

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, 2021 to December 31, 2021



FILED
12/21/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Nina Rivas	01-01-21 to 12-31-22
Mayor	Sue Lynch	01-01-21 to 12-31-22
President of the Board of Public Works and Safety	Sue Lynch	01-01-21 to 12-31-22
President Pro Tempore of the Common Council	Collin Czilli	01-01-21 to 12-31-22
Chair of the Sanitary Board	Sue Lynch	01-01-21 to 12-31-22
Chair of the Storm Water Board	Sue Lynch	01-01-21 to 12-31-22
President of the Redevelopment Commission	Sue Lynch	01-01-21 to 12-31-22



STATE OF INDIANA
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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, 2021 to December 31, 2021. 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 our Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit 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

December 6, 2022

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CLERK-TREASURER
CITY OF PORTAGE

CLERK-TREASURER
CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in four prior Reports, including the three most recent Reports B53741, entitled *INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING*; and B58054 and B58040, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

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 reporting. 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 had not been developed to ensure that reconcilements of the accounting record balances to the bank depository balances were completed at least monthly, as required by state statute. 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.

As of May 2022, the City had not reconciled all the bank accounts as of December 31, 2021. The City was provided additional time to prepare the required monthly reconcilements.

Evidence of an oversight or review process to ensure the accuracy and completeness of the reconciliations performed by either employees or the engaged consultant was not documented.

Utility Receipts

One individual recorded the Utility collections in the Utility's financial accounting system. An oversight or review process was not in place to ensure the accuracy, completeness, and classification of the receipts after posting to the Utility's financial accounting system.

Utility Disbursements

Utility disbursements made via electronic funds transfer for debt agreements, transfers between funds, and City reimbursements, were prepared by one individual without an oversight, or review process to ensure that disbursements were proper and accurate.

Payroll Disbursements

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

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

Financial Reporting

The financial information was prepared and submitted through the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement, without an oversight, or review process to prevent, or detect and correct, errors.

The lack of internal controls allowed the following material misstatements to remain undetected:

1. The City failed to record and report the financial activity of the Series 2017A TIF Revenue Bond (BNY Mellon) fund. This resulted in the understatement of disbursements and overstatement of the ending cash and investments balance by \$3,576,835.
2. The City did not properly report the activity of the Payroll - General fund. This resulted in the understatement of receipts and disbursements by \$24,831,690 and \$24,944,387, respectively.

Audit adjustments were proposed, accepted by the City, and made to the financial statement.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-13-6-1(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 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](#)."

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

OVERDRAWN CASH BALANCES

The same comment also appeared in four prior Reports, including the three most recent Reports B53741, B58054, and B58040.

Condition and Context

The financial statement presented included funds with overdrawn cash balances at December 31, 2021. The City funds with overdrawn cash balances at December 31, 2021, are listed below:

Fund	Amount Overdrawn
GENERAL FUND	\$ 821,869
Sanitation - Trash and Recycling	37,319

The following funds presented in the financial statement received temporary loans from other funds at year end. Without the temporary loans, these funds would have had the following overdrawn cash balances:

Fund	Amount Funds Would Have Been Overdrawn as of December 31, 2021
MVH-STREET FUND	\$ 1,556,208
Sanitation - Trash and Recycling	537,319
Municipal Wheel Tax	258,852

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

A similar comment also appeared in five prior Reports, including the three most recent Reports B53741, B58054, and B58040.

Condition and Context

Throughout 2021, the Clerk-Treasurer made temporary transfers of funds, totaling \$2,150,000, which remained outstanding as of December 31, 2021. In addition, \$850,000 of temporary transfers of funds made in 2019 and 2020 remained outstanding as of December 31, 2021.

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

All the temporary transfers were made to eliminate overdrawn cash balances in the funds that received the temporary transfers. The following deficiencies were noted:

1. For the \$2,150,000 outstanding at year end, an emergency was not declared to extend repayment to the next year until February 2022, when the Common Council adopted Resolution 22-02.
2. For two of the three temporary transfers, totaling \$1,500,000, ordinances or resolutions were not adopted by the Common Council authorizing the transactions until 69 days after the temporary transfers were made and recorded in the City's financial software.
3. The receipt for the \$650,000 temporary transfer from the Economic Dev Income Tax fund to the MVH-Street Fund was recorded in the financial software; however, the disbursement was not recorded at the time of the transaction. The City accounted for the disbursement as a 2021 financial statement adjustment, which was posted to the financial software in 2022.
4. On January 31, 2019, the Cum. Capital Improvement (CCI) fund temporarily transferred \$500,000 to the Economic Dev Income Tax (EDIT) fund. However, the City did not repay the \$500,000 back to the CCI fund.

