

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAPORTE

LAPORTE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
02/26/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teresa L. Ludlow	01-01-12 to 12-31-19
Mayor	Blair E. Milo	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Blair E. Milo	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Roger A. Galloway Joseph A. Mrozinske	01-01-14 to 12-31-14 01-01-15 to 12-31-16



STATE OF INDIANA
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TO: THE OFFICIALS OF THE CITY OF LAPORTE, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of LaPorte (City), for the period from January 1, 2014 to December 31, 2014. 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 Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at 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

January 7, 2016

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CLERK-TREASURER
CITY OF LAPORTE

CLERK-TREASURER
CITY OF LAPORTE
FEDERAL FINDING

FINDING 2014 - 001 - PREPARATION OF THE 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). 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, material misstatements of the SEFA could remain undetected.

The SEFA presented for audit included the following errors:

1. Expenditures reported for four programs included nonfederal expenditures which overstated the federal expenditures by \$62,663 in total.
2. Seven programs reported a portion of the program title, incorrectly.
3. Two programs reported the incorrect project numbers.

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

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

CLERK-TREASURER
CITY OF LAPORTE
FEDERAL FINDING
(Continued)

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. . . . "



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CORRECTIVE ACTION PLAN

FINDING 2014-001 – PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Teresa Ludlow, Clerk-Treasurer
Contact Phone Number: (219) 362-9512

The purpose of this communication is to provide a response for a corrective action plan for the City of La Porte, Indiana. The Audit Report for year 2014 need for internal controls to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Audit Report for year 2014 indicates the City should have controls for preparation of the SEFA to ensure accurate reporting of federal awards due to errors found that included: Expenditures reported for four programs included nonfederal expenditures which overstated the federal expenditures, Programs reported a portion of the incorrect program title, program reported incorrect project numbers.

The City of La Porte has reviewed its internal procedures for SEFA and will assess procedures and institute processes that would involve the following:

It was the City's decision, through the Clerk-Treasurer, to include Federal and Local money for 2014. In the future, only the Federal monies will be reported.

Regarding the portions of incorrect program titles, the program title was CDBG Entitlement Grant Cluster, Community Development Block Grants/Entitlement Grants and the City entered CDBG Entitlement Grant Cluster, Community Development Block Grants. In no way did not including the title portion (/Entitlement Grants) impact where monies were placed or how accounts were reported. In the future, the City will strive to review and compare titles to the CFDA website for identical titles.

Regarding the incorrect project numbers, to ensure compliance in the future we will utilize the website to obtain the CFDA numbers.

The Clerk-Treasurer and Deputy Clerk-Treasurer will continue to verify these steps have been completed.

Anticipated Completion Date: Immediately.



(Signature)

Clerk-Treasurer
(Title)

January 7, 2015
(Date)

CLERK-TREASURER
CITY OF LAPORTE
EXIT CONFERENCE

The contents of this report were discussed on January 7, 2016, with Teresa L. Ludlow, Clerk-Treasurer; Blair E. Milo, Mayor; and Joseph A. Mrozinske, President Pro Tempore of the Common Council.

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COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
FEDERAL FINDINGS

FINDING 2014-002 - CASH MANAGEMENT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Number: B-12-MC-18-0021

Internal Control

Management of the City of LaPorte has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management compliance requirements of the Community Development Block Grant program. 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.

The City has not designed or implemented internal control procedures to ensure compliance with the requirements for Cash Management. The City did not have controls in place to ensure that program expenditures were made before reimbursement of the expenditures was requested.

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.

Compliance

The reimbursement request submitted on July 29, 2014, was for disbursements totaling \$54,181.71; none of which had yet been paid. Of the expenditures reported, \$16,300.51 was not actually paid until March 3, 2015, April 15, 2015, and June 19, 2015. These amounts, totaling \$16,300.51, of expenditures for which reimbursement was received in 2014, but the disbursements were not made until 2015, are considered questioned costs.

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."

The Community Development Block Grant Handbook, Chapter 11 page 18 states in part: "The reimbursement method entails a transfer of grant funds to the grantee (or subrecipient) based on actual expenditures of the grantee prior to the receipt of CDBG funds."

