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October 6, 2016

Board of Commissioners
Housing Authority of the City of South Bend
510 Alonzo Watson Drive
South Bend, IN 46601

We have reviewed the audit report prepared by Barton, Gonzalez & Myers, P.A., Certified Public Accountants, for the period October 1, 2013 to September 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the City of South Bend Housing Authority, as of September 30, 2014 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards reports a material weakness in internal control over financial reporting. It is Finding 2014-001 in Section II of the Schedule of Findings and Questioned Costs.

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 is qualified for various compliance requirements on all major programs. These Section III findings of noncompliance are also material weaknesses in internal control. These are as follows:

<u>Finding</u>	<u>CFDA</u>	<u>Compliance Requirement</u>
2014-002	14.850, 14.871, and 14.872	Reporting
2014-003	14.850	Eligibility
2014-004	14.850	Special Tests and Provision
2014-005	14.871	Eligibility
2014-006 and 2014-007	14.871	Special Tests and Provision
2014-008 and 2014-013	14.871	Reporting
2014-009	14.872	Davis-Bacon Act
2014-010 through 2014-012	14.850	Special Tests and Provision
2014-014	14.850	Activities Allowed or Unallowed

Housing Authority of the City of South Bend
October 6, 2016
Page Two

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce". The signature is written in a cursive style with a prominent "P" and "J".

Paul D. Joyce, CPA
State Examiner

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

AUDIT REPORT

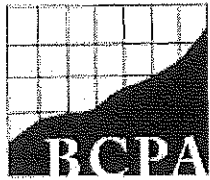
For the Year Ended September 30, 2014

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

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September 30, 2014

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**Barton,
Gonzalez
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Independent Auditor's Report

Board of Commissioners
Housing Authority of the City of South Bend
South Bend, Indiana

We have audited the accompanying financial statements of the Housing Authority of the City of South Bend ("Authority") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of South Bend, as of September 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority of the City of South Bend's basic financial statements. The accompanying financial information listed in the Table of Contents as Supplementary Information and the Financial Data Schedule are presented for additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

This other information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 financial information listed in the Table of Contents as Supplementary Information, the Financial Data Schedule and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Barton, Gonzalez & Myers, P.A.
Certified Public Accountants
August 15, 2016

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2014

Management's Discussion and Analysis

This section of the Housing Authority of the City of South Bend, Indiana ("Authority") annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2014. Please read it in conjunction with the financial statements which begin on page 11.

We are pleased to submit the financial statements of the Authority for the year ended September 30, 2014. The accuracy of the data presented in the financial statements, as well as its completeness and fairness of presentation, is the responsibility of management. All necessary disclosures to enable the reader to gain an understanding of the Authority's financial affairs have been included in the footnotes accompanying the general purpose financial statements. The purpose of the financial statements is to provide complete and accurate financial information that complies with reporting requirements of the U.S. Department of Housing and Urban Development ("HUD") and the Governmental Accounting Standards Board.

The management's discussion and analysis section includes information on the past and future accomplishments of the Authority. It focuses on analysis of the financial statements and the improvements in the Authority's management.

The financial section provides both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

Additionally, the Authority is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments and the United States Office of Management and Budget's (OMB) *Audits of States, Local Governments, and Non-Profit Organizations* as provided in OMB Circular A-133. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2014

Financial Highlights

- Total assets were approximately \$9.6 million at September 30, 2014, a decrease of \$1.0 million from the September 30, 2013 balance of approximately \$10.6 million. The decrease primarily related to the current year depreciation of capital assets.
- Net capital assets were approximately \$6.5 million at September 30, 2014, representing a \$900,000 decrease from the September 30, 2013, balance of approximately \$7.4 million.
- Net position at September 30, 2014 totaled approximately \$8.3 million and represented a decrease of \$1.3 million from the September 30, 2013 balance of approximately \$9.6 million. The decrease was due to current year expenses exceeding current year revenue.
- Total liabilities increased from approximately \$1.0 million at September 30, 2013 to approximately \$1.3 million, or by 32.4%, at September 30, 2014. Long-term liabilities and accrued liabilities had the largest increases.
- Revenues also decreased by \$1.8 million from approximately \$19 million during fiscal year 2013 to approximately \$17.3 million in fiscal year 2014. The decrease was primarily due to a decrease in HUD operating and capital grants.
- Operating expenses, excluding depreciation, decreased by \$1.7 million, or by 9.1%, to approximately \$17.3 million at September 30, 2014, from approximately \$19 million at September 30, 2013.

