

**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, 2019 to December 31, 2019



**FILED**  
12/31/2020



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Rebecca S. Miller	01-01-19 to 12-31-20
Mayor	David A. Wood	01-01-19 to 12-31-20
City Clerk	Deborah S. Block	01-01-19 to 12-31-20
President of the Board of Public Works and Safety	Kenneth B. Prince	01-01-19 to 12-31-20
President of the Common Council	Dale Emmons Gregg Hixenbaugh	01-01-19 to 12-31-19 01-01-20 to 12-31-20



**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, 2019 to December 31, 2019. 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 Audit Report 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 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

December 22, 2020

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CITY CONTROLLER  
CITY OF MISHAWAKA

CITY CONTROLLER  
CITY OF MISHAWAKA  
AUDIT RESULT AND COMMENT

**FINANCIAL TRANSACTIONS AND REPORTING**

*Condition and Context*

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The internal control procedures in place were not effective for activities related to financial reporting.

*Financial Reporting*

The financial statements and notes to financial statements contained multiple material misstatements:

- A component unit and fund of the City was reported as discrete instead of blended and should have been reported in the Governmental Activities as a nonmajor governmental fund. At December 31, 2019, the discretely presented component unit had an asset balance of \$6,904,851 and revenue transactions for the period of \$168,705; this caused nonmajor governmental funds to be understated the same amounts. A note disclosing the change of the presentation of the component unit, as well as a restatement note disclosing the change in December 31, 2018 net position, Governmental Activities, Component Unit, and Nonmajor Governmental Funds, was omitted.
- Classifications of net position in the Statement of Net Position for Business-Type Activities, and in the Statement of Net Position - Proprietary Funds for the Water Utility and Wastewater Utility were inaccurate. For Business-Type Activities, Water Utility, and Wastewater Utility, the Net Position-Net Investment in Capital Assets was overstated \$9,286,688, \$2,365,258, and \$6,921,430, respectively, while the Net Position - Unrestricted was understated by the same amounts.
- A note on Related Organizations was omitted. Several notes related to GASB implementation, assets, deferred outflows of resources, and deferred inflows of resources were inaccurate and did not agree to the financial statements presented.

Adjustments were proposed, approved by the management, and made to the financial statements presented in the audit report.



CITY CONTROLLER  
CITY OF MISHAWAKA  
AUDIT RESULT AND COMMENT  
(Continued)

*Financial Transactions*

The Mishawaka Utility Retirement System is required to submit census data to the actuary at year end. Reports are received from Human Resources and department heads and compiled to send to actuary at year end. There is no documented review of the compiled information prior to sending to actuary. The failure to have effective internal controls could have enabled a material misstatement to occur.

*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. . . ."

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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](#)."

CITY CONTROLLER  
CITY OF MISHAWAKA  
EXIT CONFERENCE

The contents of this report were discussed on December 22, 2020, with Rebecca S. Miller, City Controller; David A. Wood, Mayor; Kenneth B. Prince, President of the Board of Public Works and Safety; Gregg Hixenbaugh, President of the Common Council; Maggie DeMaegd, Common Council member; Kurt Vardaman, Deputy City Controller; Kayla Yoder, Utility Financial Analyst; Dan Hedden, Consultant; and Yakov Adelfinskiy, Consultant.