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.

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
FEDERAL FINDINGS
(Continued)

We recommended that the City's management establish controls to comply and comply with the compliance requirements for Cash Management.

FINDING 2014-003 - PROGRAM INCOME

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Number: B-12-MC-18-0021

Internal Control

Management of the City of LaPorte has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements for Program Income of the Community Development Block Grant program. 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.

The City has not designed or implemented internal control procedures to ensure compliance with the requirements for Program Income. The City did not have controls in place to ensure that program income was properly reported to the grantor agency or subsequently deducted from future reimbursement requests.

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.

Compliance

The City's records indicate that program income was received on two occasions in 2014: \$4,988.60 on January 27, 2014 and \$29,183.80 on November 5, 2014. Program income should also be receipted into the Integrated Disbursement and Information System (IDIS) as the system is designed to deduct program income from future reimbursement requests. However, the IDIS receipt history showed that the program income of \$4,988.60 had not been entered and, was therefore, not automatically deducted from the next reimbursement request. In addition, no documentation was presented that the City had deducted \$4,988.60 from a subsequent reimbursement request.

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."

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
FEDERAL FINDINGS
(Continued)

The Community Development Block Grant Handbook, Chapter 11 page 18 states in part: "Program income (other than program income deposited in a revolving fund) must be disbursed prior to the drawdown of additional funds from the Treasury (or, in the case of subrecipients, from the grantee)."

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

We recommended that the City's management establish controls to comply and comply with the compliance requirements for Program Income.

FINDING 2014-004 - SUBRECIPIENT MONITORING

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants - Entitlement Grants
CFDA Number: 14.218
Federal Award Number and Year: B-12-MC-18-0021

Internal Control

Management of the City of LaPorte has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Subrecipient Monitoring Compliance requirements of the Community Development Block Grant program. 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.

The City has not designed or implemented internal control procedures to ensure compliance with the requirements for Subrecipient Monitoring. The City did not have controls in place to ensure that on-site reviews of subrecipient activities were conducted as required.

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.

Compliance

Between February 23 and 25, 2015, the U. S. Department of Housing and Urban Development conducted an audit of the City's Community Development Block Grant Program. This program audit revealed that no on-site reviews had been conducted during 2014, which was confirmed during our 2014 audit.

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."

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
FEDERAL FINDINGS
(Continued)

24 CFR § 85.40(a) states:

"Grantees are responsible for managing the day-to day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function or activity."

24 CFR 570.501 (b) states in part:

"The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility."

OMB Circular A-133 .400(d) states in part:

"A pass through entity shall perform the following for the Federal awards it makes: . . . (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

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 comply and comply with the Compliance requirements related to Subrecipient Monitoring.

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CORRECTIVE ACTION PLAN

FINDING 2014-002 – CASH MANAGEMENT

Contact Person Responsible for Corrective Action: Beth Shrader, Director of Community Development & Planning

Contact Phone Number: (219) 362-8260

The purpose of this communication is to provide a response for a corrective action plan for the City of La Porte, Indiana Community Development Block Grant (CDBG). The Audit Report for year 2014 indicates a lack of internal control procedures and segregation of duties to ensure compliance with the requirements of cash management.

The City of La Porte has reviewed its internal procedures for cash management within the Community Development Block Grant (CDBG) program and is committed, per Department of Housing and Urban Development (HUD) guidance, to maintaining an "adequate separation of duties so that no one individual has authority over a financial transaction from beginning to end" (Basically CDBG, Chapter 11, p. 18). Duties are separated between the Director of Community Development & Planning, who authorizes the execution of transactions; the CDBG Program Manager, who records the transaction; and the Clerk-Treasurer, who maintains custody of the assets involved in the transaction. With respect to the delayed expenditures of the July 2014 drawdown of funds, written justification of the delay has been added to the file, as prescribed by HUD guidance (Basically CDBG, Chapter 11, p. 20). Furthermore, appropriation reports for the CDBG program will be reviewed by the Director of Community Development & Planning and Clerk-Treasurer on a monthly basis to ensure timely disbursement of drawn-down funds going forward.

Anticipated Completion Date: Immediately.

