

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

FEDERAL SINGLE AUDIT REPORT

OF

CITY OF SOUTH BEND

ST. JOSEPH COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
11/13/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Mark Neal John Murphy	01-01-12 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	01-01-14 to 12-31-15
President of the Common Council	Oliver J. Davis, Jr. Tim Scott	01-01-14 to 12-31-14 01-01-15 to 12-31-15



STATE OF INDIANA
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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 THE 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 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, 2014, 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 30, 2015.

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 opinion 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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE 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 of 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*.

City of South Bend's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

June 30, 2015



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT 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 the Major Federal Program

We have audited the City of South Bend's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2014. The City's major federal program is 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 the City's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the 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 its major federal program for the year ended December 31, 2014.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003 and 2014-004. Our opinion on the major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003 and 2014-004 to be material weaknesses.


The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

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 the City, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 30, 2015, 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 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

September 2, 2015, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is June 30, 2015.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved 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, 2014

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	\$ 7,457,890
<u>Department of Housing and Urban Development</u>				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	Direct grant			
Block Grant 2011		14.218	B11-MN-18-0011	92,899
Block Grant 2012			B12-MC-18-0011	644,124
Block Grant 2013			B13-MC-18-0011	1,916,745
Block Grant 2014			B14-MC-18-0011	942,142
Total - CDBG - Entitlement Grants Cluster				3,595,910
Emergency Solutions Grant Program	Direct grant			
Emergency Shelter Grant		14.231	E-11-MC-180-011	11,636
Emergency Shelter Grant			E-12-MC-180-011	33,578
Hearth Emergency Shelter Grant			E-13-MC-180-011	53,139
Hearth Emergency Shelter Grant			E-14-MC-180-011	118,782
Total - Emergency Solutions Grant Program				217,135
Continuum of Care Program	Direct grant	14.267	IN0009L5H001205	212,350
			IN0009L5H001306	36,312
			IN0012L5H001205	55,166
			IN0012L5H001306	57,651
Total - Continuum of Care Program				361,479
Fair Housing Assistance Program - State and Local	Direct grant	14.401	FF050018072	25,553
			FF205K105014	93,726
Total - Fair Housing Assistance Program - State and Local				119,279
Total - Department of Housing and Urban Development				4,293,803
<u>Department of Justice</u>				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	Direct grant	16.738	11DJBX3458	10,204
			14DJBX0690	37,702
Total - JAG Program Cluster				47,906
Police Safety Partnership and Community Policing Grants	Direct grant			
COPS Hiring Recovery Prgm		16.710	09RKWX0352	138,059
Equitable Sharing Program	Direct grant			
Equitable Sharing Program		16.922	CY 2014	107,342
Total - Department of Justice				293,307
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction	Indiana Department of Transportation	20.205		
Highway Planning			DES# 0901526	4,658
Edison Rd. and Gordon Dr.			DES# 1005764	30,749
Riverside Trail			DES# 0600371	10,043
Total - Department of Transportation				45,450
<u>Equal Employment Opportunity Commission</u>				
Employment Discrimination - State and Local Fair Employment				
Practices Agency Contracts	Direct grant	30.002	EECCN100092	87,940
<u>Department of Homeland Security</u>				
Homeland Security Grant Program	Indiana Department of Homeland Security	97.067	FY 2011	10,000
Total federal awards expended				\$ 12,188,390

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 accompany Schedule Of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with accounting principles generally accepted in the United States of America, which is the basis of accounting used in the presentation of financial statements. 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 City provided federal awards to subrecipients as follows for the year ended December 31, 2014:

Program Title	Federal CFDA Number	2014
Community Development Block Grants/Entitlement Grants	14.218	\$ 92,899
Emergency Solutions Grant Program	14.231	217,135
Continuum of Care Program	14.267	361,479
Fair Housing Assistance Program - State and Local	14.401	119,279
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	87,940

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:

Revolving Loan Fund loans outstanding 12-31-14	\$ 4,758,274
Revolving Loan Fund cash and investments balance 12-31-14	97,800
Revolving Loan Fund land held for resale balance 12-31-14	2,255,963
Revolving Loan Fund loans written off in 2014	253,711
Revolving Loan Fund administrative expenses 2014	<u>92,142</u>
Total (100% federal funding)	<u><u>\$ 7,457,890</u></u>

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?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

Name of Federal Program or Cluster

Economic Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$365,652

Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the City related to financial transactions and reporting.

