

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF

CITY CONTROLLER  
CITY OF SOUTH BEND  
ST. JOSEPH COUNTY, INDIANA

January 1, 2012 to December 31, 2012



**FILED**  
09/30/2013



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CITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Mark Neal	01-01-12 to 12-31-15
Mayor	Pete M. Buttigieg	01-01-12 to 12-31-15
President of the Common Council	Derek D. Dieter	01-01-12 to 12-31-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF CITY OF SOUTH BEND

We have audited the records of the City Controller for the period from January 1, 2012 to December 31, 2012, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Comprehensive Annual Financial Report of the City of South Bend for the year 2012.

STATE BOARD OF ACCOUNTS

June 10, 2013

CITY CONTROLLER  
CITY OF SOUTH BEND  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS OVER PREPARATION OF THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Schedule of Expenditures of Federal Awards (SEFA) is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, and Local Governments, and Non-Profit Organizations for entities receiving federal funds in excess of \$500,000 in order to summarize the use of federal monies received. The City does not have proper procedures in place to ensure that the SEFA prepared was materially correct.

During the audit of the SEFA, we noted the following significant errors: CFDA 11.307 reported with \$3,031,608 expenditures, should be \$7,586,963; CFDA 97.044, project EMW-2009-FV-03783, reported with \$600,000 expenditures, should be zero; CFDA 16.738, project 09DJBX0855 reported with zero expenditures, should be \$131,030; CFDA 14.218, project B08-MN-18-0011 reported as ARRA funding, is not ARRA funding.

Effective internal control over preparation of the SEFA involves the identification and analysis of the risks of material misstatement to the City's audited SEFA and then determining how those identified risks should be managed. The City has not identified risks to the preparation of a reliable SEFA and as a result has failed to design effective controls over the preparation of the SEFA to prevent or detect material misstatements, including notes to the SEFA.

Circular A-133 Subpart C section .300 states in part:

"The auditee shall:

- a. Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- b. Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with Circular A-133, subpart .310."

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 SOUTH BEND  
AUDIT RESULTS AND COMMENTS  
(Continued)

***INTERNAL CONTROLS OVER FINANCIAL REPORTING***

We noted several deficiencies in the internal control system of the implementation of new Governmental Accounting Standards Board (GASB) pronouncements 62 and 63 related to financial reporting. We believe the following deficiencies constitute material weaknesses:

Effective with the 2012 report, GASB 62 recodified reporting guidance contained in pre-November 30, 1989 pronouncement. The recodification deleted the requirements for the inclusion of a paragraph concerning FASB statements issued prior to November 30, 1989, but the City continued to include this statement in the notes to the financial statements.

Effective with the 2012 report, GASB 63 changed some of the terminology on the financial statements. Specifically, the GASB requires the names of financial statements to be changed from net assets to net positions for the Government-Wide and Proprietary and Fiduciary financial statements. The City did not make these changes to the titles.

Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

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 SOUTH BEND  
EXIT CONFERENCE

The contents of this report were discussed on June 5, 2013, with Mark Neal, Controller, and with Pete M. Buttigieg, Mayor; and also on June 10, 2013, with Derek D. Dieter, President of the Common Council. The Official Response has been made a part of this report and may be found on pages 7 and 8.

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

## DEPARTMENT OF ADMINISTRATION AND FINANCE

**June 11, 2013**

### **City of South Bend, Indiana**

### **Finding 2012-1 Internal Control Over Completion of the Schedule of Federal Awards (SEFA) – Corrective Action Plan**

The City of South Bend has been made aware of five errors in reporting individual expenditures for various federal grants on in Schedule of Federal Awards (SEFA) for the year ended December 31, 2012. The errors were detected by the State Board of Accounts during its audit and included corrections to grant information provided by the Police Department, Sewage Works Utility, Fire Department and Department of Community Investment. The SEFA grant schedule was prepared by the Department of Administration and Finance.

The City of South Bend will take the steps necessary to identify and report properly all federal awards received and expended and the federal programs under which they were received. Federal program and award identification will include, as applicable, the CFDA title and number, award number and year, name of the federal agency and the name of the pass-through agency. Furthermore, the City will prepare the appropriate financial statements including the schedule of expenditures of federal awards in accordance with Circular A-133.

The City of South Bend will take the steps necessary to provide adequate internal control over the preparation of the Schedule of Federal Awards (SEFA). For instance, in 2013, the City of South Bend will be proactive and arrange for training of departmental fiscal officers and Administration & Finance staff involved in federal grant reporting to ensure proper federal grant reporting. In addition, the City of South Bend will closely review SEFA data submitted by departments to make sure it is consistent with the underlying grant documents, internal accounting records, and SEFA reports submitted in prior years.

**City of South Bend, Indiana**

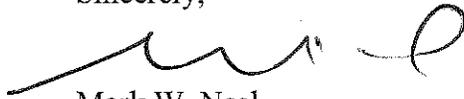
**Finding 2012-2 Internal Control Over Financial Reporting – Corrective Action Plan**

The City of South Bend has been made aware of Governmental Accounting Standards Board (GASB) pronouncements number 62 and 63 related to financial reporting. These pronouncements were not implemented in the initial draft of the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending December 31, 2012. GASB statement number 62 recodified reporting guidance contained in a pre-November 30, 1989 pronouncement. The recodification deleted the requirements for the inclusion of a paragraph concerning Financial Accounting Standards Board (FASB) statements issued prior to November 30, 1989.

Similarly, GASB statement number 63 changed some of the terminology on the financial statements. Specifically, GASB 63 requires certain titles on the financial statements to be changed from net assets to net positions for the Government-wide, proprietary and fiduciary financial statements. The City did not make these changes to the titles.

The City of South Bend will take the steps necessary to provide adequate internal control over financial reporting. The City finance staff will attend educational and training sessions with respect to new developments in financial reporting such as those provided by the Government Finance Officers Association (GFOA) and other similar organizations. The City finance staff will also subscribe to technical governmental accounting periodicals such as the *GAAFR Review* and *Government Finance Review* that are prepared by the GFOA. The City will engage independent accounting firms as necessary to implement these new financial reporting requirements.

Sincerely,



Mark W. Neal  
City Controller