

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SOUTH BEND

ST. JOSEPH COUNTY, INDIANA

January 1, 2015 to December 31, 2015



**FILED**  
09/15/2016



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	John H. Murphy	01-01-15 to 12-31-16
Mayor	Pete Buttigieg	01-01-12 to 12-31-19
President of the Board of Public Works	Gary A. Gilot	01-01-15 to 12-31-16
President of the Common Council	Tim Scott	01-01-15 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of South Bend (City), for the period from January 1, 2015 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments 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/](http://www.in.gov/sboa/).

The Federal Finding, identified in the above referenced audit report, is included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Finding and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

August 2, 2016

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CITY CONTROLLER  
CITY OF SOUTH BEND

CITY CONTROLLER  
CITY OF SOUTH BEND  
FEDERAL FINDINGS

***FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING***

*Condition*

There were deficiencies in the internal control system of the City related to financial transactions and reporting of the Comprehensive Annual Financial Report (CAFR) and the Schedule of Expenditures of Federal Awards (SEFA). The City should have had proper controls in place over the preparation of the CAFR and SEFA to ensure accurate reporting.

The internal controls in place over the review of the CAFR were not effective in preventing, or detecting and correcting, errors in a timely manner. The following were immaterial errors:

Governmental Activities:

1. Deferred Outflows Related to Pensions were understated \$4,422,618.
2. General Government Expenses were understated \$2,267,878 due to a restatement of the January 1, 2015 Net Position.
3. Investments of \$235,456 were misclassified as Cash and Cash Equivalents.

Business-Type Activities:

1. Accounts Receivable Assets of the Business-type Activities were understated \$2,500,000 due to the omission of a significant account.
2. Investments of \$695,616 were misclassified as Cash and Cash Equivalents.
3. Deferred Inflows of Resources of \$335,417 were misclassified as Liabilities.

Major Funds:

1. Redevelopment Authority Debt Service fund Other Financing Sources - Premium on Refunding Debt of \$1,682,169 was misclassified as Debt Proceeds.

Other Aggregate Remaining Funds:

1. Emergency Medical Services fund (a nonmajor Enterprise Fund) Other Operation and Maintenance Expenses of \$5,730,078 were misclassified as Billing and Administrative Costs.
2. Liability Insurance Premium Reserve fund (an Internal Service fund) Operating Expenses were overstated \$1,275,683 due to a restatement of the January 1, 2015 Net Position.

Notes to the Financial Statements:

1. Notes to the Financial Statements included numerous inconsistencies with the financial information included on the face of the Financial Statements.
2. Notes to the Financial Statements did not include all disclosures required by the Governmental Accounting Standards Board.



CITY CONTROLLER  
CITY OF SOUTH BEND  
FEDERAL FINDINGS  
(Continued)

The City did not have a proper system of internal control in place to prevent, or detect and correct, material errors on the SEFA as detailed below.

1. Federal expenditures of the Economic Adjustment Assistance program were understated \$2,250,603.
2. Federal expenditures of the Highway Planning and Construction program were overstated \$108,429.

Adjustments were proposed, accepted by the City, and made to the CAFR and the SEFA.

*Criteria*

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)

2 CFR section 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

*"Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with section 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must be included.

CITY CONTROLLER  
CITY OF SOUTH BEND  
FEDERAL FINDINGS  
(Continued)

- (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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in section 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in section 200.414 Indirect (F&A) costs."

*Cause*

Management had not established an effective system of internal controls that would have ensured proper reporting of the CAFR and the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the CAFR and SEFA could have remained undetected. The CAFR and SEFA contained the errors identified in the *Condition*.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



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

**CORRECTIVE ACTION PLAN**

***FINDING 2015-001***

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

Views of Responsible Official:

CAFR: The City continues to improve the financial statement preparation process. There were great improvements in 2015 with regards to the way the outside firm worked with the City to prepare the 2015 CAFR. Although there were errors noted, which were subsequently corrected and included in the 2015 CAFR, the City is of the opinion that noted misstatements were not material nor would such omissions/errors have changed the opinion of the City by a reasonable user of the financial statements had these entries been omitted. The City finance team works diligently to keep the books and records of the City accurate and will continue do to so.

SEFA: We concur with the finding.

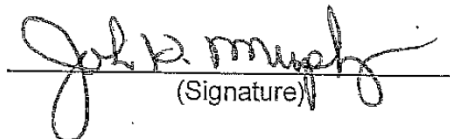
Description of Corrective Action Plan:

CAFR: In order to avoid such errors in the future, the City will continue to work with the current outside CPA firm and/or contract with another firm in order to assure that errors are caught prior to submission of the final drafts to the outside audit group. There are considerations being given to contracting with an individual who is an expert in CAFR preparation in order to avoid future errors and omissions.

SEFA: For 2017, we will have an employee dedicated to the management and reporting of grants.

Anticipated Completion Date:

Prior to the start of the 2016 audit.

  
(Signature)

City Controller

(Title)

8/2/16

(Date)

CITY CONTROLLER  
CITY OF SOUTH BEND  
EXIT CONFERENCE

The contents of this report were discussed on August 2, 2016, with Pete Buttigieg, Mayor; John H. Murphy, Controller; and Tim Scott, President of the Common Council.

FIRE PENSION  
CITY OF SOUTH BEND

FIRE PENSION  
CITY OF SOUTH BEND  
AUDIT RESULT AND COMMENT

***FIRE PENSION CENSUS DATA***

Firefighter pension data reported by the City to the Indiana Public Retirement System (INPRS) contained incorrect retirement dates for 9 of the 18 retirees tested.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



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

**AUDIT RESULT AND COMMENT**

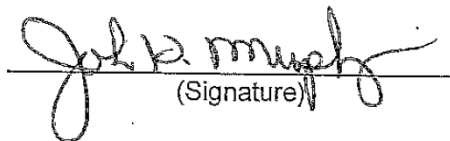
***FIRE PENSION CENSUS DATA***

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**OFFICIAL RESPONSE:**

Gerard Ellis, Fire Pension Secretary, contacted INPRS on July 1, 2016 to determine the best way to make the corrections to the dates in the INPRS system. According to his contact at INPRS, he will not be able to make the changes until January 2017. Gerard will make the changes and communicate with the State Board of Accounts once these changes have been made.

  
(Signature)

City Controller

(Title)

8/2/16

(Date)

FIRE PENSION  
CITY OF SOUTH BEND  
EXIT CONFERENCE

The contents of this report were discussed on August 2, 2016, with Pete Buttigieg, Mayor; John H. Murphy, Controller; Gerard Ellis, Fire Pension Secretary; and Tim Scott, President of the Common Council.