On December 30, 2019, the EDIT fund disbursed \$500,000, which was receipted back to the EDIT fund on December 31, 2019. Therefore, the temporary transfer on January 31, 2019, from the CCI fund to the EDIT fund remained outstanding at year end.

As of December 31, 2021, the temporary transfer that was made on January 31, 2019, from the CCI fund to the EDIT fund remained outstanding.

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:

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

- (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."

OUTSTANDING LOAN TO REDEVELOPMENT COMMISSION FUND

A similar comment also appeared in prior Reports B53741, entitled *CITY PAVING PROJECT*; and B58054 and B58040, entitled *OUTSTANDING LOAN TO REDEVELOPMENT COMMISSION*.

Condition and Context

At the December 6, 2018 Redevelopment Commission (RDC) meeting, the former Mayor requested, and the RDC approved, paying outstanding paving invoices not to exceed \$1,000,000, with the understanding that the City would repay the RDC for these disbursements. On December 11, 2018, the paving contractor's request No. 7 for \$942,244 for work performed for the City was paid from the Redev: Allocat Area fund.

As of November 17, 2022, the City had not repaid the Redevelopment Commission for this payment, as indicated in the 2018 minutes. The City was not in compliance in regards to the procedures for temporary transfers for cash flow needs.

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.

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

(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."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

COMPENSATION AND BENEFITS

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

Condition and Context

Time records for the police and fire departments 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)

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

GROUP HEALTH INSURANCE PREMIUMS

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

Condition and Context

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 is 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)."

MONTHLY AND ANNUAL UPLOADS

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

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliements, bank statements, outstanding check listings, approved board minutes, and the funds ledger, which summarizes the receipts, disbursements, and balances by fund.

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

Annual upload requirements include the year-end investment statement, detail of receipt activity, detail of disbursement activity, current year salary ordinance and amendments, an annual vendor history report, annual funds ledger, and an annual payroll history report.

The City did not comply with Amended State Examiner Directive 2018-1, and failed to upload any of the monthly bank reconciliations or the annual payroll history report as required. In addition, the City did not upload any of the monthly or annual files for 2021, or the monthly files for 2022 by the due dates on the Indiana Gateway for Government Units (Gateway) financial reporting system as required.

Criteria

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . . Thereafter, annual files must be uploaded no later than March 1st . . . for the prior year end unless the SBOA establishes a different date.

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifonline.org/userguides/engagementguide>. It is pertinent that this user guide be used in conjunction with this Directive. It provides critical information to you that will help guide you to uploading the correct documents. (Amended State Examiner Directive 2018-1)

CONDITION OF RECORDS - UTILITY DISBURSEMENTS

The same comment also appeared in prior Reports B53741, B58054, and B58040.

Condition and Context

The Common Council adopted Ordinance 17-3 in February 2017, which appointed the City's Clerk-Treasurer as the Treasurer of the Utility Service Board (USB). The USB had a separate Secretary-Treasurer as its fiscal officer previously.

The City and the Utility both used the same financial software, but maintained separate ledger systems. The Clerk-Treasurer's staff began processing the accounts payable vouchers and generating checks for Utility disbursements in 2018, which were written on the Utility bank accounts. Since the Clerk-Treasurer's staff did not have access to the Utility's ledger system, the Clerk-Treasurer's staff recorded the Utility disbursements in three clearing funds in the City's ledgers. In 2019, four additional clearing funds were created. In 2021, one additional clearing fund was created. None of these eight funds were created by ordinance or approved by the Common Council.

Utility receipts were not recorded in the City's ledgers. The City recorded total receipts in the City's ledger in the amount needed to eliminate the accumulated negative cash fund balances.

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

The Utility ledgers recorded all receipts in detail. Utility disbursements paid by electronic funds transfer (EFT), or automatic debit to the Utility bank account were not recorded in the City's records. This resulted in the disbursements in the City's ledgers for the Utility to be less than the amounts recorded in the Utility ledgers, as the City's ledgers only contained disbursements made by checks processed by the City.

The Utility ledgers did not record any detail for the amounts paid by the checks generated from the Clerk-Treasurer's staff. Instead, a transfer was recorded in the Utility ledgers from the Utility's revenue fund, and bank account, for the amount needed to cover the checks written out of the other Utility funds and bank accounts. The only detail reported in the Utility's disbursement ledgers was for any EFT disbursement generated by the Utility financial staff, automatic bank withdrawal, or bank charges.

