

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, 2014 to December 31, 2014



FILED
01/15/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Rebecca S. Miller	01-01-14 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	01-01-14 to 12-31-15
President of the Common Council	Matt Mammolenti Dale E. Emmons	01-01-14 to 12-31-14 01-01-15 to 12-31-15
General Manager of Utilities	James Schrader	01-01-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments 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/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment as described below.

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 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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

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

October 13, 2015

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CITY CONTROLLER
CITY OF MISHAWAKA

CITY CONTROLLER
CITY OF MISHAWAKA
FEDERAL FINDINGS

FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the City of Mishawaka (City) related to financial transactions and reporting.

1. Financial Close and Reporting: The internal controls over the financial close and reporting process were not effective to ensure complete and accurate financial statements. Some of the deficiencies identified are as follows:
 - a. There was no indication of review or approval of documents prepared by employees (financial software reports and capital asset documents) prior to submission to the Consultant hired to compile the financial statements.
 - b. There was no indication of review or approval of documents prepared by contractors (receivable and payable schedules, budget schedules, pension data, investment data) prior to submission to the Consultant hired to compile the financial statements.
 - c. There was no indication of review or approval of the Utility General Ledger and supporting documents prepared by employees prior to submission to the Consultant hired to compile the financial statements.
 - d. There was no system in place to adequately review financial statements prepared by the Consultant prior to their presentation for audit.

These deficiencies resulted in numerous modifications to the financial statements presented for audit some of which included:

- a. Financial information presented in the Management's Discussion and Analysis did not always agree to the financial statements.
 - b. Initial drafts of the financial statements were incomplete and did not properly identify major funds.
 - c. The Statement of Cash Flows for Utility funds included amounts that were not in agreement with amounts presented in the Notes to the Financial Statements.
 - d. The Notes to the Financial Statements include some inaccuracies and omitted some required disclosures.
 - e. Transfers were not recorded consistently in the City's financial software. Numerous adjustments were required to correctly reflect these transactions in the financial statements.
 - f. There were a significant number of draft versions of the financial statements and notes presented for audit. These versions contained errors and omissions that were overlooked in the review process.
2. Capital Assets: The City has not established proper controls over the determination of the useful life for capital assets. There was no indication that the useful life determined by employees was reviewed or approved.

CITY CONTROLLER
CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

3. **Monitoring of Controls:** An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

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)

FINDING 2014-002 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City of Mishawaka (City) did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

One individual gathers information, compiles, certifies, submits, and presents the SEFA for audit. This lack of segregation of duties and lack of oversight resulted in the following material errors:

1. The Community Development Block Grants/Entitlement Grants, B13MC180017, CFDA 14.218 was understated by \$76,217.
2. Federal grantor agencies and state pass-through agencies were incorrectly identified.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA remained undetected.

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)

CITY CONTROLLER
CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall 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. . . ."



CITY OF MISHAWAKA

DAVID A. WOOD, MAYOR

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

CORRECTIVE ACTION PLAN

FINDING 2014-001 – FINANCIAL TRANSACTIONS AND REPORTING

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

Description of Corrective Action Plan:

- 1) The Controller or Deputy Controller will indicate her review and approval of documents prepared by employees and contractors sent to the consultant by initialing/dating the hard copies before scanning and emailing or revising the file name by including her initials in the name before emailing.

The Controller will review and initial hard copies of financial statements and revise the file names on all documents sent electronically.

- 2) The City follows the SBoA recommended useful life listing for assets. Internal asset listing reports will be reviewed by the Controller prior to assets being depreciated to review asset life assigned to new assets and projects. Controller with initial the reports upon approval.
- 3) The City will have a formal evaluation and required training when the SBoA provides personnel training materials in accordance with IC 5-11-1-27. The Controller will have in place a system for internal control after this training.

Anticipated Completion Date:

1)2) Spring 2016 3) Fall 2016

Rebecca S. Miller
City Controller
10-12-15



CITY OF MISHAWAKA

DAVID A. WOOD, MAYOR

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

CORRECTIVE ACTION PLAN

FINDING 2014-002 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Description of Corrective Action Plan:

The Deputy Controller will monitor all federal grants for all departments and have files on each grant in a central location. The Deputy Controller will work with the CDBG Grant Manager to ensure that the CDBG grants are accounted for correctly. The Controller will also review these files and the information inputted on the SEFA in Gateway.

Names of federal grantor agencies and state pass-through agencies have been updated on the SEFA and will carry over year to year.

Anticipated Completion Date:

December 2015

Rebecca S. Miller
City Controller
10-12-15

CITY CONTROLLER
CITY OF MISHAWAKA
AUDIT RESULT AND COMMENT

APPROPRIATIONS

The records presented for audit indicated that the expenditures for the Fire Station Construction and Municipal Bond No. 1 funds were in excess of budgeted appropriations by \$5,693 and \$439,172, respectively.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."



CITY OF MISHAWAKA

DAVID A. WOOD, MAYOR

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

RESPONSE

AUDIT RESULTS AND COMMENTS – APPROPRIATIONS

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

Description of Response:

No funds were misappropriated or paid to an outside vendor.

Station 4 is complete and the funds not used for construction were transferred to the Mishawaka Bond Bank to reduce the principal owed on the bond.

CEDIT was used to make the early payoff of the general obligation bonds prior to the year end municipal bond property tax distribution. Once received, this distribution was transferred to CEDIT.

Rebecca S. Miller
City Controller
10-12-15

CITY CONTROLLER
CITY OF MISHAWAKA
EXIT CONFERENCE

The contents of this report were discussed on October 13, 2015, with David A. Wood, Mayor; Rebecca S. Miller, Controller; Misti Horvath, Deputy Controller; and Dale E. Emmons, President of the Common Council.