

**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, 2018 to December 31, 2018



**FILED**  
09/26/2019



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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	01-01-18 to 12-31-19
City Clerk	Deborah S. Block	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Kenneth B. Prince	01-01-18 to 12-31-19
Members of the Common Council	Michael A. Bellovich	01-01-16 to 12-31-19
	Ronald S. Banicki	01-01-16 to 12-31-19
	Joe Canarecci	01-01-16 to 12-31-18
	S. Michael Compton	01-01-16 to 12-31-19
	Ross Deal	01-01-16 to 12-31-18
	Dale E. Emmons	01-01-16 to 12-31-19
	Matt Mammolenti	01-01-16 to 12-31-19
	Bryan Tanner	02-11-16 to 12-31-19
	Mary C. Wilson (Kate Voelker)	01-01-16 to 12-31-19
	Gregg Hixenbaugh	01-05-19 to 12-31-19
	Stacy Petko-Reisdorf	01-05-19 to 12-31-19



**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, 2018 to December 31, 2018. 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 our Financial Statements and 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

September 16, 2019

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FEDERAL FINDINGS

***FINDING 2018-001***

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness; Noncompliance

*Condition and Context*

There were significant deficiencies in the internal control system of the City related to financial transactions and reporting of the financial statements.

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 internal controls over the prepared financial statements presented for audit were not effective in detecting and/or preventing the following errors:

1. The Investments balance reported on the Statement of Net Position did not agree to the records of the City as they had not recorded the purchase of a \$6,700,000 investment.
2. The Pension Liability reported on the Statement of Net position for the Governmental Activities was understated by \$1,600,296.
3. The Accounts Receivable for the Electric Utility was understated by \$40,413.
4. The Accounts Payable for the Self-Insurance fund was understated by \$210,005.
5. The Construction Work In Progress additions in the Notes to the Financial Statements were understated due to the netting of adjustments to reconcile the beginning balances with the actual additions.
6. The Budget to Actual Schedules presented did not reference the correct beginning fund balances.

There were additional deficiencies in the internal controls of the City related to payroll, which included:

1. Changes to employee withholdings were made without proper authorization.
2. Time records for the Police Department were not signed by the fiscal officer.

*Criteria*

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:



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FEDERAL FINDINGS  
(Continued)

"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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

*Cause*

Management of the City of Mishawaka had not established a proper system of internal control over financial transactions and reporting.

*Effect*

The failure to establish a system of internal controls enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed 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, misstatements in a timely manner.

*Views of Responsible Officials*

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

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FEDERAL FINDINGS  
(Continued)

***FINDING 2018-002***

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Finding: Material Weakness

*Condition and Context*

The City had established internal controls over the federal award information entered into the Indiana Gateway for Government Units financial reporting system, which was used to compile the City's Schedule of Expenditures of Federal Awards (SEFA). However, there was no evidence that the controls were properly implemented. No documentation of a review process or other control was presented for audit.

*Criteria*

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. . . ."

*Cause*

Management had not established a system of internal control to ensure proper reporting of the SEFA.

*Effect*

Without a proper system of internal control in place that operates effectively, misstatements of the SEFA could have occurred and remained undetected.

*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  
Kurt Vardaman, Deputy Controller

## CORRECTIVE ACTION PLAN

### FINDING 2018-001

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

Views of Responsible Official:

We concur with the findings.

Description of Corrective Action Plan:

1. Investment was not recorded on the City's ledger. For future investments made directly from the City's bank account the investment will be posted timely. The report was submitted correctly.
  2. New this year was the actuarial report including the cash balances for police and fire pension. The consultant treated it as in year's past resulting in a reduced liability. Next year the formula will be noted to not input the cash balance manually for the report.
  3. Accounts Receivable for Electric will be reviewed with the Business Office prior to submitting the workpaper.
  4. Self insurance payable from our insurance provider was not included in the AP total. This item will be included in future reports.
  5. Prior period adjustment has resolved this issue.
  6. These fund balances will be checked against the formula used in previous reports.
- 
1. Payroll clerk will not make changes to his/her own file. Other staff will make any necessary changes with proper documentation.
  2. Police department is now turning in payroll with the proper certification on their hard copies. Files will be reviewed periodically to make sure certifications are being used/signed.

All previous findings will be signed off by two staff members on the 2019 report as to not duplicate and make sure they are resolved.

Anticipated Completion Date:

Current report has been corrected. Items will be resolved for the 2019 report.

*Rebecca S. Miller*

(Signature)

*Controller*

(Title)

*9-16-19*

(Date)



# CITY OF MISHAWAKA

DAVID A. WOOD, MAYOR

DEPARTMENT OF FINANCE  
Rebecca S. Miller, Controller  
Kurt Vardaman, Deputy Controller

## CORRECTIVE ACTION PLAN

### *FINDING 2018-002*

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

Views of Responsible Official:  
We concur with the findings.

Description of Corrective Action Plan:

Typically, the Grant summary sheet is signed and reviewed by staff. While the individual grant files were reviewed and signed, the signed summary printout could not be found. Future summaries will be filed in one general AFR folder.

Previous findings will be signed off by two staff members on the 2019 report as to not duplicate and make sure they are resolved.

Anticipated Completion Date:  
March 1, 2020

Rebecca S. Miller  
(Signature)

Controller  
(Title)

9-16-19  
(Date)

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EXIT CONFERENCE

The contents of this report were discussed on September 16, 2019, with David A. Wood, Mayor; Rebecca S. Miller, Controller; Kenneth B. Prince, President of the Board of Public Works and Safety; Dale E. Emmons, President of the Common Council; Michael A. Bellovich, Common Council member; Kate Voelker, Common Council member; Gregg Hixenbaugh, Common Council member; and Kurtis Vardaman, Deputy Controller.