1. Revenues: The City has not established proper controls over the revenues received from the various Departments. The City Controller's Office does not request sufficient information to properly verify collections to be deposited be submitted by each department.
2. Financial Close and Reporting: The internal controls over the financial closing and reporting process were not effective to ensure complete and accurate financial statements. Some of the problems that were identified were as follows:

CITY OF SOUTH BEND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- a. Financial information presented in the Management's Discussion and Analysis did not always agree to the financial statements.
 - b. There were many draft versions of the financial statements and notes presented for audit. These versions contained errors and omissions that were over looked in the review process.
 - c. The Governmental Funds Balance Sheet did not always agree to the Combining Balance Sheets.
 - d. The Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position did not always agree with the financial statements and/or Notes to the Financial Statements.
 - e. The Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds to the Statement of Activities did not always agree with the financial statements and/or Notes to the Financial Statements.
 - f. The Statement of Cash Flows did not include the section disclosing the Noncash Activities.
 - g. Amounts in the Notes to the Financial Statements did not always agree to the financial statements.
 - h. The financial statements originally presented for audit did not include a fund for a bank account that was held by the Police Department.
3. Monitoring of Controls: An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places 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. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

The failure to establish these controls or establish effective controls could enable misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

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 OF SOUTH BEND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2014-002 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). There is no evidence to indicate that the grant information reported in the Schedule of Expenditures of Federal Awards was verified before it was provide for audit.

During the audit of the SEFA, we noted the following immaterial errors:

1. Two grants were not included in the SEFA.
2. An incorrect CFDA number was used for one grant.
3. Clusters were not properly identified.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, misstatements of the SEFA could remain undetected.

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)

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - CASH MANAGEMENT AND SPECIAL TESTS AND PROVISIONS

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number: 06-19-01251

Internal Controls

Management of the City has not established an effective internal control system over cash management and special tests and provisions of the Economic Adjustment Assistance grant. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

CITY OF SOUTH BEND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

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

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Compliance

The special tests and provisions of the program require the City to manage their Economic Adjustment Assistance grant repayment and lending schedules to provide that at all times at least 75 percent of the Revolving Loan Fund (RLF) capital is loaned or committed. The City was not in compliance with these provisions for 9 of 12 months in 2014. As a result of this noncompliance, the City was also not in compliance with the Cash Management requirements set forth by the Department of Commerce. The cash balance available for lending exceeded the 25 percent maximum amount allowed for 9 of 12 months in 2014. The excess amounts ranged from \$428,202 to \$951,206. As a result of this noncompliance, the City had \$197,317 of excess funds sequestered on December 14, 2014.

13 CFR 307.16(c) states in part:

"Capital Utilization Standard. During the Revolving Phase, Revolving Loan Fund (RLF) Recipients must manage their repayment and lending schedules to provide that at all times at least seventy-five (75) percent of the RLF Capital is loaned or committed.

13 CFR 307.16(c)(2) states:

"(i) Sequestration of excess funds. If the RLF Recipient fails to satisfy the capital utilization standard for two (2) consecutive Reporting Periods, EDA may require the RLF Recipient to deposit excess funds in an interest-bearing account. The portion of interest earned on the account holding excess funds attributable to the Federal Share (as defined in §314.5 of this chapter) of the RLF Grant shall be remitted to the U.S. Treasury. The RLF Recipient must obtain EDA's written authorization to withdraw any sequestered funds.

(ii) Persistent non-compliance. An RLF Recipient will generally be allowed a reasonable period of time to lend excess funds and achieve the capital utilization standard. However, if an RLF Recipient fails to achieve the capital utilization standard after a reasonable period of time, as determined by EDA, it may be subject to sanctions such as suspension or termination."