The Utility disbursements recorded in the City's ledgers were not reconciled to the disbursements recorded in the Utility's ledgers throughout the year, which would have identified variances between the two sets of records. The City's ledgers for the Utility receipts and disbursements were not reported on the financial statement since they would materially misrepresent the financial activity of the City.

The City engaged a consultant to reconcile the Utility and City ledgers and determine the financial activity for the 2021 Annual Financial Report (AFR) and financial statement reporting.

Criteria

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 36-1-3-6 states in part:

"(a) If there is a constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must do so in that manner.

(b) If there is no constitutional or statutory provision requiring a specific manner exercising a power, a unit wanting to exercise the power must either:

(1) if the unit is a county or municipality, adopt an ordinance prescribing a specific manner for exercising the power; . . .

(3) comply with a statutory provision permitting a specific manner for exercising the power.

(c) An ordinance under subsection (b)(1) must be adopted as follows:

(1) In a municipality, by the legislative body of the municipality. . . ."

Our audit position is the powers granted by various statutes authorize the Common Council of a city or the town council of a town to create, by ordinance, as many funds as they feel necessary to operate their particular city or town.

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

The enabling ordinance should provide various types of information.

- (1) The ordinance should clearly indicate the type or types of revenue that is to go into the new fund.
- (2) The ordinance should list the purpose or purposes for which expenditures can be made from the new fund.
- (3) The ordinance should establish the life of the new fund and indicate if the fund balance is nonreverting at year end or perpetual until terminated either by the terms of the current ordinance or if another subsequent ordinance must be enacted.
- (4) The ordinance should provide guidance as to disposition of the fund balance on termination of the fund.
- (5) The ordinance should include any other terms or conditions the city or town attorney deems necessary.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2020)

UTILITY PERMANENT TRANSFERS

A similar comment also appeared in five prior reports, including the three most recent Reports B53741, entitled *UTILITY PERMANENT TRANSFERS AND DEBT PAYMENTS*; B58054 and B58040, entitled *UTILITY PERMANENT TRANSFERS*.

Condition and Context

The Utility made permanent transfers from one fund to another through normal course of operations; however, the following deficiencies in the permanent transfers account payable vouchers had occurred:

1. An accounts payable voucher was created for each permanent transfer; however, proper supporting documentation was not attached. The Utility did not retain detailed supporting documentation to identify which transactions supported the total dollar amount of the transfers.
2. The accounts payable vouchers were not certified by the fiscal officer, nor approved by a governing board.
3. The permanent transfers made from the Revenue II fund (Revenue Fund) to the Cash Operating fund (Operation and Maintenance Fund) were made on an as needed basis whenever the Utility made disbursements from the Operation and Maintenance Fund.

However, Common Council Ordinance No. 17-21 required monthly transfers from the Revenue Fund to provide funding for the Operation and Maintenance Fund, so that it would have a sufficient cash balance to cover two months of expenditures.

4. The Stormwater Utility Board has not adopted a policy to guide how Utility staff should be transferring stormwater collections to the various Utility funds.

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

Criteria

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:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (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. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Common Council Ordinance No. 17-21 Section 10 states:

"Operation and Maintenance Fund. There shall be transferred from the Revenue Fund and credited to the Operation and Maintenance Fund (the 'Operation and Maintenance Fund'), which fund is hereby continued, on or before the last day of each calendar month a sufficient amount of revenues of the System so that the balance in the Operations and Maintenance Fund shall be sufficient to pay the expenses of the operation, repair and maintenance of the System for the then next succeeding two (2) calendar months. The monies credited to the Operations and Maintenance Fund shall be used for the payment of reasonable and proper operation, repair and maintenance expenses of the System on a day to day basis, but none of the monies in such fund shall be used for depreciation, replacements and improvements. Any monies in the Operation and Maintenance Fund in excess of the expected expenses of operation, repair and maintenance for the next succeeding month may be transferred to the Sinking Fund if necessary to prevent a default in the payment of the principal of or interest on the Bonds and any Prior Bonds."

Common Council Ordinance No. 18-8 Section 2 states: "Upon collection of each month's billing, the Clerk-Treasurer shall separate those amounts collected for the Department and deposit those monies into the separate funds determined by the Board. . . ."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

CAPITAL ASSETS

A similar comment also appeared in five prior reports, including the three most recent Reports B53741, B58054, and B58040 entitled *UTILITY CAPITAL ASSETS*.