(Signature)

Director of Community Development & Planning
(Title)

January 7, 2015



- An organizational chart setting forth the actual lines of responsibility of personnel involved in financial transactions.
- Written definition and delineation of duties among key personnel involved in financial transactions.
- An accounting policy and procedures manual that includes:
 - Specific approval authority for financial transactions and guidelines for controlling expenditures;
 - A set of written procedures for recording of transactions; and
 - A chart of accounts.
- Adequate separation of duties so that no one individual has authority over a financial transaction from beginning to end. In other words, one person should not have responsibility for *more than one* of the following functions:
 - Authorization to execute a transaction.
 - Recording of the transaction.
 - Custody of the assets involved in the transaction.
- Hiring policies ensuring that staff qualifications are commensurate with job responsibilities.
- Control over assets, blank forms and confidential documents so that these types of documents are limited to authorized personnel only.
- Periodic comparisons of financial records to actual assets and liabilities (i.e., reconciliation). In cases where discrepancies are found, corrective action must be taken to resolve such discrepancies.

Budget Controls

- ✓ Recipients and subrecipients of CDBG funds must have procedures in place to compare and control expenditures against approved budgets for CDBG-funded activities.
- ✓ A grantee or subrecipient must:
 - Maintain in its accounting records (see below) the amounts budgeted for eligible activities;
 - Periodically compare actual obligations and expenditures to date against planned obligations and expenditures, and against projected accomplishments for such outlays; and
 - Report deviations from budget and program plans, and request approval for budget and program plan revisions.

Accounting Records

- ✓ Recipients and subrecipients of CDBG funds are required to have accounting records that sufficiently identify the source and application of CDBG funds provided to them.



- Amount of federal funds received;
- Current authorization of funds;
- Obligations of funds;
- Unobligated balances;
- Assets and liabilities;
- Program income; and
- Actual expenditures broken down by the grant program and year for which the funds are derived and the activity on which the funds were used.

Cash Management

- ✓ Recipients and subrecipients are required to have procedures in place to minimize the amount of time that elapses between receipt of CDBG funds and the actual disbursement of those funds.
- ✓ This requirement is intended to curtail unnecessary drawdowns of CDBG funds and minimize the cost of financing the CDBG program by the federal government.
- ✓ There are three general methods available to transfer CDBG funds from the U.S. Treasury to grantees (or from the grantee to a subrecipient):
 - **Reimbursement method** - The reimbursement method entails a transfer of grant funds to the grantee (or subrecipient) based on actual expenditures of the grantee prior to the receipt of CDBG funds. This method would only be used for CDBG grantees when HUD has imposed such payment method as a remedy for failure to comply with applicable requirements.
 - **Cash advance method** - The cash advance method involves the transfer of CDBG funds to the grantee (or subrecipient) to meet obligations before actual cash disbursements have been made. This is the method used to fund most CDBG grantees.
 - **Working capital method** - The subrecipient is advanced cash to meet its estimated disbursements for an initial period. After the initial period, the subrecipient will receive cash on a reimbursement basis. This method is used when the subrecipient lacks sufficient working capital. Note, however, that this method cannot be used if the reason for using it is the unwillingness or inability of the grantee to provide timely advances to the subrecipient to meet the subrecipient's actual cash disbursement.
- ✓ Requirements concerning cash management include the following:
 - Recipients (and subrecipients) must include accurate information in drawdown requests.
 - Funds drawn down erroneously must be returned. (This includes funds drawn down under the cash advance method where the expenditure of funds is delayed.)
 - Disbursement of funds must occur in a timely manner. While there is no explicit time period, the general rule is that payment must take place within three business days of deposit of CDBG funds. If payment takes longer than three business days, written justification should be maintained in the files.

City of LaPorte

INDIANA



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CORRECTIVE ACTION PLAN

FINDING 2014-003 PROGRAM INCOME

Contact Person Responsible for Corrective Action: Beth Shrader, Director of Community Development & Planning

Contact Phone Number: (219) 362-8260

The purpose of this communication is to provide a response for a corrective action plan for the City of La Porte, Indiana Community Development Block Grant (CDBG). The Audit Report for year 2014 indicates a lack of internal control procedures to ensure compliance with the requirements of program income.