Using this Report

The financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private sector business. These financial statements report on the functions of the Authority that are principally supported by intergovernmental revenues. The Authority's function is to provide decent, safe, and sanitary housing to low-income and special needs populations, which is primarily funded with grant revenue received from the U.S. Department of Housing and Urban Development (HUD).

The *Statement of Net Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating, or otherwise changing in a dramatic manner.

The *Statement of Revenues, Expenses, and Changes in Net Position* present information detailing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event given rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2014

The *Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities.

Overview of the Financial Reports

The Authority's basic financial statements are presented as a single enterprise fund whose operations include the low rent and the housing choice voucher and a lead based paint programs as follows.

Fund Financial Statements are groupings of accounts used to maintain control over resources segregated for specific activities or objectives. The Authority, like other state, local, or quasi governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority's fund only consisted of a *Proprietary Fund*.

The Authority's *Proprietary Fund* is comprised of enterprise funds with "business-type" activities intended to recover all or a portion of their costs through fees and charges for services. Since the Authority maintains its activities in enterprise funds, its Proprietary Fund financial statements provide information about the activities of the Authority as a whole.

Low-income Public Housing - Under the Conventional Public Housing Program, the Authority rents units it owns to low-income families. The Conventional Public Housing Program is operated under an Annual Contribution Contract (ACC) with HUD, and HUD provides an operating subsidy to enable the Authority to provide housing at a rent that is based upon 30% of adjusted gross household income.

Capital Fund Program (CFP) - The Conventional Public Housing Program also includes the CFP, which is the primary funding source for physical management improvements to the Authority's properties. CFP funding is based on a formula allocation that takes into consideration the size and age of the authorities housing stock.

Section 8 Housing Assistance-Vouchers - The Housing Choice Voucher Program (HCV) is the federal government's largest program for assisting low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Housing Choice vouchers are administered locally by public housing authorities (PHAs). The PHAs receive funds from HUD to administer the voucher program. A housing subsidy is paid to the landlord directly by the PHA on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program.

Lead-Based Paint Program - Lead-Based Paint Hazard Control (LHC) and the Lead Hazard Reduction (LHRD) grant programs are intended to identify and control lead-based paint hazards in eligible privately owned housing for rental or owner occupants.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2014

Financial Analysis of the Authority

Net Position

Net position represents the difference between total assets and total liabilities. As shown in Table 1, the Authority's total net position at September 30, 2014, was approximately 8.3 million, a 13.5 percent decrease from the September 30, 2013, balance of \$9.6 million.

Table 1

Housing Authority of the City of South Bend
Statement of Net Position
For the year ended September 30,
(in thousands)

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Current Assets	3,148	3,197	(49)	-1.5%
Capital Assets	<u>6,490</u>	<u>7,410</u>	<u>(920)</u>	-12.4%
Total Assets	<u>9,638</u>	<u>10,607</u>	<u>(969)</u>	-9.1%
Current Liabilities	921	741	180	24.3%
Noncurrent Liabilities	<u>428</u>	<u>278</u>	<u>150</u>	54.0%
Total Liabilities	<u>1,349</u>	<u>1,019</u>	<u>330</u>	32.4%
Net Investment in Capital Assets	6,490	7,370	(880)	-11.9%
Restricted	1,228	1,861	(633)	-34.0%
Unrestricted	<u>571</u>	<u>357</u>	<u>214</u>	59.9%
Total Net Position	<u>8,289</u>	<u>9,588</u>	<u>(1,299)</u>	-13.5%
Total Liabilities and Net Position	<u>9,638</u>	<u>10,607</u>	<u>(969)</u>	-9.1%

Current assets decreased by 1.5%, or approximately \$49,000. Non-current or capital assets decreased by \$920,000 or 12.4% due to current year depreciation expense exceeding current year additions.

