

B37176

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

AUDIT REPORT
OF

WASTEWATER UTILITY
CITY OF SOUTH BEND
ST. JOSEPH COUNTY, INDIANA

January 1, 2009 to December 31, 2009



FILED
07/08/2010

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CITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	John J. Dillon	01-01-09 to 12-31-10
Controller	M. Catherine Fanello Gregg D. Zientara	03-03-08 to 08-16-09 08-17-09 to 12-31-11
Mayor	Stephen J. Luecke	01-01-08 to 12-31-11
President of the Board of Public Works	Gary Gilot	01-01-09 to 12-31-10
President of the Common Council	Derek D. Dieter	01-01-09 to 12-31-10



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TO: THE OFFICIALS OF THE WASTEWATER UTILITY, CITY OF SOUTH BEND

We have audited the records of the Wastewater Utility for the period from January 1, 2009 to December 31, 2009, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Result and Comment. The financial transactions of this office are reflected in the Annual Report of City of South Bend, St. Joseph County, for the year 2009.

STATE BOARD OF ACCOUNTS

June 7, 2010

WASTEWATER UTILITY
CITY OF SOUTH BEND
AUDIT RESULT AND COMMENT

WASTEWATER EXPENSES

Salt

Salt purchased for use by the Street Department of the City of South Bend for 2007, 2008, and 2009, was purchased from the Wastewater Fund and reimbursed by the General Fund as follows:

	2007	2008	2009
Purchased by Wastewater	\$ 224,102	\$ 424,559	\$ 351,755
Reimbursed by General for previous year	98,838	119,938	*

*The 2008 financial statements included an amount due from the General Fund to the Wastewater Fund for \$178,118 for salt. This amount was not paid in the subsequent period.

Street Sweeping

Beginning in 2009, six employees working as street sweepers are being paid from the Wastewater Fund.

IC 36-9-23-25 states:

"(a) Subject to section 37 of this chapter, the municipal legislative body shall, by ordinance, establish just and equitable fees for the services rendered by the sewage works, and provide the dates on which the fees are due.

(b) Just and equitable fees are the fees required to maintain the sewage works in the sound physical and financial condition necessary to render adequate and efficient service. The fees must be sufficient to:

- (1) pay all expenses incidental to the operation of the works, including legal expenses, maintenance costs, operating charges, repairs, lease rentals, and interest charges on bonds or other obligations;
- (2) provide the sinking fund required by section 21 of this chapter;
- (3) provide adequate money to be used as working capital; and
- (4) provide adequate money for improving and replacing the works . . ."

WASTEWATER UTILITY
CITY OF SOUTH BEND
EXIT CONFERENCE

The contents of this report were discussed on June 7, 2010, with Stephen J. Luecke, Mayor; Gregg D. Zientara, Controller; Derek D. Dieter, President of the Common Council; and Catherine Toppel, Code Enforcement Director. On June 8, 2010, the report was discussed with John J. Dillon, Superintendent, and with Carol Kurzhal, Financial Specialist, Senior. The official response has been made a part of this report and may be found on pages 6 and 7.

CITY OF SOUTH BEND
AUDIT RESULTS AND COMMENTS,
And City of South Bend Response

WASTEWATER EXPENSES

Salt

Salt purchase for use by the street department of the City of South Bend for 2007, 2008 and 2009 was purchased from the wastewater fund and reimbursed by the general fund as follows:

Purchased by wastewater	\$ 224,102	\$ 424,559	\$ 351,755
Reimbursed by general			
for previous year	98,838	119,938	*

* - The 2008 financial statements included an amount due from the general fund to the wastewater fund for \$178,118 for salt. This amount was not paid in the subsequent period.

City of South Bend Response:

The City recognizes that in fiscal 2009, the wastewater fund was not reimbursed for a formula determined share of the cost of salt acquired by the City for wintertime application to city roads and streets.

The 2010 budget for City operations has been established whereby the wastewater fund will assume full payment of the cost of salt acquired and used without reimbursement from another city fund.

Beginning with the budget for fiscal year 2011, the City will implement the following methodology for the expensing of the cost of salt acquired and used for wintertime application to city roads and streets.

- 1 All expense incurred by the City for salt and any other agent acquired for the purpose of wintertime application to city roads and streets with the intention of improving driving conditions, will be budgeted and expensed to Fund 202 Motor Vehicle Highway.*
- 2 The costs of the "agents" for the purpose as described in number 1, will be shared by Fund 202 Motor Vehicle Highway and Fund 641 Sewage Works Operations, according to the following formula:*

Allocation of cost between motor vehicle highway and wastewater funds is based on the difference in price of salt & treated sand multiplied by the number of tons of salt acquired.

The allocation formula will be determined each year at budget preparation time based upon the cost data incurred during the previous winter season.

Street Sweeping

Beginning in 2009, six employees working as street sweepers are being paid from the wastewater fund.

Indiana Code 36-9-23-25 states...Subject to section 37 of this chapter, the municipal legislative body shall, by ordinance, establish just and equitable fees for the services rendered by the sewage works, and provide the dates on which the fees are due. (b) Just and equitable fees are the fees required to maintain the sewage works in the sound physical and financial condition necessary to render adequate and efficient service. The fees must be sufficient to:

- (1) pay all expenses incidental to the operation of the works, including legal expenses, maintenance costs, operating charges, repairs, lease rentals, and interest charges on bonds or other obligations;*
- (2) provide the sinking fund required by section 21 of this chapter;*
- (3) provide adequate money to be used as working capital; and*

(4) provide adequate money for improving and replacing the works...

City of South Bend Response:

Effective in fiscal 2009, the City of South Bend, after review and analysis, reached the decision to assign the full cost of street sweeping operations to the wastewater fund. This represented a change in practice from fiscal periods prior to 2009.

Due to the implementation of State enacted circuit breaker legislation, the City embarked on a process to critically review each service performed by city operations and determine the necessity of performing the service, beneficiary of the service, and consequently determine expense responsibility within City operations.

With respect to the City performed operation of street sweeping, it was determined that the purpose of street sweeping operations is environmental protection of a natural resource and an operational measure ensuring efficient operation of wastewater plant equipment.

Whereas, the St. Joseph River is a treasured natural resource and a valued part of the community infrastructure of the City of South Bend and the region as a whole, and, the purpose of street sweeping within the City of South Bend is to protect the river from pollutant runoff and to protect the wastewater treatment plant from an onslaught of sand and grit and pollutant load, which places increased burden on the operating efficiency and cost to operate the plant, the City continues to uphold the 2009 decision whereby the wastewater fund will bear the cost of the street sweeping operation.

A best management practice requirement under the U.S. Government Environmental Protection Agency's Nine Minimum Controls of NPDES permit holders, which is the designation of the City of South Bend's Wastewater Treatment Plant, cost of service principles strongly suggest the city allocate the cost in the wastewater utility budget. This is due to the determination that the wastewater operation is the primary beneficiary of street sweeping operations in the City.

The 2010 budget for City operations has been established whereby the wastewater fund will assume full expense responsibility of the cost of street sweeping operations in the City. The City intends to proceed with this practice during fiscal 2011 and beyond.