

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

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS  
CITY OF SOUTH BEND  
ST. JOSEPH COUNTY, INDIANA  
January 1, 2013 to December 31, 2013



**FILED**  
08/04/2014



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Mark Neal John Murphy	01-01-13 to 01-02-14 01-03-14 to 12-31-15
Mayor	Pete Buttigieg	01-01-12 to 12-31-15
President of the Board of Public Works	Gary A. Gilot	01-01-13 to 12-31-14
President of the Common Council	Derek D. Deiter Oliver J. Davis, Jr.	01-01-13 to 12-31-13 01-01-14 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE CITY OF SOUTH BEND, ST. JOSEPH COUNTY, INDIANA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Bend (City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 17, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

June 17, 2014

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; ON INTERNAL CONTROL OVER COMPLIANCE;  
AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF SOUTH BEND, ST. JOSEPH COUNTY, INDIANA

***Report on Compliance for Each Major Federal Program***

We have audited the City of South Bend's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; ON INTERNAL CONTROL OVER COMPLIANCE;  
AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133  
(Continued)

***Report on Internal Control Over Compliance***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the Indiana State Board of Accounts and of the office examined.

***Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133***

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated June 17, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; ON INTERNAL CONTROL OVER COMPLIANCE;  
AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133  
(Continued)

to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

  
Paul D. Joyce, CPA  
State Examiner

June 17, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the City. The schedule and notes are presented as intended by the City.

CITY OF SOUTH BEND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2013

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Commerce</u>				
Economic Development Cluster				
Economic Adjustment Assistance	Direct grant			
Industrial Revolving Fund		11.307	06-19-01251	\$ 7,613,083
<u>Department of Housing and Urban Development</u>				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants NSP-1	Direct grant	14.218	B08-MN-18-0011	126,712
Community Development Block Grants/Entitlement Grants Block Grant 2011	Direct grant	14.218	B-11-MC-18-0011	668,561
Community Development Block Grants/Entitlement Grants Block Grant 2012	Direct grant	14.218	B12-MC-18-0011	1,623,618
Total - Community Development Block Grants/Entitlement Grants				2,418,891
ARRA - Community Development Block Grants/Entitlement Grants NSP-3	Direct grant	14.218	B-11-MN-18-0011	1,596,790
Total - CDBG - Entitlement Grants Cluster				4,015,681
Emergency Solutions Grant Program				
Emergency Shelter Grant	Direct grant	14.231	E-11-MC-180-011	51,993
Emergency Shelter Grant		14.231	E-12-MC-180-011	56,849
Hearth Emergency Shelter Grant		14.231	E13-MC-18-0011	94,763
Total - Emergency Solutions Grant Program				203,605
Shelter Plus Care				
Shelter Plus Care	Direct grant	14.238	IN0009C5H0001104	186,807
Fair Housing Assistance Program - State and Local				
Fair Housing Assistance	Direct grant	14.401	FF050018072	47,429
Fair Housing		14.401	FF205K105014	66,093
Total - Fair Housing Assistance Program - State and Local				113,522
Total - Department of Housing and Urban Development				4,519,615
<u>Department of Justice</u>				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	Direct grant			
Justice Assistance Grant #7		16.738	11DJBX3458	89,873
Justice Assistance Grant #8		16.738	12DJBX0955	49,124
Total - Edward Byrne Memorial Justice Assistance Grant Program				138,997
ARRA - Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government Byrne Justice Assistance Grant	Direct grant	16.804	09SBB91280	3,815
Total - JAG Program Cluster				142,812
Equitable Sharing Program				
Equitable Sharing Program	Direct grant	16.922	2013	144,750
Total - Department of Justice				287,562
<u>Equal Employment Opportunity Commission</u>				
Employment Discrimination - State and Local Fair Employment Practices Fair Employment Practices Grant	Direct grant	30.002	EECCN100092	84,016
<u>Environmental Protection Agency</u>				
Capitalization Grants for Clean Water State Revolving Funds Wastewater State Revolving Ln Fund	Indiana Finance Authority	66.458	SRF Ln# WW09547102	27,505
Total federal awards expended				\$ 12,531,781

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF SOUTH BEND  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City (primary government) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Subrecipients**

Of the federal expenditures presented in the schedule, the primary government provided federal awards to subrecipients as follows for the year ended December 31, 2013:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants/Entitlement Grants	14.218	\$ 3,089,404
Emergency Solutions Grant Program	14.231	203,605
Shelter Plus Care	14.238	186,807
Edward Byrne Memorial Justice Assistance Grant Program	16.738	14,796
Equitable Sharing Program	16.922	6,181

**Note 3. Economic Adjustment Assistance, CFDA 11.307**

The OMB Circular A-133 Compliance Supplement requires that the Economic Adjustment Assistance program, CFDA 11.307, federal awards expended be reported on the Schedule of Expenditures of Federal Awards as shown below:

\$ 4,699,860	12-31-13 Revolving loan fund loans outstanding balance
2,668,935	12-31-13 Revolving loan fund cash and investment balance
97,800	12-31-13 Revolving loan fund land held for resale balance
106,686	2013 Revolving loan fund administrative expenditures
<u>39,802</u>	Unpaid principal of all loans written off during 2013
<u>\$ 7,613,083</u>	Total (100% Federal funding)

CITY OF SOUTH BEND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of <i>OMB Circular A-133</i> ?	no

Identification of Major Programs:

Name of Federal Program or Cluster

Economic Development Cluster  
CDBG - Entitlement Grants Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$375,953
Auditee qualified as low-risk auditee?	no

**Section II - Financial Statement Findings**

No matters are reportable.

**Section III - Federal Award Findings and Questioned Costs**

No matters are reportable.

AUDITEE PREPARED SCHEDULE

The subsequent schedule was provided by management of the City. The schedule is presented as intended by the City.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number 2012-3 Davis Bacon Act

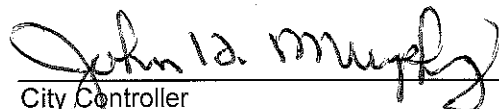
Original SBA Audit Report Number: B42715  
Fiscal Year 2012  
Auditee Contact Person John Murphy  
Title of Contact Person City Controller  
Phone Number 574-235-7678

Status of Finding:

Based on the SBOA's recommendation that the City officials establish controls to ensure that approval of certified payrolls are done in a timely manner to be in compliance with the Davis-Bacon Act, the following has been done:

- On December 12, 2012, the City of South Bend Engineering Division sponsored a training session for all Public Works Department personnel involved in construction inspection and construction management. The purpose of the training was to emphasize the importance of submitting weekly wage reports and performing employee interviews. In this training session, the City Engineer emphasized the importance of wage rates to ensure that each employee is paid fairly. The Construction Manager reviewed the wage rate forms to ensure they were filled out properly. He also reviewed procedures for interviewing the employees.
- An internal audit system has been put in place. The Board of Public Works will conduct audits of at least two projects each year to ensure compliance with federal, state and local laws.
- It is the policy of the City that the City Construction Manager is now responsible and is the point person to manage all wage rates.
- The policy also states that monthly payments will not be made to the contractor unless he/she has submitted the wage rate forms.

Since the December 12, 2012 training on wage rates, City management has noticed better performance in processing wage rates. The City Engineer and the Construction Manager have conducted training sessions on wage rates prior to the beginning of the construction season.

  
\_\_\_\_\_  
City Controller  
5-8-14  
\_\_\_\_\_  
Date