Total liabilities increased in both the current and noncurrent categories. Noncurrent liabilities increased due to an increase in stale dated checks.

Restricted net position is comprised of HAP equity and restricted cash accounts. The net investment in capital assets is made up of capital assets less any related debt. Unrestricted net position is the remaining portion of equity not considered to be restricted or an investment in capital assets.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2014

Capital Assets

Capital assets decreased by approximately \$920,000 from \$7.4 million to \$6.5 million, as shown in the table below:

Housing Authority of the City of South Bend
Capital Asset Analysis

	<u>9/30/2014</u>	<u>9/30/2013</u>	<u>Change</u>	<u>Percent Change</u>
Land and Improvements	1,325,275	1,325,275	-	0.0%
Buildings and Improvements	60,997,666	60,700,585	297,081	0.5%
Furniture and Equipment	1,978,192	1,972,427	5,765	0.3%
Less Accumulated Depreciation	<u>(57,811,031)</u>	<u>(56,588,495)</u>	<u>(1,222,536)</u>	2.2%
Total Capital Assets	<u>6,490,102</u>	<u>7,409,792</u>	<u>(919,690)</u>	

Depreciation expense was \$1,222,535. Net additions totaled \$302,846. There were no disposals noted.

Capital Lease

At the end of the current year the Housing Authority had total debt outstanding of \$0 related to capital leases. The capital lease was paid off during the year.

Other Liabilities

The Authority has other liabilities in the form of stale date checks. These checks represent outstanding checks that throughout the past years have failed to clear the bank. Checks are removed from the outstanding list to the stale dated checks account once they are a year old.

As of September 30, 2014, total amount of stale dated checks was \$392,065 and is included in long term liabilities on the statement of net position.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2014

Changes in Net Position

Overall net position decreased by approximately \$1.3 million at September 30, 2014, as indicated below:

Table 2

Housing Authority of the City of South Bend
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended September 30,
(in thousands)

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Revenues	<u>17,251</u>	<u>19,068</u>	<u>(1,817)</u>	-9.5%
Operating Expenses	17,304	19,044	(1,740)	-9.1%
Depreciation	<u>1,223</u>	<u>1,339</u>	<u>(116)</u>	-8.7%
Total Expenses	18,527	20,383	(1,856)	-9.1%
Changes in Net Position	(1,276)	(1,315)	39	-3.0%
Beginning Net Position	<u>9,589</u>	<u>12,475</u>	<u>(2,886)</u>	-23.1%
Prior Period Adjustments	(24)	(1,571)		
Ending Net Position	<u><u>8,289</u></u>	<u><u>9,589</u></u>	<u><u>(1,300)</u></u>	-13.6%

The Authority's total operating revenues, which included HUD Operating and Capital Grants, tenant rents, interest and other income were approximately \$17.3 million, compared to \$19.1 million in 2013, a 9.5 percent decrease.

Total expenses, including depreciation, decreased by approximately 9.1 percent.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
 South Bend, Indiana

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2014

Changes in expenses and their percentage change are shown below in Table 3:

Table 3

Housing Authority of the City of South Bend
 Schedule of Operating Expenses
 For the year ended September 30,
 (in thousands)

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent Change</u>
Administrative	2,390	3,331	(941)	-28.2%
Tenant Services	11	37	(26)	-70.3%
Utilities	634	532	102	19.2%
Ordinary Maintenance	1,637	1,531	106	6.9%
Protective Services	184	199	(15)	-7.5%
General	583	636	(43)	-6.8%
Housing Assistance Payments	11,855	12,778	(923)	-7.2%
Depreciation	<u>1,223</u>	<u>1,339</u>	<u>(116)</u>	-8.7%
Total Operating Expenses	<u>18,527</u>	<u>20,383</u>	<u>(1,856)</u>	-9.1%

Significant decreases occurred in administrative expenses, housing assistance payments, and depreciation expense. These were offset by increases in utility and ordinary maintenance expenses.