Prior to 2014, there was no program income received by the City of LaPorte through CDBG-funded activities. In 2014, program income was received in January 2014 in the amount of \$4,988.60. Because program income was a new occurrence, internal control procedures were not in place to track it. However, the Integrated Disbursement and Information System (IDIS) makes available a program income report to the City of La Porte. As a result, the program income was received in IDIS after January 27, 2014. All other program income received in 2014 and 2015 has been properly receipted in IDIS.

Accordingly, a procedure was developed stipulating that all program income received in the CDBG program is to be receipted in IDIS within one business day of receipt and the program income be turned over to the Clerk-Treasurer within one business day of receipt. Furthermore, the amount of program income is shown on subsequent approved IDIS voucher receipts with the program income line highlighted by Department of Community Development & Planning staff processing the IDIS voucher to ensure that program income is disbursed before a drawdown of federal funds is made. A copy of the approved IDIS voucher is given to the Clerk-Treasurer with the program income amount highlighted. Also, the amount of the draw and the amount of program income is recorded on the Financial Transaction Report attached to the approved IDIS voucher and given to the Clerk-Treasurer's staff member.

Anticipated Completion Date: Immediately.

(Signature)

Director of Community Development & Planning

(Title)

January 7, 2015

(Date)

Costs which are charged must be included in the approved Budget Summary and must be allowable under Attachment B of A-87 (Cost Principles for State and Local Governments) or Attachment B of A-122 (Cost Principles for Non-Profit Organizations). These cost principles may be found at www.whitehouse.gov/omb/circulars.

To request payment for activities, the Payment Request Form must be fully completed and accompanied **with backup documentation of costs**. The Payment Request Form includes the amount requested by line items according to the contract budget for the project.

THE CITY WILL WITHHOLD THE FINAL PAYMENT TO SUB-RECIPIENTS UNTIL ALL NECESSARY FORMS INCLUDING FORMS REQUIRED OF THE CONTRACTOR BY THE DAVIS-BACON ACT, ARE COMPLETED.

PROGRAM INCOME

Program income is defined as the gross income that is received by a sub-recipient and has been directly generated from the use of CDBG funds. Examples include:

- Gross income from the use or rental of real property that has been acquired, constructed, or improved with CDBG funds. Cost incidentals to the generation of the income are deducted from the gross income.
- Interest earned on program income is also considered program income.
- Funds collected through special assessments that are made against properties owned and occupied by non-low and moderate-income households where the assessments have been made to recover some or the entire CDBG portion of a public improvement.
- Proceeds from the disposition of real property that has been acquired or improved with CDBG funds where the disposition occurs within five-year period after the expiration of the agreement between the City and the sub-recipient for the specific project.
- Fees charged for the provision of services to clients.

The contract between each sub-recipient and the City requires that the sub-recipient must document program income received from the activity on the Payment Request Form and use that income prior to requesting CDBG funds.

Program income received in the CDBG program is to be receipted in IDIS within one business day of receipt and the program income be turned over to the Clerk/Treasurer within one business day of receipt. Furthermore, the amount of program income is

shown on subsequent approved IDIS voucher receipts with the program income line highlighted by City staff processing the IDIS voucher to ensure that program income is disbursed before a drawdown of Treasury funds is made. A copy of the approved IDIS voucher is given to the Clerk/Treasurer with the program income amount highlighted. Also, the amount of the draw and the amount of program income is recorded on the Financial Transaction Report attached to the approved IDIS voucher and given to the Clerk/Treasurer's staff member.

DRAFT



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CORRECTIVE ACTION PLAN

FINDING 2014-004 SUB-RECIPIENT MONITORING

Contact Person Responsible for Corrective Action: Beth Shrader, Director of Community Development & Planning
Contact Phone Number: (219) 362-8260

The purpose of this communication is to provide a response for a corrective action plan for the City of La Porte, Indiana Community Development Block Grant (CDBG). The Audit Report for year 2014 indicates a lack of internal control procedures and segregation of duties to ensure compliance with the requirements of sub-recipient monitoring.

