

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF VALPARAISO UTILITIES

PORTER COUNTY, INDIANA

January 1, 2017 to December 31, 2017



**FILED**  
11/16/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Jon Costas	01-01-17 to 12-31-19
Executive Director	Steve Poulos	01-01-17 to 12-31-18
Chief Financial Officer	Alina Hahn	01-01-17 to 12-31-18
President of the Utilities Board of Directors	David Bengs	01-01-17 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

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

This report is supplemental to our audit report of the City of Valparaiso Utilities (Utilities), for the period from January 1, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Utilities. It should be read in conjunction with our Financial Statements Audit Report of the Utilities, which provides our opinions on the Utilities' financial statements. 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 Result and Comment contained herein describes the identified reportable instance of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Result and Comment, incorporated within this report, was not verified for accuracy.

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

October 11, 2018

CITY OF VALPARAISO UTILITIES  
AUDIT RESULT AND COMMENT

**INTERNAL CONTROLS OVER REPORTING**

There were deficiencies in the internal control system of the Utilities related to reporting. Due to the lack of an effective system of oversight or approval, the following material (either individually or cumulatively) misstatements in the financial statements prepared by the Utilities were undetected:

- A. The Utilities obtained the actuarial valuation for fiscal year ending December 31, 2017, for the Other Post-Employment Benefits (OPEB) as required. However, the related liabilities, deferred inflows/outflows, note disclosures, and required supplementary information were not updated and reported in the Utilities prepared financial statements and notes.
- B. The Utilities did not include a note disclosure on the unique funding situation with the City's Redevelopment Commission.
- C. The Statement of Cash Flows prepared by the Utilities included the following reporting and classification errors:
  - 1. Beginning and ending cash and cash equivalent balances were overstated by \$18,763,925 for the Water Reclamation Utility.
  - 2. Capital lease proceeds were incorrectly reported as an operating activity rather than as a cash flows from capital and related financing activities.
  - 3. Cash inflows and outflows from the financing agreement with the City's Redevelopment Commission bond was netted on the statement of cash flows and inaccurately classified as Pratt Bond Proceeds.

Audit adjustments were proposed and accepted by the Utilities' management and made to the financial statements, notes to the financial statements, and required supplementary information.

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. . . ."



# Valparaiso City Utilities

205 Billings Street  
Valparaiso, Indiana 46383-3699

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*"Water is our Most Valuable Natural Resource"*

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October 11, 2018

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

**Re: 2017 Audit Results and Comments  
Valparaiso City Utilities (VCU)**

VCU appreciates the Indiana State Board of Accounts (SBOA) for their audit, findings and comments. As a public utility, we are committed to continuous improvement and value the feedback received by the SBOA. While the comments and responses noted below did not prevent VCU from receiving an unqualified "clean" opinion it is important to acknowledge each finding, provide context and outline the corrective actions VCU will implement to improve the accounting and reporting procedures of the VCU.

***"A. The Utility obtained the actuarial valuation for fiscal year ending December 31, 2017 for the Other Post-Employment Benefits (OPEB) as required. However, the related liabilities, deferred inflows/outflows, note disclosures and required supplementary information were not updated and reported in the Utility prepared financial statements and notes."***

VCU prepared financial statements and notes were prepared based on the GASB 45 report. VCU was advised by the SBOA during the 2017 audit that VCU could not use the GASB 45 report for more than three consecutive years. VCU was incorrectly advised by our financial consultant that VCU could utilize the GASB 45 actuarial valuation as done in previous years. A GASB 75 report had already been obtained for preparation of the 2018 reporting year. Financial statements, schedules and notes were updated at that time for the early adoption of GASB 75 and were accepted by the SBOA.

***"B. The Utility did not include a note disclosure on the unique funding situation with the City's Redevelopment Commission."***

A note was included in with the 2015 VCU financial statements but was inadvertently not carried over in subsequent years. This error has been corrected and will be included going in future financial statements.

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Phone: (219) 462-6174 x1323 Fax: (219) 477-4254 E-Mail: [ahahn@valpo.us](mailto:ahahn@valpo.us)

***Water Department***

Visit our website at [www.valparaisoutilities.org](http://www.valparaisoutilities.org)



# Valparaiso City Utilities

205 Billings Street  
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*"Water is our Most Valuable Natural Resource"*

***"C. The statement of Cash Flows prepared by the Utility included the following reporting and classification errors:***

- 1. Beginning and ending cash and cash equivalent balances were overstated by \$18,763,925 for the Water Reclamation Utility."***

This was the result of an excel workbook error. Work papers leading up to the final version of the financial statements were accurate, verified and present. The error has been corrected and adjustments have been made to the file to prevent this from happening in the future.

***"2. Capital lease proceeds were incorrectly reported as an operating activity rather than as a cash flows from capital and related financing activities."***

Capital lease proceeds in the amount of \$286,898 were listed in the incorrect section of the cash flow statement and was corrected upon discovery.

***"3. Cash inflows and outflows from the financing agreement with the City's Redevelopment Commission bond was netted on the statement of cash flows and inaccurately classified as Pratt Bond Proceeds."***

The statement has been restated to illustrate the inflow of the Pratt surcharge collected and the outflow of the payment to the Redevelopment Commission.

Respectfully submitted,

Alina Hahn  
Valparaiso City Utilities CFO

CC Steve Poulos, Utilities Director  
Sharon Swihart, Clerk-Treasurer  
VCU Board of Directors

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Phone: (219) 462-6174 x1323 Fax: (219) 477-4254 E-Mail: [ahahn@valpo.us](mailto:ahahn@valpo.us)

**Water Department**  
Visit our website at [www.valparaisoutilities.org](http://www.valparaisoutilities.org)

CITY OF VALPARAISO UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on October 11, 2018, with Steve Poulos, Executive Director, and Alina Hahn, Chief Financial Officer.

The contents of this report were discussed on October 11, 2018, with Sharon Swihart, Clerk-Treasurer; Robert Cotton, Common Council member; Bill Oeding, City Administrator; and Holly Taylor, Deputy Clerk-Treasurer.