

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MISHAWAKA

ST. JOSEPH COUNTY, INDIANA

January 1, 2015 to December 31, 2015



**FILED**

09/23/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Rebecca S. Miller	01-01-15 to 12-31-16
Mayor	David A. Wood	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Gary E. West	01-01-15 to 12-31-16
President of the Common Council	Dale E. Emmons Ronald S. Banicki	01-01-15 to 12-31-15 01-01-16 to 12-31-16
Utility Office Manager	James Schrader	01-01-15 to 12-31-15



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF THE CITY OF MISHAWAKA, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the City of Mishawaka (City), for the period from January 1, 2015 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the City. It should be read in conjunction with the City's Comprehensive Annual Financial Report and our Federal Single Audit Report of the City, which provides our opinions on the City's financial statements and federal program compliance. This report may be found at [www.in.gov/sboa](http://www.in.gov/sboa).

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

August 4, 2016

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CITY OF MISHAWAKA

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CITY OF MISHAWAKA  
FEDERAL FINDINGS

**FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING**

*Condition*

There were deficiencies in the internal control system of the City of Mishawaka (City) related to financial transactions and reporting of the Comprehensive Annual Financial Report (CAFR) and the Schedule of Expenditures of Federal Awards (SEFA).

The internal controls in place over the review of the CAFR were not effective in preventing, or detecting and correcting, errors in a timely manner. The following were immaterial errors by opinion unit:

Governmental Activities:

1. Consolidated TIF fund (a major Governmental fund) Taxes Receivable was understated \$1,604,632.
2. Net Pension Asset was understated \$2,604,060.
3. Net Pension Liability was understated \$959,601.
4. Deferred Pension Outflows was understated \$1,980,499.
5. Notes and Loans Payable was understated \$1,513,782.

Business-Type Activities:

1. Electric Utility fund (a major Enterprise fund) Inventories were overstated \$544,364.
2. Enterprise funds (all major Enterprise funds) Accounts Payable was overstated \$361,982.

Component Unit:

1. Loans Receivable was understated \$386,503.
2. Expenses were overstated \$1,000,000.
3. Revenues were overstated \$613,498.

Notes to Financial Statements:

Notes to the Financial Statements included numerous inconsistencies with the financial information included on the face of the Financial Statements.

The City did not have a proper system of internal control in place to prevent, or detect and correct, material errors on the SEFA as detailed below.

1. Federal expenditures of the Community Development Block Grants/Entitlement Grants were overstated \$150,171.
2. Federal expenditures of the Alcohol Impaired Driving Countermeasures Incentive Grants I were understated \$24,520.

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CITY OF MISHAWAKA  
FEDERAL FINDINGS  
(Continued)

3. Federal expenditures of the Highway Planning and Construction grant were overstated \$2,500.

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

*Criteria*

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

2 CFR section 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 section 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.

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(Continued)

- (5) For loan or loan guarantee programs described in section 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 the 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 section 200.414 Indirect (F&A) costs."

*Cause*

Management had not established an effective system of internal controls that would have ensured proper reporting of the CAFR and the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the CAFR and the SEFA could have remained undetected. The CAFR and SEFA contained the errors identified 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 2015-002 - PROGRAM INCOME***

Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Numbers: B14MC180017, B15MC180017

*Condition*

An effective internal control system, which would have included segregation of duties, was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Program Income compliance requirement.

Beginning in March 2015, the City did not fully apply program income balances to expenditures for eligible activities prior to requesting additional drawdowns of entitlement grant funds.

*Context*

Throughout 2015, the City collected and reported a total of \$150,170 in program income and applied \$90,730 of this amount towards payment of eligible grant activities. Drawdowns of entitlement funds were consistently requested during this time period without first fully utilizing available program income. At December 31, 2015, the City had a program income balance of \$59,440.

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(Continued)

*Criteria*

2 CFR section 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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). . . ."

24 CFR section 570.504(b) states in part:

*"Disposition of program income received by recipients.*

- (1) Program income received before grant closeout may be retained by the recipient if the income is treated as additional CDBG funds subject to all applicable requirements governing the use of CDBG funds."
- (2) If the recipient chooses to retain program income, that program income shall be disposed of as follows:
  - (i) Program income in the form of repayments to, or interest earned on, a revolving fund as defined in § 570.500(b) shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity. . . .
  - (ii) Substantially all other program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury. . . ."

*Cause*

Management has not developed an effective system of internal controls related to the grant agreement and the requirements for Program Income.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

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FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and Program Income compliance requirement.

We also recommended that the City's management comply with the requirements for Program Income.

*Views of Responsible Officials*

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



# CITY OF MISHAWAKA

DAVID A. WOOD, MAYOR

DEPARTMENT OF FINANCE  
Rebecca S. Miller, Controller  
Misti D. Horvath, Deputy Controller

## CORRECTIVE ACTION PLAN

### ***FINDING 2015-001 – FINANCIAL TRANSACTIONS AND REPORTING***

Contact Person Responsible for Corrective Action: **Rebecca S. Miller**  
Contact Phone Number: **574-258-1622**

Management accepts the findings of the Indiana State Board of Accounts related to an internal control deficiency related to financial transactions and reporting of the Comprehensive Annual Financial Report (CAFR) and the Schedule of Expenditures for Federal Awards (SEFA).

Description of Corrective Action Plan:

While the findings on the CAFR were immaterial, management agrees that effective internal controls over financial transactions and reporting increase the City's ability to prevent and detect errors in a timely manner. To that end, the City will continue to invest resources toward continuing professional education for staff. Currently, the City receives training and resources through the Government Finance Officers Association, Indiana State Board of Accounts, Indiana Association of Cities and Towns and other sources. In addition, in 2016 the City adopted an internal control policy containing three objectives, five components and seventeen principals for internal controls. The specific immaterial errors noted by the auditors were provided in draft financial statements and were corrected in the final financial statements provided for audit.

While the SEFA was noted as material, these items were also corrected in the final report. Management will review all sources available to confirm data that staff provides for the grants.

Anticipated Completion Date:

Ongoing training  
August 2016 SEFA review

Rebecca S. Miller  
Controller  
8-4-16



# CITY OF MISHAWAKA

DAVID A. WOOD, MAYOR

DEPARTMENT OF FINANCE  
Rebecca S. Miller, Controller  
Misti D. Horvath, Deputy Controller

## CORRECTIVE ACTION PLAN

### ***FINDING 2015-002 – PROGRAM INCOME***

Contact Person Responsible for Corrective Action: **Rebecca S. Miller**  
Contact Phone Number: **574-258-1622**

Management accepts the findings of the Indiana State Board of Accounts related to an internal control deficiency related to fully applying program income balances to expenditures for eligible activities prior to requesting additional drawdowns of entitlement grant funds.

Description of Corrective Action Plan:

Staff has been instructed to apply program income to eligible activities prior to requesting entitlement grant funds. Management will monitor these actions in the process of approving vouchers.

Anticipated Completion Date:

**August 2016**

Rebecca S. Miller  
Controller  
8-4-16

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EXIT CONFERENCE

The contents of this report were discussed on August 4, 2016, with David A. Wood, Mayor; Rebecca S. Miller, Controller; Misti Horvath, Deputy Controller; Joe Canarecci, Common Council member; and Ronald S. Banicki, President of the Common Council.