The City of La Porte, Indiana has adopted a monitoring schedule to conduct monitoring review of sub-recipients based on criteria reviewed by Office of Community Development & Planning (CDP) staff to aid in determining the level of risk and priority for monitoring of sub-recipients. The Office of Community Development and Planning includes a monitoring frequency of at least once a year for sub-recipients in the Standard Operating Procedures Manual (attached). Per HUD guidance, these monitoring reviews may be conducted as "desk reviews" or "on-site monitoring visits" (Basically CDBG, Chapter 13, p.19). The CDBG Program manager regularly conducts desk reviews with each sub-recipient reimbursement request. The CDBG will schedule on-site monitoring visits at a minimum of four agencies every program year.

The purpose of the monitoring of sub-recipients is to determine if a sub-recipient is carrying out its community development program and its individual activities as described in the application for CDBG assistance and Grant Agreement. Areas covered during monitoring of a sub-recipient include: review of the grant agreement, costs to provide the program and services, eligibility determinations of beneficiaries, and review of recordkeeping documents. When conducting an on-site monitoring review for a sub-recipient, the Checklist for On-Site Monitoring of a Sub-recipient will be used (attached).

In the future, at least one monitoring review of all sub-recipients using either a desk review or an on-site monitoring visit will be conducted within 6 months of the contract date. If any corrective actions are required, a strategy will be developed to assist in addressing any identified problems; and, subsequently, more frequent monitoring reviews will occur.

Anticipated Completion Date: Immediately.



(Signature)

Director of Community Development & Planning
(Title)

January 7, 2015
(Date)



13.4.6 Project Monitoring

- ✓ For individual projects, monitoring begins when activities are selected for CDBG funding and continues through project completion.
- ✓ For example, once construction has started, grantees should:
 - Require progress reports (weekly, monthly, quarterly or with each draw request) that flag any pending or anticipated problems;
 - Hold regular meetings to discuss issues and provide any technical assistance needed; and
 - Make periodic site visits to evaluate progress.
- ✓ Other general areas for project monitoring include:
 - Project schedule:
 - Is the project on schedule and have all major milestones been met?
 - Project accomplishments:
 - Is the project meeting standards established in the written agreement?
 - Are costs on target?
 - Is the number of units proposed being produced?
 - If applicable, is the quality of the construction/rehabilitation acceptable?
 - If the project is finished, have the CDBG-assisted units been rented/sold to income-eligible households?
- ✓ There are two ways to conduct project monitoring reviews which may be done in conjunction with program monitoring. The first is to conduct what is referred to as a “desk review.” The second, more intensive way to monitor CDBG-funded programs and organizations is to conduct an “on-site monitoring review”. Both options are discussed below.

13.4.7 Desk Reviews

- ✓ Desk reviews are a key component of basic monitoring activities. They involve examining information and materials provided to grantees by subrecipients as a means to track performance and identify potential problem areas.
 - Staff performing desk reviews should examine progress reports, compliance reports, and financial information to adequately assess performance and look for indicators of performance or compliance problems.
- ✓ A typical grantee is likely to request three kinds of reports from its subrecipients: information on drawdown requests, regular progress reports, and CAPER data.
 - **Drawdown requests** involve the following:
 - Funds budgeted;
 - Funds received in drawdowns to date;
 - Funds obligated in most recent period and to date;
 - Funds expended in most recent period and to date;
 - Cash on hand (including program income identified as such); and



- Previous drawdowns requested but not yet received.
- **Regular progress reports** (either monthly or quarterly) involve the following:
 - Track actual project accomplishments;
 - Obligations; and
 - Spending patterns against planned operations and accomplishments.
- **CAPER data** collection involves the following:
 - The activity's name, matrix code, description, and location;
 - The national objective being met;
 - The amount expended during the program year;
 - The total cost of each multi-unit housing and 570.203(b) economic development activity;
 - The amount of unliquidated obligations for each public service and planning and administration activity if CDBG funds are not disbursed during the 90 days after the end of the grantee's program year; and
 - Activity status and specific units of accomplishments, including compliance with the applicable national objective, during each program year.
- ✓ If questions or concerns arise from the desk review, staff should gather additional information through telephone calls, additional documents, or other written materials.