The failure to establish adequate internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

CITY OF SOUTH BEND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that the City's management establish controls to ensure compliance and comply with the Cash Management and Special Tests and Provisions requirements of the program.

FINDING 2014-004 - REPORTING

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number: 06-19-01251

Internal Controls

Management of the City has not established an effective internal control system over the Reporting requirements of their Industrial Revolving Fund. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

There is no segregation of duties, such as an oversight, review or approval process to ensure the accuracy of the information being reported to the Economic Development Administration (EDA).

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

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

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Compliance

The semiannual reports submitted in 2014 were not subjected to review before being submitted to EDA. The two reports that were submitted contained a number of errors and were not reflective of the actual activity of the grant. The Part III-D Current Balance Available for New Loans amounts reported did not agree to the outstanding loan balances on the City's records. The current balance available for lending also did not agree to the records, and the balance available as a percentage of capital base was calculated incorrectly. For the report that covered October 1, 2013 to March 31, 2014, the balance available as a percentage of capital base was reported as (-171.13 percent). In addition, the Part IV- C (RLF Income and Expenses) for the report that covered October 1, 2013 to March 31, 2014 also did not agree to the records.

CITY OF SOUTH BEND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

13 CFR 307.14 Revolving Loan Fund semiannual report and Income and Expense Statement states:

"(a) *Frequency of reports.* All RLF Recipients, including those receiving Recapitalization Grants for existing RLFs, must complete and submit a semiannual report in electronic format, unless EDA approves a paper submission.

(b) *Report contents.* RLF Recipients must certify as part of the semi-annual report to EDA that the RLF is operating in accordance with the applicable RLF Plan. RLF Recipients also must describe (and propose pursuant to §307.9) any modifications to the RLF Plan to ensure effective use of the RLF as a strategic financing tool.

(c) *RLF Income and Expense Statement.* An RLF Recipient using either fifty (50) percent or more (or more than \$100,000) of RLF Income for administrative costs in a six-month (6) Reporting Period must submit to EDA a completed Income and Expense Statement (Form ED-209I or any successor form) for that Reporting Period in electronic format, unless EDA approves a paper submission."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls to ensure compliance and comply with the grant agreement and the Reporting compliance requirements of the program.

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AUDITEE PREPARED DOCUMENT

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

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227 W. JEFFERSON BLVD.
SOUTH BEND, INDIANA 46601-1830



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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

DEPARTMENT OF ADMINISTRATION AND FINANCE

CORRECTIVE ACTION PLAN

FINDING 2014-001 (Revenues)

Contact Person Responsible for Corrective Action: John Murphy
Contact Phone Number: 574-235-7678

Description of Corrective Action Plan:

A new Cash Receipts Policy with stricter guidelines with regards to the "hand off" of cash and checks between departments was established and was rolled out effective September 1, 2015. This policy was discussed at the Fiscal Officers meeting on July 15, 2015.

The City is not aware any instances where money was not deposited or was lost or stolen during 2014. The current cash receipts procedure is the same as in prior years. The procedure is summarized as follows. The departmental fiscal officer prepares a Cash Receipt Edit List in the Naviline accounting system along with the deposit slip and Report of Collections form. The Cash Receipts Edit list is assigned a group number and group user ID automatically through the system. The group numbers are not duplicated. The deposit is either taken to the bank by the department or delivered to the Director of City Finance. For groups he receives, the Director of City Finance verifies the deposit accuracy and takes the deposit to the bank. The Accounting Assistant independently reviews the deposit records, makes sure the deposit clears the bank and updates the Cash Receipts Edit List in Naviline. As an additional control, the Financial Specialist independently reviews the deposit records when she updates a summary of daily cash collections. Certain departments, like the City Clerk, print out a second copy of the Cash Receipts Edit list that is signed by the Director of City Finance. Other departments, like the City Controller, retain a copy of the check and match it up against the Cash Receipt group after it is entered and updated. On a monthly basis, the City Controller, Deputy City Controller, Senior Budget Analyst and City Finance Director do a formal review of revenue collection trends in conjunction with their financial statement review. Any deviations from anticipated revenue collections for the month are followed up on with the respective departmental fiscal officer. For audit purposes, an electronic record of updated cash receipts groups has been retained in the Naviline accounting system beginning in 1992 to the present. These electronic records can be accessed in Group Inquiry by Year or can be printed in Cash Receipts Group Listing in demand reports. An inquiry can be made by group user ID, if desired, and the drill down feature provides information for transaction date, revenue account number, description, amount and posting date. If a cash group is deleted, the group number is retained in the system so as to account for the entire sequence of group numbers. Paper copies of the Cash Receipt Edit Lists, deposit slips and Report of Collections are also retained.