Budgetary Controls

Budgetary control is exercised over programs through internal control methods that ensure compliance with legal provisions incorporated in annual program budgets approved by HUD and the Board of Commissioners. The activities of the Authority's enterprise fund are included in the annual budgeting process. Capital project budgets contained in the Authority's Low Rent Housing program are adopted for the length of the capital projects then annualized to strength cost monitoring and completion of timetables.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2014

Economic Factors

The Authority is primarily dependent upon HUD for the funding of operations; therefore, operating revenues are affected more by the Federal budget than by local economic conditions. The budgets for 2014-2015 have been approved by HUD.

Contacting the Authority's Management

The financial report is designed to provide a general overview of the Authority's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, Housing Authority of the City of South Bend, Indiana, 510 Alonzo Watson, South Bend, Indiana 46601 or call 574-235-9346.

Housing Authority of the City of South Bend
South Bend, Indiana

Statement of Net Position - Proprietary Fund Type

September 30, 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets:	
Cash and cash equivalents	\$ 556,907
Cash and cash equivalents - restricted	1,450,749
Tenants receivable, net of allowance for doubtful accounts of \$71,158	9,966
Accounts receivable - HUD	896,732
Accounts receivable - other, net of allowance of \$116,000	31,433
Prepaid expenses	116,505
Supplies inventory, net of allowance for obsolescence of \$1,749	85,665
Total current assets	3,147,957
Noncurrent Assets:	
Capital Assets	
Nondepreciable capital assets	1,325,275
Depreciable capital assets, net	5,164,827
	6,490,102
Total assets	9,638,059
Deferred Outflows of Resources	
	-
Total assets and deferred outflows of resources	\$ 9,638,059
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 532,946
Accrued compensated absences	86,641
Tenant security deposits	182,449
Unearned revenue	1,508
Other current liabilities	117,377
Total current liabilities	920,921
Noncurrent Liabilities:	
Other liabilities	427,938
Total noncurrent liabilities	427,938
Total liabilities	1,348,859
Deferred Inflows of Resources	
	-
Net Position:	
Net investment in capital assets	6,490,102
Restricted net position	1,228,045
Unrestricted net position	571,053
Total net position	8,289,200
Total liabilities, deferred inflows of resources, and net position	\$ 9,638,059

See auditor's report.

The notes to the financial statements are an integral part of this statement.

Housing Authority of the City of South Bend
South Bend, Indiana

Statement of Revenues, Expenses and Changes in Fund
Net Position - Proprietary Fund Type

For the Year Ended September 30, 2014

<hr/>	
Operating revenues:	
Tenant rental revenue (net)	\$ 1,225,681
HUD operating grants	14,691,116
Other revenue	1,019,263
Total operating revenues	<u>16,936,060</u>
Operating expenses:	
Administration	2,390,392
Tenant services	11,134
Utilities	634,054
Ordinary maintenance	1,637,301
Protective services	184,045
General expenses	592,941
Housing assistance payments	11,854,897
Depreciation	1,222,535
Total operating expenses	<u>18,527,299</u>
Operating loss	<u>(1,591,239)</u>
Nonoperating revenue and expense:	
Interest income	2,885
Net nonoperating expense	<u>2,885</u>
Net loss	(1,588,354)
Contributions - capital grants	<u>312,173</u>
Decrease in net position	(1,276,181)
Net position, beginning of year - restated	<u>9,565,381</u>
Net position, end of year	<u><u>\$ 8,289,200</u></u>

See auditor's report.

The notes to the financial statements are an integral part of this statement.