13.4.8 On-Site Reviews

- ✓ On-site reviews typically involve monitoring of the subrecipient's overall program administration as well as individual beneficiary or project files, depending upon the activity undertaken.
- ✓ The following steps provide grantees with the basic framework to follow when conducting on-site program monitoring reviews, including reviews of subrecipients.
- ✓ **Step 1: Prepare for the Monitoring Visit**—Before the monitoring visit, grantees should make sure staff is adequately trained for the task. Staff should be thoroughly familiar with the applicable program rules and the established monitoring protocol. In addition, staff should review the following types of in-house data prior to the visit:
 - Application for funding;
 - Written agreement;
 - Progress reports;
 - Draw-down requests;
 - Integrated Disbursement and information System (IDIS) reports;
 - Correspondence;
 - Previous monitoring reviews; and
 - Copies of audits.



- ✓ **Step 2: Conduct the Monitoring Visit**—There are four basic elements to conducting an on-site monitoring visit: notification, entrance conference or meeting, data collection and analysis, and exit conference or meeting. These steps are described briefly below.
- **Notification:** Grantees should begin the monitoring process by calling subrecipients to explain the purpose of the visit and to agree upon dates for the visit. A formal notification letter should follow at least several weeks before the planned visit and should include:
 - Confirmation of the dates for the review,
 - Scope of the monitoring,
 - Information needed for review during the visit, and
 - Staff needed for interviews or other assistance during the review.
 - **Entrance conference:** Entrance conferences are held at the beginning of monitoring visits, usually with the executive director or other top official of the organization, to make sure the subrecipient has a clear understanding of the purpose, scope, and schedule for the monitoring.
 - **Documentation, data gathering, and analysis:** Grantees should keep a clear record of information reviewed and conversations held with subrecipient staff during the monitoring visit. The most efficient and effective way to review all of the necessary documentation and data is with a checklist. Checklists should be based on the CDBG Program requirements for each type of project. The information gathered will serve as the basis for conclusions to be included in the monitoring report and follow-up letter. Subrecipients may request identification of sources if any of the conclusions are disputed.
 - **Exit conference:** At the end of the monitoring visit, the reviewers should meet again with key representatives of the subrecipient organization to:
 - Present preliminary results of the monitoring,
 - Provide an opportunity for the subrecipient to correct any misconceptions or misunderstandings,
 - Secure additional information to clarify or support their position, and
 - If applicable, provide an opportunity for the subrecipient to report on steps the organization may already be taking to address areas of noncompliance or nonperformance.
- ✓ **Step 3: Follow-Up**—At the end of the process, the grantee should provide the subrecipient with formal written notification of the results of the monitoring review. This letter should both point out problem areas *and* recognize successes.
- The follow-up letter creates a permanent written record of what was found during the review.
 - Standardized language set forth in the monitoring procedures often helps grantees to develop standardized monitoring letters in a reasonable time frame and with consistency from subrecipient to subrecipient.
 - The letter should outline concerns and findings (see above), and set deadlines for a written response and corrective actions.
 - Follow-up procedures are discussed below under “Corrective Actions.”

Recordkeeping Requirements

HUD requires the City of LaPorte, Indiana to keep documentation covering these areas: general administration, financial, individual project/activities, national objectives, determining and documenting income eligibility, and records on sub-recipients.

The City of LaPorte, Indiana will retain CDBG records for a period of not less than five years after expiration of the contract and any amendments, completion and resolution of the audit and/or any litigation, whichever is later. Records for any displaced person shall be retained for five years after the person received final relocation.

Any documentation/records containing personal information on beneficiaries shall be treated as confidential and kept in a locked filing cabinet.

Citizens of LaPorte will be allowed reasonable access to records regarding past use of CDBG funds consistent with applicable state and local laws regarding privacy and confidentiality.

The Consolidated Plan is available to citizens, public agencies and other interested parties with reasonable and timely access to information and records relating to LaPorte's Consolidated Plan and the use of CDBG assistance under programs covered in the Consolidated Plan.

Monitoring of Program Performance

The City of LaPorte, Indiana CDBG Program staff will formally monitor sub-recipients one or more times. Sub-recipients will be advised in writing of the monitoring visits.

