOE)

The City had not established effective internal controls over matching and MOE to ensure compliance. The Clerk-Treasurer was solely responsible for ensuring that cash matching requirements were met.

The City was unaware of the MOE requirements; therefore, they did not have a system in place for determining whether or not they met the MOE requirement that grantee operating expenses must be equal to or greater than the operating expenses in the two years preceding the grant period of performance.

Period of Performance

The City had not established controls to ensure that grant expenditures were obligated or paid within the period of performance. The Assistant Fire Chief was designated to ensure that the disbursements from the federal grant were within the period of performance. The Clerk-Treasurer, subsequently, reviewed the disbursements for compliance with period of performance; however, there was no documentation of the initial determination by the Assistant Fire Chief.

FIRE DEPARTMENT
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

Reporting

The City had not established an effective internal control system to ensure accurate reporting of the grant receipts and disbursements. The Assistant Fire Chief prepared and submitted all federal reports without a proper system of oversight or review before submission.

Context

The lack of properly documented controls was a systemic issue throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
...

Cause

The City had not developed a system of internal controls to ensure compliance with the grant agreement and the compliance requirements noted in the *Condition*.

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls to ensure compliance with the following compliance requirements noted in the *Condition*.

Views of Responsible Officials

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

FIRE DEPARTMENT
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

FINDING 2016-004

Subject: Assistance to Firefighters Grant - Equipment
Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2014-FR-00328
Compliance Requirement: Equipment and Real Property Management
Audit Findings: Material Weakness, Modified Opinion

Condition

The City had not established an effective internal control system to ensure compliance with the grant agreement and equipment requirements of the Equipment and Real Property Management compliance requirement.

The City failed to comply with the equipment requirements that equipment purchased with federal funds must be added to the capital assets listing and include the percentage of federal funding, that any disposal of assets acquired with federal funds must be reported, and that a physical inventory of the equipment must be performed at least every two years. The equipment purchased with federal funds was not included on the City's capital assets detail listing. In addition, no documentation of a physical inventory of equipment was provided for audit.

Context

The lack of controls and the noncompliance were systemic issues, which occurred throughout the audit period. Equipment purchased totaled \$890,147, of which \$785,882 was from the federal grant and was the only expenditure of this grant.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
..."

2 CFR 200.313(d) states:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

FIRE DEPARTMENT
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Cause

Management had not developed a system of internal controls to ensure compliance with the equipment requirements of the Equipment and Real Property Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City establish controls to ensure compliance and comply with the Equipment and Real Property Management compliance requirement.

Views of Responsible Officials

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

FINDING 2016-005

Subject: Assistance to Firefighters Grant - Procurement and Suspension and Debarment
Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2014-FR-00328
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

FIRE DEPARTMENT
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

Condition

The City had not established an effective internal control system related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Procurement

The City had not established effective controls to ensure that proper procurement policies were followed.

The City did not comply with the procurement requirements of the Procurement and Suspension and Debarment compliance requirement. They had not adopted a written public purchase policy for purchases over \$50,000, which would have complied with federal and state rules for procurement.

Suspension and Debarment

The City had not established effective controls to ensure that vendors were not suspended or debarred or otherwise excluded from participation in federal assistance programs.

The City did not comply with the suspension and debarment requirements of the Procurement and Suspension and Debarment compliance requirement. They did not perform any procedures to verify that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

The lack of controls and the noncompliance were systemic issues throughout the audit period. There was no policy for purchases over \$50,000 and no verification procedures were performed for the vendor paid from the grant.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
..."

2 CFR 200.318 states in part:

"(a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.

FIRE DEPARTMENT
CITY OF PORTAGE
FEDERAL FINDINGS
(Continued)

(b) Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. . . ."

2 CFR 200.213 states:

"Non-federal entities and contractors are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal controls to ensure compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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



Christopher D. Stidham Clerk-Treasurer

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2016-003 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Clerk-Treasurer Christopher D. Stidham
Contact Phone Number: (219) 762-7784

We concur with the finding.

Description of Corrective Action Plan:

The City of Portage will establish and implement a system of internal controls to comply with the requirements of each federal grant award including: internal control for allowable cost(s), effective cash management, ensuring grant funds are expended within the period of performance, internal controls for external report and any Matching and Level of Effort requirements.

Anticipated Completion Date:

On or before April 1, 2018.

Purpose: To document the Auditee Prepared Corrective Action Plans for each federal finding in the 2016 report

Source: Corrective Action Plans prepared by Clerk-Treasurer Christopher D. Stidham

Procedure: Obtained Corrective Action Plans from the Clerk-Treasurer on 02/20/2018 for each federal finding in the 2016 report. Added to the project for audit documentation.

Conclusion: The Auditee Prepared Corrective Action Plans for each federal finding in the 2016 report have been documented.



Christopher D. Stidham Clerk-Treasurer

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2016-004 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Clerk-Treasurer Christopher D. Stidham

Contact Phone Number: (219) 762-7784

We concur with the finding.