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

Condition and Context

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 due to a complete data loss of its capital assets listing.

Furthermore, the City's Annual Financial Report reported \$81,635 in the Schedule of Capital Assets for the Wastewater Utility (Utility). However, the listing 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.

Lastly, the City had not performed a complete physical inventory of the City's 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)

ANNUAL FINANCIAL REPORT

Condition and Context

Financial and supplementary information are required to be reported annually on the Indiana Gateway for Government Units (Gateway) financial reporting system. The City was not in compliance as follows:

Combining Schedule

1. The City failed to record and report the financial activity of the Series 2017A TIF Revenue Bond (BNY Mellon) fund. This resulted in the understatement of disbursements and overstatement of cash and investments balance by \$3,576,835.
2. The City did not properly report the activity of the Payroll - General fund. This resulted in the understatement of receipts and disbursements by \$24,831,690 and \$24,944,387, respectively.

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

Audit adjustments were proposed, accepted by the City, and made to the Combining Schedule.

Schedule of Payables and Receivables

The City had payables and receivables at year end, but failed to report any payables or receivables on Gateway. The City approved the omission of the Schedule of Payables and Receivables from the Financial Statement Audit Report.

Schedule of Capital Assets

The capital asset amount reported in Gateway did not include values for the Wastewater Utility's infrastructure, or wastewater treatment plant, as described in the *Capital Assets* comment above. The City approved the omission of the Schedule of Capital Assets from the Financial Statement Annual Report.

Schedule of Leases and Debt

The City either omitted, included retired debt, or misstated outstanding debt balances, which resulted in the overstatement of the Ending Principal Balance by \$8,100,182, and understatement of the Principal Due Within One Year by \$3,379,000. Audit adjustments were proposed, accepted by the City, and made to the Schedule of Leases and Debt.

Grant Schedule

The Grant Schedule entered into Gateway contained the following errors:

1. The Highway Planning and Construction Cluster grant expenditures were overstated in the amount of \$1,227,591.
2. The COVID-19 - Disaster Grants - Public Assistance grant expenditures were omitted, which understated the federal expenditures by \$56,796.
3. There were two other grants that were omitted, which understated the federal expenditures by \$31,299.
4. Other errors included pass-through entities and identifying numbers.

Adjustments were proposed, accepted by the City, and made to the Grant Schedule.

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 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](#)."

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

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The City created a Motor Vehicle Highway (MVH) Restricted sub-fund within the MVH-Street Fund and posted 50 percent of the state motor vehicle highway distributions to the sub-fund as required. However, the City disbursed \$1,000,000 for a temporary loan to the MVH-Street Fund. This disbursement was not for the construction, reconstruction, and preservation of the City's highways.

Criteria

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



OFFICIAL RESPONSE

Date: December 12, 2022

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

Re: City of Portage, Porter County 2021 Audit Results and Comments

A. Financial Transactions and Reporting

Cash and Investments (Bank Reconciliations)

The City contracted with a vendor in 2020 to assist with reconciling City accounts. Accounts have been reconciled through 2021. 2022 reconciliations will be completed in 2022. Internal controls, which include an oversight/review process, have been established to ensure 2023 reconciliations are each month.

Utility Receipts & Disbursements – Condition of Records – Permanent Transfers

In 2018 the City's Utility Service Board was dissolved and a Sanitary Board and Stormwater Management Board was created. In 2019, the Clerk-Treasurer assumed the role as the Secretary-Treasurer for the utilities. The merger of the City and Utility financial systems will be completed in 2022. Combining the two systems will allow for proper internal controls and oversight. Further, a permanent Transfer Policy is being developed.

Payroll Disbursements

The city is in the process of converting its payroll software. Payroll will no longer be performed by an outside vendor. This will allow for proper payroll reporting and payroll reconciliation.

Financial Reporting

Internal controls and segregation of duties have been established to ensure AFR accuracy.

Overdrawn Cash Balances

2021 overdrawn balances were due to adjustments made to the AFR after City accounts were reconciled in 2022.

Temporary Transfer of Funds

The \$650,000 temporary transfer from EDIT to MVH was corrected in 2022 with an adjusting entry.

The \$500,000 temporary transfer from CCI to EDIT has been repaid in December of 2022.



Outstanding Loan to Redevelopment Commission Fund

The outstanding temporary transfer of funds in the amount of \$942,244 from the RDC was repaid on December 6, 2022.

Capital Assets

The city lost its Asset software data in April of 2021. The data is currently being reentered into the program.