Housing Authority of the City of South Bend
South Bend, Indiana

Statement of Cash Flows - Proprietary Fund Type

For the Year Ended September 30, 2014

<u>Cash flows from operating activities:</u>	
Cash received from tenants and others	\$ 2,399,347
Cash paid for housing assistance payments	(12,022,345)
Cash paid for goods and services	(3,087,669)
Cash paid to employees for services	(1,935,569)
HUD PHA grants received	13,937,175
Net cash used by operating activities	(709,061)
<u>Cash flows from capital and related financing activities:</u>	
Proceeds from capital grants	292,521
Acquisition of capital assets	(302,845)
Payments of principal on notes payable	(40,000)
Net cash used by capital and related financing activities	(50,324)
<u>Cash flows from investing activities:</u>	
Interest on investments	2,885
Purchase of investments, net	-
Net cash flows provided by investing activities	2,885
Net decrease in cash and cash equivalents	(756,500)
Cash and cash equivalents, beginning of year	2,764,156
Cash and cash equivalents, end of year	\$ 2,007,656
 <u>Reconciliation of operating loss to net cash used by operating activities:</u>	
Operating loss:	\$ (1,591,239)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,222,535
Increase in tenants, accounts receivable - government and other	(749,478)
Increase in prepaid expenses	(25,915)
Increase in supplies inventory	(15,534)
Increase in accrued compensated absences	1
Increase in accounts payable, accrued liabilities and security deposits	468,238
Decrease in other current liabilities	(167,448)
Increase in other liabilities	149,779
Total adjustments	882,178
Net cash used by operating activities	\$ (709,061)

See auditor's report.

The notes to the financial statements are an integral part of this statement.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 1: Summary of Significant Accounting Policies:

Reporting Entity

The Housing Authority of the City of South Bend ("Authority") is a public body corporate and politic created under the Housing Authority Act of the State of Indiana to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development ("HUD") and other Federal Agencies. The primary purpose of the Authority is to provide safe, decent, sanitary and affordable housing to citizens of the City of South Bend, Indiana.

The Governmental Accounting Standards Board ("GASB") Statement No. 14, "The Financial Reporting Entity," and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under the provisions of these statements, the Authority is considered a primary government, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments.

The five-member Board of Commissioners of the Authority is appointed to two-year terms by the Mayor of the City of South Bend, but the Authority designates its own management. The City of South Bend is not financially accountable for the Authority as it cannot impose its will on the Authority, and there is no potential for the Authority to provide financial benefits to, or impose financial burdens on, the City of South Bend. Accordingly, the Authority is not a component unit of the financial reporting entity of the City of South Bend.

The Authority has included as a blended component unit the activity for the Alonzo Watson Foundation, Inc. (the "Foundation"), a nonprofit organization. The Foundation is shown as a blended component unit because the Authority has financial accountability and controls its board of directors and management.

The Foundation is a separate legal entity incorporated in the State of Indiana as a not-for-profit organization exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The purpose of the Foundation is to develop programs and services that would benefit the residents of the Authority. Three of the five commissioners of the Authority serve on the Board of Directors of the Foundation.

A significant portion of the funds held by the Foundation were from a bond issuance by the Authority for a project in 2002, which resulted in recaptured savings in the amount of \$553,500. The funds are to be used to provide affordable housing to low-income families or persons within the Authority's jurisdiction. The Foundation's total cash and investment balance as of September 30, 2014, was \$649,634.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 1: Summary of Significant Accounting Policies: (Continued)

Description of a Public Housing Authority

Funding for public housing authorities is received from the United States Department of Housing and Urban Development (HUD) and from participants in public housing programs.

Programs Administered by the Authority - The Authority administers annual contribution contracts to provide low-income housing with primary financial support from HUD. Programs administered by the Authority are as follows:

Public Housing Operating Subsidiary - The Authority owns, operates, and maintains 808 units of Public Housing in nine (9) developments and various scattered sites throughout the city. The Authority does not have any properties outside of St. Joseph County or in any other surrounding area. Under the Low Rent Housing Assistance Program, low income tenants pay monthly rents which are determined by their need for assistance. HUD pays operating subsidies to the housing authority to enable the authority to maintain the low-income character of the neighborhood while providing adequate services and maintaining adequate reserves.

Housing Choice Voucher Program (HCV) - the Section 8 Housing Assistance Payments Program provides rental supplements to the owners of existing private housing who rent to qualified individuals. The Authority processes all applicants for the Section 8 Housing Assistance Payments Program, places approved applicants in housing, and pays the owner of the private housing a monthly rental supplement. Under the conditions of an annual contributions contract, HUD reimburses the Authority for the rental supplements and the administrative cost of managing the program, up to a per unit limit established in the annual contributions contract. As of September 30, 2014, the Authority administered 1,936 tenant-based vouchers authorized by Section 8.