The purpose of the monitoring of sub-recipients is to determine if a sub-recipient is carrying out its community development program and its individual activities as described in the application for CDBG assistance and Grant Agreement.

Monitoring visits will be conducted within 6 months of the contract date. The CDBG Program Manager will schedule four on-site monitoring visits every program year.

Areas covered during monitoring of a sub-recipient include: review of the grant agreement, costs to provide the program and services, eligibility determinations of beneficiaries, and review of recordkeeping documents.

When conducting an on-site monitoring review for a sub-recipient, the Checklist for On-Site Monitoring of a Sub-recipient will be used.

A monitoring letter will be sent to all sub-recipients monitored informing the group of results of the monitoring visit. If any corrective actions are required, a strategy will be

developed to assist in addressing any identified problems. More frequent monitoring reviews will occur.

Monitoring checklists are found at this website:

www.hud.gov/offices/cpd/communitydevelopment/library

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Forms Included in This Section:

Checklist for On-Site Monitoring

**CHECKLIST FOR ON-SITE MONITORING OF A SUBRECIPIENT
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM**

Subrecipient _____
Project Name/Agreement No. _____
Project Director _____

In-house review and general oversight conducted on _____
On-site monitoring visit(s) conducted on _____

Monitoring letter sent on _____
Follow-up monitoring visit conducted/letter sent on: _____

A. National Objective and Eligibility

1. Which National Objective does this project meet (570.208)*?

Benefit to Low- and Moderate-Income Persons

- ___ Low/Mod Area Benefit
- ___ Limited Clientele Benefit
- ___ Low/Mod Housing Benefit
- ___ Job Creation or Retention

Aid in the Prevention or Elimination of Slums or Blight

- ___ on an Area Basis
- ___ on an Spot Basis

An Urgent Need

- ___ Needs having a Particular Urgency

2. Which eligibility category does the project meet? (570.201-6)?

B. Conformance to the Subrecipient Agreement

1. **Contract Scope of Services** – Is the full scope of services listed in the Agreement being undertaken? List any deviation.
2. **Levels of Accomplishments** – Compare actual accomplishments at the point of monitoring with planned accomplishments. Is the project achieving the expected levels of performance (number of persons served, number of units rehabbed, etc.) and reaching the intended client group? Explain any problem the subrecipient may be experiencing. **Acknowledge major accomplishments.**
3. **Time of Performance** – Is the work being performed in a timely manner (i.e., meeting the schedule as shown in the Agreement)? Explain.
4. **Budget** – Compare actual expenditures versus planned expenditures. Note any discrepancies or possible deviations.

5. Requests for Payment – Are requests for payment being submitted in a timely manner and are they consistent with the level of work accomplished? Is program income properly accounted for and recorded? Explain.
6. Progress Reports – Have progress reports been submitted with payment requests (where required) on time and were they complete and accurate?
7. Special Conditions – Does the project conform to any special terms and conditions included in the Subrecipient Agreement? Explain.

C. Record-Keeping Systems (570.506)

Records should demonstrate that each activity undertaken meets the criteria for National Objectives compliance. Such records should be found in both the grantee's project file and the subrecipient file.

1. Filing System – Are the subrecipient's files orderly, comprehensive, secured for confidentiality where necessary, and up-to-date? Note any areas of deficiency.
2. Documentation (activities, costs and beneficiaries) – Do the HCD project file and subrecipient records have the necessary documentation supporting the National Objective being met, eligibility, and program costs as they relate to 570.506? Do the project files support the data the subrecipient has provided for the CAPER?
3. Record Retention – Is there a process for determining which records need to be retained and for how long?
4. Site Visit (where applicable) – Is the information revealed by a site visit consistent with the records maintained by the subrecipient and with data previously provided to the grantee? Explain any discrepancies.
 - a. Is the project manager located on-site and running the day-to-day operations? Do the staff seem fully informed about program requirements and project expectations? Explain.
 - b. Is the project accomplishing what it was designed to do? Explain any problems.

