

**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, 2016 to December 31, 2016



**FILED**  
12/22/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Rebecca S. Miller	01-01-16 to 12-31-17
Mayor	David A. Wood	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Gary E. West Kenneth B. Prince	01-01-16 to 12-31-16 01-01-17 to 12-31-17
President of the Common Council	Ronald S. Banicki Ross Deal	01-01-16 to 12-31-16 01-01-17 to 12-31-17
Utility Office Manager	James Schrader	01-01-16 to 12-31-17



**STATE OF INDIANA**  
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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

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, 2016 to December 31, 2016. 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 Report of the City, which provides our opinions on the City's financial statement. This report may be found at [www.in.gov/sboa](http://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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, was not verified for accuracy.

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

October 24, 2017

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CONTROLLER  
CITY OF MISHAWAKA

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CITY OF MISHAWAKA  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

Internal control is a process executed by officials and employees that is designed to provide reasonable assurance that the mission and objectives of the organization will be achieved. A system of sufficient internal control produces reliable financial and management data; ensures accuracy and timeliness in reporting; and promotes compliance with laws. The City of Mishawaka (City) did not have a proper system of internal control in place to prevent, or detect and correct, errors related to financial transactions and reporting of the Comprehensive Annual Financial Report (CAFR).

The City's financial records for all funds were maintained on the cash basis of accounting, whereas the City's financial records for all Enterprise funds were also maintained on the accrual basis of accounting. The City made the decision to present its financial statements based on Generally Accepted Accounting Principles (GAAP). The City provided its financial records to a contracted CPA firm to prepare financial statements in accordance with GAAP. However, the prepared financial statements presented for audit contained numerous material errors, which were not detected and corrected by the City's review process. As a result, various audit adjustments had to be proposed to the City.

The absence of sufficient internal control over the review process caused delays in the timeliness of the reporting and could have resulted in increased audit costs. The City needs to establish internal controls over the process of preparing and reviewing the financial statements that will provide reasonable assurance that the financial statements provided through the contract are accurate and fairly present the financial position of the City. The City should assess the risk of presenting financial statements that are materially incorrect and establish control activities to address those risks throughout the review process and evaluation of the final product delivered from the contracted services. The City also needs to monitor the implementation and effectiveness of the controls throughout the process.

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 the five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. According to this manual:

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AUDIT RESULTS AND COMMENTS  
(Continued)

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . ."

"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."

"External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators."

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EXIT CONFERENCE

The contents of this report were discussed on October 24, 2017, with Rebecca S. Miller, Controller, and Kurt D. Vardaman, Utilities Accountant.

The contents of this report were discussed on October 30, 2017, with David A. Wood, Mayor; Ross Deal, President of the Common Council; and Kurt D. Vardaman, Utilities Accountant.