Anticipated Completion Date: Policy will be put into place as of September 1, 2015. Internal audits to take place periodically, as deemed necessary by the Director of Finance.

Jul 12. 12
(Signature)

CITY COMPTROLLER
(Title)

8-24-15
(Date)



CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR
DEPARTMENT OF ADMINISTRATION AND FINANCE

FINDING 2014-001 (Financial Close & Reporting)

Contact Person Responsible for Corrective Action: John Murphy
Contact Phone Number: 574-235-7678

Description of Corrective Action Plan:

The issues related to this being a first year engagement between the City and the outside accounting firm. We worked with the outside firm to expedite the process as the first year of any financial statement engagement is always very difficult. However, we feel that all of the errors noted were quickly and appropriately addressed.

2015 CAFR preparation should be much smoother as the firm now has a full version of the financial statements in their system which will take care of many of the items that did not tie back to one another. We do not anticipate issues in the future.

Please refer to the attached response for further discussion on the issues noted.

Anticipated Completion Date: 2015 Audit and CAFR review should be much smoother.

John D. Murphy
(Signature)

CITY CONTROLLER
(Title)

8-24-15
(Date)

Attachment to FINDING 2014-001 (Financial Close & Reporting)

From SBOA:

Financial Close and Reporting: The internal controls over the financial closing and reporting process were not effective to ensure complete and accurate financial statements. Some of the problems that were identified were as follows:

- a. Financial information presented in the Management's Discussion and Analysis did not always agree to the financial statements.
- b. There were a significant number of draft reports of the financial statements and notes before the final draft was completed. The initial draft report only included information related to the governmental funds. Information for the proprietary funds and notes were provided in a later version.

City Response: At the request of the State Board of Accounts (SBOA), the initial draft report for governmental funds was provided so that this part of the report could be reviewed while the business-type fund section of the report was being prepared.

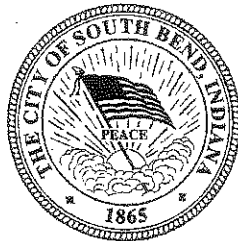
- c. The Governmental Funds Balance Sheet did not always agree to the Combining Balance Sheets.
- d. The Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position was not easily traceable to the notes and/or financial statements.
- e. The Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds to the Statement of Activities was not easily traceable to the notes and/or financial statements.
- f. The Statement of Cash Flows did not include the section disclosing the Noncash Activities.
- g. Amounts in the Notes to the Financial Statements did not always agree to the financial statements
- h. The financial statements originally presented for audit did not include a fund for a bank account that was held by the Police Department.

City Response: The Controller's Office was not aware of the existence of the account when the initial financial statements were prepared.

Additional City Response:

During the first-year transition to a new CPA firm, errors and statement revisions were made on the part of City staff and CPA firm personnel. The financial statements are now housed on a new operating platform and in a new database and the formatting of the statements is different in many respects. During this initial year, professional differences in reporting style, conventions, materiality and emphasis were ironed out between the CPA firm and the SBOA. In future years, the preparation of the financial statements will be faster and more accurate now that the initial set up and data conversion has been completed. The quality and appearance of the CAFR continues to be excellent and is on par with prior reports.