D. Financial Management Systems [85.20 (local governments) and 84.21–28 (non-profits)]

1. Systems for Internal Control – Are systems in compliance with accounting policies and procedures for cash, real and personal property, equipment and other assets (85.20(b)(3) and 84.20(b)(3))?
2. Components of a Financial Management System – Review the chart of accounts, journals, ledgers, reconciliation, data processing, and reporting system. Note any discrepancies.

3. Accounting – Compare the latest performance report, drawdown requests, bank records, payroll records, receipts/disbursements, etc. Note any discrepancies.
4. Eligible, Allocable, and Reasonable Costs – See OMB Circulars A-87, A-122. Pay particular attention to the time distribution records where the subrecipient has employees who work on both CDBG and non-CDBG funded activities. Note any discrepancies.
5. Cash Management/Drawdown Procedures – See Treasury Circular 1075, 85.20(b)(7), and 84.20. Has all cash been promptly drawn down and deposited? Are all drawdowns of Federal funds properly recorded? Note any discrepancies.
6. Management of Program Income – If the subrecipient generates program income, refer to 570.504 and the Subrecipient Agreement about its use. Note any discrepancies.
7. IPA Audit Reports/Follow-up – (OMB Circular A-133) Determine if the subrecipient has expended \$500,000 or more in Federal funds for the subject program year.

IPA Audit Required Yes ___ No ___ N/A ___
Date Conducted _____

Any findings related to CDBG activity? Status? Explain.

8. Maintenance of Source Documentation – (85.20(b) and 84.20(b)) Note any discrepancies in sample records, invoices, vouchers and time records traced through the system.
9. Budget Control – Do actual expenditures match the line item budget? Refer to 85.20(b)(4) and 84.20. Note any discrepancies.

E. Insurance

1. Has the subrecipient submitted a current copy of its Certificate of Insurance?
2. Is the City named as an additional insured?

F. Procurement

1. Procurement Procedures – Do the procedures the subrecipient uses for procurement of goods and services meet CDBG requirements? Review a sample number of procurements.
2. Conflict of Interest – How does the subrecipient assure there was no conflict of interest, real or apparent? Review the process and comment.

G. Equipment and Real Property

1. Has the subrecipient acquired or improved any property it owns in whole or in part with CDBG funds in excess of \$25,000? If yes, review for compliance with 570.503(b)(7).

2. Has the subrecipient purchased equipment with CDBG funds in excess of \$1,000? Does the subrecipient maintain the records required at 84.34?
3. Has a physical inventory taken place and the results reconciled with property records within the last two years?
4. If the subrecipient disposed of equipment/property that was purchased with Federal funds within the last five years:
 - a. Were proceeds from the sale reported as program income?
 - b. Did the grantee approve expenditure of program income?
 - c. Was the program income returned to the grantee?

H. Non-Discrimination and Actions to Further Fair Housing

1. Equal Employment Opportunity – Refer to 570.506, 601 and 602. Note any deficiencies.
2. Section 3 – Opportunities for Training and Employment for Local Residents – Refer to 570.506(g)(5) and 570.607(a) (affirmative action). Note any deficiencies.
3. Fair Housing Compliance – Refer to 570.904 and 570.601(b). Note any deficiencies.
4. Requirements for Disabled Persons – Refer to 8.6. Note any concerns.
5. Women and Minority Business Enterprises – Refer to 570.506(g), 85.36(e), and 84.44, affirmative steps documentation. Note any concerns.

I. Conclusion and Follow-up

1. Is the subrecipient meeting the terms of the Subrecipient Agreement and HUD regulations? Discuss both positive conclusions and any weaknesses identified.
2. Identify any follow-up measures to be taken by the grantee and/or the subrecipient as a result of this monitoring review.
 - a. List the required schedule for implementing corrective actions or making improvements.
 - b. List the schedule for any needed technical assistance or training and identify who will provide the training.

Project Monitor

Date

COMMUNITY DEVELOPMENT AND PLANNING
CITY OF LAPORTE
EXIT CONFERENCE

The contents of this report were discussed on January 7, 2016, with Teresa L. Ludlow, Clerk-Treasurer; Beth Shrader, Director of Community Development and Planning; Blair E. Milo, Mayor; and Joseph A. Mrozinske, President Pro Tempore of the Common Council.