

**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, 2017 to December 31, 2017



**FILED**  
08/16/2018



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Controller:	
Audit Results and Comments:	
Financial Transactions and Reporting .....	6-7
Electric Customer Deposit Register Reconciliation .....	7
Official Response.....	8
Exit Conference .....	9

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	David A. Wood	01-01-16 to 12-31-19
Controller	Rebecca S. Miller	01-01-17 to 12-31-18
President of the Board of Public Works and Safety	Kenneth B. Prince	01-01-17 to 12-31-18
President of the Common Council	Ross Deal Matt Mammolenti	01-01-17 to 12-31-17 01-01-18 to 12-31-18
Utility Office Manager	James Schrader	01-01-17 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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, 2017 to December 31, 2017. 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 Statements of the City, which provides our opinions on the City's financial statements. 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 Results and Comments contained herein describe 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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

July 23, 2018

(This page intentionally left blank.)

CONTROLLER  
CITY OF MISHAWAKA

CONTROLLER  
CITY OF MISHAWAKA  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in prior Report B49242, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

There were material weaknesses in the internal control system of the City related to financial transactions and reporting of the Comprehensive Annual Financial Report (CAFR).

The City's financial records for all governmental funds were maintained on the cash basis of accounting, whereas the City's financial records for all Enterprise funds were maintained on the accrual basis of accounting. The City presented 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 follows:

1. The Pension Relief Distributions for on-behalf payments from the state were not recorded in the General Fund. Total distributions received in 2017 were \$3,419,647.
2. The 2017 Bonds Construction Fund was not included in the Funds Ledger in 2017, although the bond proceeds and construction payment transactions were made during 2017. Disbursements were not approved by the Board of Public Works and Safety during 2017.
3. The Notes to the Financial Statements did not include Notes pertaining to the Refunding of 2010 Wastewater Revenue Bonds, and the issuance in the subsequent period of Wastewater Revenue Bonds.
4. The Wastewater Cash Flow Statement included debt transactions that comingled the refunding of the 2010 Wastewater Revenue Bonds and the debt transactions of the other Wastewater Revenue Bond Issues that were not refunded in 2017.

Audit adjustments to the financial statements were proposed which were approved and made by the City.

There were additional deficiencies in the internal controls of the City related to the information provided to the contracted CPA firm for inclusion in the CAFR, and to some amounts reported in the CAFR as follows:

1. The census data provided to the actuary for the calculation of the Utility, Police, and Fire Pension liabilities were prepared without evidence of an oversight, review, or approval process.
2. The Controller completed the reconciliation for the Utility Pension Trust without evidence of an oversight, review, or approval process.
3. The City did not have proper controls in place to ensure the accuracy of the accounts payable list provided to the CPA firm for inclusion in the City's CAFR. One individual was in charge of generating the accounts payable list without an oversight, review, or approval process.

CONTROLLER  
CITY OF MISHAWAKA  
AUDIT RESULTS AND COMMENTS  
(Continued)

4. The City did not have proper controls in place to ensure the accuracy of Taxes Receivable amounts included in the CAFR. Amounts which were Intergovernmental Receivable were included with Taxes Receivable. This also impacted the amount reported as Deferred Inflows of Resources - Property Taxes and Revenue since the Intergovernmental Receivable should have been recognized as revenue in the audit period, but that amount was deferred.
5. The City did not have proper controls in place to ensure the accuracy of the Sewer - operation and maintenance expense account. Wastewater Capital Assets Contributions were included in the expense account.
6. The City did not have proper controls in place to ensure that the Wastewater Utility Cash Flow Statement was accurate. The Wastewater Utility Cash Flow included deletions; however, the Wastewater Utility did not dispose of any Capital Assets.

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 adequate control activities. According to this manual:

"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.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

***ELECTRIC CUSTOMER DEPOSIT REGISTER RECONCILIATION***

At December 31, the Electric Utility Customer Deposit Register totaled \$2,851,854, while the Customer Deposits cash balance totaled \$2,799,319 and the Customer Deposits liability on the financial statements totaled \$2,333,207.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



# CITY OF MISHAWAKA

DAVID A. WOOD, MAYOR

DEPARTMENT OF FINANCE  
Rebecca S. Miller, Controller  
Kurtis D. Vardaman, Deputy Controller

August 9, 2018

## OFFICIAL RESPONSE

1. **FINANCIAL TRANSACTIONS AND REPORTING**
2. **ELECTRIC CUSTOMER DEPOSIT REGISTER RECONCILIATION**

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

### Description of Response:

1. All items were corrected for the publication of the CAFR. The City will have at minimum a dual review of all items prepared by a third party, internally, and by the hired CPA for future GAAP audits.
2. Discrepancies in the financial system were due to journal entries not being completed when the utility financials moved to the City's financial software. These have been resolved. The utility business office spreadsheet will be reconciled to the financial software monthly and signed off annually by the Controller's office.

CONTROLLER  
CITY OF MISHAWAKA  
EXIT CONFERENCE

The contents of this report were discussed on July 23, 2018, with Rebecca S. Miller, Controller; David A. Wood, Mayor; and Matt Mammolenti, President of the Common Council.