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

DEPARTMENT OF ADMINISTRATION AND FINANCE

FINDING 2014-001 (Monitoring of Controls)

Contact Person Responsible for Corrective Action: John Murphy
Contact Phone Number: 574-235-7678

Description of Corrective Action Plan:

The City of South Bend has many internal controls already in place. The City management feels we have strong internal controls and we continue to improve on any weaknesses as they are noted. We will continue to review and monitor our controls going forward.

Anticipated Completion Date: Ongoing improvement, as needed.


(Signature)

CITY COMPTROLLER
(Title)

8-24-15
(Date)

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

DEPARTMENT OF ADMINISTRATION AND FINANCE
CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: John Murphy
Contact Phone Number: 574-235-7678

Description of Corrective Action Plan:

The City has a decentralized grants management program and made some errors in accumulating the summary data for the SEFA schedule. To correct this going forward, the City has arranged for a CPA firm to provide SEFA training to its fiscal officers, certain legal staff and others involved with federal grant reporting. The training is scheduled for September 10, 2015 and will be held at the Fire Training Facility. A total of fifteen (15) employees have currently signed up for the training. After completion of the training, additional procedures will be implemented to improve grant reporting including the submission of grant and award documents to the Deputy City Controller and internal audits of SEFA information provided.

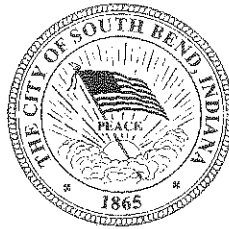
Anticipated Completion Date: September 10, 2015 and for the 2015 SEFA

John D. Murphy
(Signature)

CITY CONTROLLER
(Title)

8/24/15
(Date)

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR
COMMUNITY INVESTMENT
SCOTT FORD, EXECUTIVE DIRECTOR

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Brock Zeeb
Contact Phone Number: 574-235-9339

Description of Corrective Action Plan:

In 2014 the Industrial Revolving Loan Fund (IRF) had an unusual amount of early repayments. The IRF Board has a fiduciary responsibility to make reasonable loans with acceptable collateral and the applicant pool was very limited at that time. Staff is currently working on multiple loans which will use approximately \$2.5M of cash. Additionally, staff and the Board continue to look at creative loan structures which will attract quality borrowers eligible under EDA Plan guidelines.

Anticipated Completion Date: We hope by December 31, 2015, but note that we may need a timely response from EDA in order to accomplish this timeline.

B/Z ZA
(Signature)

Director of Economic Resources
(Title)

8/21/15
(Date)

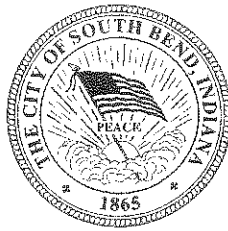
ASSISTANT EXECUTIVE DIRECTOR
CHRIS FIELDING

PLANNING
JITIN KAIN

NEIGHBORHOOD ENGAGEMENT
PAMELA C. MEYER

ECONOMIC RESOURCES
BROCK ZEEB

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR
COMMUNITY INVESTMENT
SCOTT FORD, EXECUTIVE DIRECTOR

CORRECTIVE ACTION PLAN

FINDING 2014-004

Contact Person Responsible for Corrective Action: Brock Zeeb
Contact Phone Number: 574-235-9339

Description of Corrective Action Plan:

We believe this item has already been corrected with the submission of our 3/31/15 report to EDA. As that report was developed, great care was taken to relate all numbers out to appropriate financial reports. In addition, we have instituted an additional level of internal review before submission. We will continue this procedure for all future reports.

Anticipated Completion Date: March 31, 2015

B/C ZA
(Signature)

Director of Economic Resources
(Title)

8/21/15
(Date)

ASSISTANT EXECUTIVE DIRECTOR
CHRIS FIELDING

PLANNING
JITIN KAIN

NEIGHBORHOOD ENGAGEMENT
PAMELA C. MEYER

ECONOMIC RESOURCES
BROCK ZEEB

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.