Capital Fund Program (CFP) - the Authority's capital funds are received from the Federal Government through a formula driven computation. These funds are used to upgrade the facilities at various developments to give the residents a decent and safe living environment. Each year's grant funds must be entirely obligated within two years of inception of the grant and entirely expended within four years.

Basis of Presentation

In accordance with uniform financial reporting standards for HUD housing programs, the financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounts of the Authority are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, liabilities, net position, revenues and expenses.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 1: Summary of Significant Accounting Policies: (Continued)

Basis of Presentation (Continued)

The Authority accounts for its operation in one fund type, the enterprise fund that reflects the business type activities of the Authority. An enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Housing Authority of the City of South Bend maintains one enterprise fund which includes the following programs: the Low Rent Housing Program, Section 8 Housing Assistance Payments Program – Housing Choice Voucher, Capital Fund Program, Business Activities, and the Lead Based Paint Hazard Control in Privately Owned Housing Program.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statement of net position. Enterprise fund type equity (i.e., net total position) is segregated into net investment in capital assets, restricted net position and unrestricted net position components. Operating activities for this fund present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

The financial statements for the Authority have been presented on the accrual basis. Under this basis, revenues are recorded when earned and expenses are recorded when incurred. Payments of outstanding debt and accrued interest by HUD which have been earned by the Authority, but not yet realized, are recorded as revenue. Operating income reported includes rental income, other tenant charges, operating grants and other revenue for the continuing operations of the fund. Operating expenses are the costs of providing goods and services. Other revenues and expenses are classified as non-operating in the financial statements.

As permitted, the Authority has elected to apply only the applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its operations.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 1: Summary of Significant Accounting Policies: (Continued)

Budgetary Data

The Authority is required by its HUD Annual Contributions Contracts to adopt annual budgets for the Low-Rent Public Housing Program and the Housing Assistance Program. Capital fund budgets are annual per HUD and are required as a condition of receiving grants. Appropriations are authorized at the function level. Management may transfer budget authorization between functions. Budgeted amounts are as originally adopted or as amended by the Board.

Deposits and Investments

All deposits of the Authority are made in board-designated official depositories and are secured as required by HUD regulations. Also, the Authority may establish time deposit accounts such as NOW and Super NOW accounts, money accounts and certificates of deposit. Section 401(e) of the annual contribution contract authorizes the Authority to invest in the following types of securities:

1. Obligations of the Federal Government which are backed by the full faith and credit of the Federal Government.
2. Obligations of any agency or instrumentality of the Federal Government if the payment of interest and principal on such obligations is fully guaranteed by the Federal Government.
3. Obligations of the Federal Intermediate Credit Banks, the Federal Home Loan Banks, the Federal National Mortgage Association, the Banks for Cooperatives, and the Federal Land Banks which mature no later than 18 months after the date of purchase.

As required by the annual contributions contract, the Authority prepares cash forecasts for each program to determine the amount of funds available for investment and to maximize investment earnings. During the fiscal year and at year-end, all cash was held in the form of interest bearing accounts. The deposits and the above described investments with an original maturity of ninety days or less are considered cash and cash equivalents for the Statement of Cash Flows.

Fair Value of Financial Instruments

The carrying amount of the Authority's financial instruments at September 30, 2014, including cash, investments, accounts receivable, accounts payable and debt closely approximates fair value.

Accounts Receivable – HUD

Grants receivable consist of amounts due from HUD for reimbursement of expenses or costs incurred by the Authority as of year-end.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 1: Summary of Significant Accounting Policies: (Continued)

Accounts Receivable - Tenant and Bad Debts

Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets

Capital assets are recorded at historical cost at the date of acquisition. Assets are depreciated on a straight-line basis over the following years:

Buildings	40 years
Building improvements	10 years
Furniture, equipment, machinery and vehicles	3-10 years

The Authority capitalizes purchases with an initial cost that exceeds \$1,000 and a useful life greater than one year.

