

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

AUDIT REPORT
OF

CONTROLLER
CITY OF MISHAWAKA
ST. JOSEPH COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
07/10/2013

Reissued 7-16-2013 2nd official
response was added, pg 7

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CITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Yvonne Milligan Rebecca S. Miller	01-01-12 to 05-31-13 06-01-13 to 12-31-15
Mayor	David A. Wood	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Gary E. West	01-01-12 to 12-31-13
President of the Common Council	John J. Roggeman S. Michael Compton	01-01-12 to 12-31-12 01-01-13 to 12-31-13



STATE OF INDIANA
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TO: THE OFFICIALS OF THE CITY OF MISHAWAKA

We have audited the records of the Controller for the period from January 1, 2012 to December 31, 2012, 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 the City of Mishawaka for the year 2012.

STATE BOARD OF ACCOUNTS

May 29, 2013

CONTROLLER
CITY OF MISHAWAKA
AUDIT RESULTS AND COMMENTS

PUBLIC WORKS PROJECT

In 2011, the City of Mishawaka Water Utility contracted with Peerless Midwest for the drilling of two replacement water wells. The cost for each well was \$72,480 and \$72,989, respectively, and was paid in 2012. There was no evidence presented for audit that quotes were solicited.

Indiana Code 36-1-12-4.7 states in part:

"(a) . . . whenever a public work project is estimated to cost: . . . (2), at least fifty thousand dollars (\$50,000) and less than one hundred fifty thousand dollars (\$150,000) . . .

(b) The board must proceed under the following provisions:

- (1) The board shall invite quotes from at least three (3) persons known to deal in the class of work proposed to be done by mailing them a notice stating that plans and specifications are on file in a specified office. The notice must be mailed not less than seven (7) days before the time fixed for receiving quotes.
- (2) The board may not require a person to submit a quote before the meeting at which quotes are to be received. The meeting for receiving quotes must be open to the public. All quotes received shall be opened publicly and read aloud at the time and place designated and not before.
- (3) The board shall award the contract for the public work to the lowest responsible and responsive quoter."

INTERNAL CONTROLS OVER FINANCIAL REPORTING

We noted several deficiencies in the internal control system of the implementation of new Governmental Accounting Standards Board (GASB) pronouncements 62 and 63 related to financial reporting. We believe the following deficiencies constitute material weaknesses:

CONTROLLER
CITY OF MISHAWAKA
AUDIT RESULTS AND COMMENTS
(Continued)

Effective with the 2012 report, GASB 62 recodified reporting guidance contained in pre-November 30, 1989 pronouncement. The recodification deleted the requirements for the inclusion of a paragraph concerning FASB statements issued prior to November 30, 1989, but the City continued to include this statement in the notes to the financial statements.

Effective with the 2012 report, GASB 63 changed some of the terminology on the financial statements. Specifically, the GASB requires the names of financial statements to be changed from net assets to net positions for the Government-wide and Proprietary and Fiduciary financial statements. The City did not make these changes to the titles.

Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

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)

CONTROLLER
CITY OF MISHAWAKA
EXIT CONFERENCE

The contents of this report were discussed on May 29, 2013, with Yvonne Milligan, Controller; David A. Wood, Mayor; and Rebecca S. Miller, Deputy Controller. The Official Responses have been made a part of this report and may be found on pages 7 and 8.



Mishawaka Utilities

Electric • Water • Wastewater Treatment

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www.mishawakautilities.com

June 2, 2013

State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, Indiana 46204-2765

Re: OFFICIAL RESPONSE

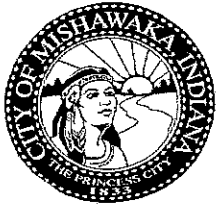
We concur with the finding that during the year 2012 the Mishawaka Utilities erred by assigning water well drilling work for two replacement wells to a contractor without seeking at least three quotes for that work. This error resulted due to an incorrect understanding of the State statutes on the part of the Water Division management. They did realize that work costing over \$150,000 required going through the bid process, but they failed to realize that work costing over \$50,000 but less than \$150,000 required the seeking of the afore mentioned three quotes for that work. They also labored under the impression that since the work in question was to be funded from rate-payer funds rather than from tax revenues, that their actions were correct and proper.

Corrective action taken: Upon learning of the above matter, the City of Mishawaka Controller discussed this matter with the General Manager of the Mishawaka Utilities. He, in turn, discussed it with the Auditor and then with the Water Division Manager. Subsequently, a memo stating **IC 36-1-12-4.7** and **IC 36-1-12-4.9** was sent by the City of Mishawaka Controller to all City department heads. The Water Division Manager met with his personnel who are in the decision making and purchasing areas in the Water Division and conveyed the details learned through this process.

Future actions to be taken: In an effort to minimize/eliminate ignorance and misunderstanding of the State statutes, the City of Mishawaka Controller's office will hold a seminar this year for the purpose of instructing City of Mishawaka personnel of the correct current purchasing, procurement and public works processes and procedures. Future seminars will also be scheduled on a periodic basis.

Respectfully,

Bruno Trimboli, Water Division Manager
Mishawaka Utilities
City of Mishawaka



CITY OF MISHAWAKA

DAVID A. WOOD, MAYOR

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

AUDIT RESULT

COMMENT: INTERNAL CONTROLS OVER FINANCIAL REPORTING

Rebecca S. Miller
City Controller
574-258-1622

June 24, 2013

The City of Mishawaka has been made aware of Governmental Accounting Standards Board (GASB) pronouncements 62 and 63 relating to financial reporting. These pronouncements were not implemented in the initial draft of the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending December 31, 2012, but have been corrected at this time.

The City of Mishawaka will take the necessary steps to provide adequate internal control over financial reporting and implement all new pronouncements in the correct time frame. In addition to reviewing the literature produced by the Government Finance Officers Association (GFOA) the Controller will work closely with the State auditor to research any changes to the requirements.

Sincerely,

Rebecca S. Miller
City Controller