Motor Vehicle Highway (MVH) Restricted Fund

The city issued a temporary loan (temporary transfer of funds) from the MVH-Restricted fund to the MVH fund for \$1,000,000. Since it was a temporary transfer of funds and requires repayment, I disagree with this comment. However, the MVH-Restricted fund was repaid on December 6, 2022.

Respectfully,

A handwritten signature in black ink that reads "Nina Rivas".

Nina Rivas
Clerk-Treasurer

CLERK-TREASURER
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2022, with Nina Rivas, Clerk-Treasurer; Sue Lynch, Mayor; Collin Czilli, President Pro Tempore of the Common Council; Gina Giese-Hurst, Common Council member; and Deb Podgorski, Common Council member.

COMMON COUNCIL
CITY OF PORTAGE

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AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in four prior reports, including the three most recent Reports B53741, B58054, and B58040.

Condition and Context

The financial statement presented included funds with overdrawn cash balances at December 31, 2021. The City funds with overdrawn cash balances at December 31, 2021, are listed below:

Fund	Amount Overdrawn
GENERAL FUND	\$ 821,869
Sanitation - Trash and Recycling	37,319

The following funds presented in the financial statement received temporary loans from other funds at year end. Without the temporary loans, these funds would have had the following overdrawn cash balances:

Fund	Amount Funds Would Have Been Overdrawn as of December 31, 2021
MVH-STREET FUND	\$ 1,556,208
Sanitation - Trash and Recycling	537,319
Municipal Wheel Tax	258,852

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)

OUTSTANDING LOAN TO REDEVELOPMENT COMMISSION FUND

A similar comment also appeared in prior Report B53741, entitled *CITY PAVING PROJECT*; and B58054 and B58040, entitled *OUTSTANDING LOAN TO REDEVELOPMENT COMMISSION*.

Condition and Context

At the December 6, 2018 Redevelopment Commission (RDC) meeting, the former Mayor requested, and the RDC approved, paying outstanding paving invoices not to exceed \$1,000,000, with the understanding that the City would repay the RDC for these disbursements. On December 11, 2018, the paving contractor's request No. 7 for \$942,244 for work performed for the City was paid from the Redev: Allocat Area fund.

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AUDIT RESULTS AND COMMENTS
(Continued)

As of November 17, 2022, the City had not repaid the Redevelopment Commission for this payment, as indicated in the 2018 minutes. The City was not in compliance in regards to the procedures for temporary transfers for cash flow needs.

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."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

COMMON COUNCIL
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2022, with Nina Rivas, Clerk-Treasurer; Sue Lynch, Mayor; Collin Czilli, President Pro Tempore of the Common Council; Gina Giese-Hurst, Common Council member; and Deb Podgorski, Common Council member.

STORMWATER BOARD
CITY OF PORTAGE

STORMWATER BOARD
CITY OF PORTAGE
AUDIT RESULT AND COMMENT

UTILITY PERMANENT TRANSFERS

A similar comment also appeared in five prior reports, including the three most recent Reports B53741, entitled *UTILITY PERMANENT TRANSFERS AND DEBT PAYMENTS*; B58054 and B58040, entitled *UTILITY PERMANENT TRANSFERS*.

Condition and Context

The Utility made permanent transfers from one fund to another through normal course of operations; however, the following deficiencies in the permanent transfers account payable vouchers had occurred:

1. An accounts payable voucher was created for each permanent transfer; however, proper supporting documentation was not attached. The Utility did not retain detailed supporting documentation to identify which transactions supported the total dollar amount of the transfers.
2. The accounts payable vouchers were not certified by the fiscal officer, nor approved by a governing board.
3. The Stormwater Utility Board has not adopted a policy to guide how Utility staff should be transferring stormwater collections to the various Utility funds.

Criteria

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:

STORMWATER BOARD
CITY OF PORTAGE
AUDIT RESULT AND COMMENT
(Continued)

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (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. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Common Council Ordinance No. 18-8 Section 2 states: "Upon collection of each month's billing, the Clerk-Treasurer shall separate those amounts collected for the Department and deposit those monies into the separate funds determined by the Board. . . ."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

STORMWATER BOARD
CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2022, with Nina Rivas, Clerk-Treasurer; Sue Lynch, Mayor and Chair of the Stormwater Board; Collin Czilli, President Pro Tempore of the Common Council and Stormwater Board Council Liaison; Gina Giese-Hurst, Common Council member; and Deb Podgorski, Common Council member.