Description of Corrective Action Plan:

The City of Portage will establish and implement a system of internal controls to ensure all assets are included in the City's capital assets records and reported accordingly. The City of Portage will comply with the Equipment and Real Property Management compliance requirement.

Anticipated Completion Date:

On or before April 1, 2018.



Christopher D. Stidham Clerk-Treasurer

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2016-005 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Clerk-Treasurer Christopher D. Stidham

Contact Phone Number: (219) 762-7784

We concur with the finding.

Description of Corrective Action Plan:

The City of Portage will establish and implement a system of internal controls to ensure compliance with the federal suspension and debarment requirements. The City of Portage will include a provision in all contracts requiring compliance by the vendor with this system.

Anticipated Completion Date:

On or before April 1, 2018.

FIRE DEPARTMENT
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2018, with Tom Fieffer, Fire Chief; Tim Sosby, Assistant Fire Chief; Christopher Stidham, Clerk-Treasurer; James Snyder, Mayor; Collin Czilli, Common Council member; and Sue Lynch, Common Council member.

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COMMON COUNCIL
CITY OF PORTAGE

COMMON COUNCIL
CITY OF PORTAGE
AUDIT RESULT AND COMMENT

UTILITY SERVICE BOARD

The City created a Utility Service Board by Ordinance No. 09-63 over "each and every utility owned and operated by the City of Portage." The Utility Service Board consisted of five members; three members were appointed by the Mayor and two members were appointed by the Common Council.

Subsequent to the audit period, the Common Council adopted, and the Mayor approved, Ordinance No. 17-7, which stated: "The utility service board shall consist of the members of the Common Council of the City of Portage pursuant to IC 8-1.5-3-3(a)(2)."

The utility owned and operated by the City performed the functions of a sewage works as defined in Indiana Code 36-9-1-8. The provisions of Indiana Code 36-9-23 determine membership of the governing board for a sewage works. Such governance, by statute, would be with a municipal works board, unless powers and duties were transferred by the legislative body in accordance with Indiana Code 36-9-23-4.

Indiana Code 36-9-1-8 states:

"Sewage works' means:

- (1) sewage treatment plants;
- (2) intercepting sewers;
- (3) main sewers;
- (4) submain sewers;
- (5) local sewers;
- (6) lateral sewers;
- (7) outfall sewers;
- (8) storm sewers;
- (9) force mains;
- (10) pumping stations;
- (11) ejector stations;
- (12) any other structures necessary or useful for the collection, treatment, purification, and sanitary disposal of the liquid waste, solid waste, sewage, storm drainage, and other drainage of a municipality; and
- (13) for purposes of IC 36-9-25, overhead plumbing or backflow prevention devices that are financed in whole or in part through assistance provided under IC 36-9-25-42."

COMMON COUNCIL
CITY OF PORTAGE
AUDIT RESULT AND COMMENT
(Continued)

Indiana Code 36-9-23-3 states:

"The construction, acquisition, improvement, operation, and maintenance of sewage works under this chapter shall be supervised and controlled by the municipal works board. However, the municipal legislative body may, by ordinance, transfer the powers and duties of the works board under this chapter to:

- (1) a sanitary board established under section 4 of this chapter; or
- (2) the utility service board, if the municipality has such a board operating one (1) or more municipally owned utilities."

Indiana Code 36-1-2-24 states in part: "'Works Board' means the: . . . (3) board of public works or board of public works and safety, for a city; . . ."

Indiana Code 36-4-9-8(c) states in part: "The board of public works and safety consists of three (3) or five (5) members (as determined by the city executive). The members of the board of public works and safety are: (1) the city executive; and (2) two (2) or four (4) persons appointed by the executive. . . ."

Indiana Code 36-9-23-4(a) states:

"A sanitary board established under this chapter consists of:

- (1) the municipal executive; and
- (2) two (2) persons appointed by the municipal legislative body, one (1) of whom must be a registered professional engineer.

The legislative body may not appoint any paid or unpaid municipal officer or employee to the board."

Indiana Code 8-1-2-1(h) states: "'Municipally owned utility', as used in this chapter, includes every utility owned or operated by a municipality."

Indiana Code 8-1-2-1(g) states in part: "'Utility' . . . does not include a municipality that may acquire, own, or operate facilities for the collection, treatment, purification, and disposal in a sanitary manner of liquid and solid waste, sewage, night soil, and industrial waste. . . ."

Litigation is pending in the Porter Superior Court, Case Number 64D05-1803-PL-002048, James Snyder, in his official capacity as Mayor of the City of Portage, Indiana, Plaintiff, v. City of Portage Common Council and Christopher D. Stidham, Clerk-Treasurer, City of Portage, Indiana. Defendants. A Stipulated Order Resolving Plaintiff's Motion for Preliminary Injunction was filed in the Porter County Superior Court on April 23, 2018.

COMMON COUNCIL
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2018, with Christopher Stidham, Clerk-Treasurer; James Snyder, Mayor; Collin Czilli, Common Council member; and Sue Lynch, Common Council member.