Impairment of Long-Lived Assets

In accordance with GASB No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," prominent events or changes in circumstances affecting capital assets are required to be evaluated to determine whether impairment of a capital asset has occurred. Impaired capital assets that will no longer be used should be reported at the lower of carrying value or fair value. Impairment of capital assets with physical damage generally should be measured using the restoration cost approach, which uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. No such impairment loss was incurred during the current year.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation, computed in accordance with GASB No. 16. A liability for compensated absences that is attributable to services already rendered and not contingent on a specific event that is outside of the control of the Authority and its employees is accounted for in the period in which such services are rendered or in which such events take place.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 1: Summary of Significant Accounting Policies: (Continued)

Net Position

Net Investment in Capital Assets represents funds received for development and modernization of the Authority's dwelling units. Capital assets purchased through operations and grant programs are included in this amount.

Restricted Net Position represents the difference between the assets and liabilities that are constrained in use by creditors or by grantors, contributors, or laws or regulations of governments. The Authority's restricted net position is comprised primarily of cash and investments that are held for use in the Section 8 – Housing Choice Voucher program for Housing Assistance Payments and the cash held for the McKinney Act Refunding Agreement by Alonzo Watson Foundation, Inc.

Unrestricted Net Position represents the assets remaining after deducting liabilities, net investment in capital assets and restricted net position. It provides a basis of assessing the liquidity and financial flexibility of the Authority.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Income Taxes

Income received or generated by the Authority is not subject to federal income tax, pursuant to Internal Revenue Code Section 115. The Authority is exempt from state and local property taxes. Interest paid on obligations issued by the Authority is excludable from the gross income of the recipients, pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended. Contributions to the Authority are tax deductible contributions, pursuant to Sections 170(b)(1)(A)(v) and 170(c)(1) of the Internal Revenue Code of 1986, as amended.

NOTE 2: Stewardship, Compliance, and Accountability

The Authority believes it has met its responsibilities regarding stewardship, compliance and accountability for its fund.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
 South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 3: Deposits and Investments

The Authority's deposits include deposits with financial institutions. The carrying amount of the Authority's deposits for cash and investments, including restricted amounts, was \$2,007,656.

Cash and Cash Equivalents - It is the Authority's policy for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation ("FDIC") insurance. The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Investments - Investments (if any) are secured by and up to the amount of FDIC insurance. Investments are stated at cost, which approximates fair value.

Risks - Concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in a mutual fund, or external investment pools).

Credit risk of investments is the risk that an issuer or other counterparty will not meet its obligations. This credit risk is measured by the credit quality rating of investments in debt securities, as described by a national statistical rating organization such as Standard & Poor's (S&P). The Authority's policy provides that investments in corporate bonds and other fixed income securities must have a rating of A or better.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's policy is to select investments of varied maturities to mitigate this risk.

The following charts show the Authority's exposure to these risks:

	Carrying Amount	Balance Deposited with the Financial Institution	FDIC Insurance
Bank deposits held	\$ 1,286,339	\$ 1,308,664	\$ 500,000
Money market funds and savings	721,317	721,372	250,000
Total	<u>\$ 2,007,656</u>	<u>\$ 2,030,036</u>	<u>\$ 750,000</u>

The Authority is required by HUD to obtain pledged securities from the banks for all amounts above the FDIC insured amounts.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
 South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 3: Deposits and Investments (Continued)

Cash and investments are reported on the statement of net assets as follows:

Cash and cash equivalents - unrestricted	\$ 556,907
Cash and cash equivalents - restricted	<u>1,450,749</u>
Total cash and cash equivalents	2,007,656
Investments - restricted	<u>-</u>
Total	<u>\$ 2,007,656</u>

Restricted cash and investments as of September 30, 2014, consisted of the following:

Tenant security deposits	\$ 184,497
Section 8 restricted cash	632,838
Alonzo Watson Foundation	631,906
Milton grant restricted cash	<u>1,508</u>
Total	<u>\$ 1,450,749</u>

Regulations of HUD require that security deposits be reported as restricted assets of the Authority.

NOTE 4: Inter-program Amounts

At September 30, 2014, inter-program receivables and payables consisted of the following:

	Due from	Due to
Program:		
COCC	\$ 1,356,810	\$ 942,841
Public Housing low rent program	1,618,545	675,704
Lead-based paint program	200	644,426
Section 8 – Housing Choice Voucher	-	694,856
Component Unit	-	17,728
	<u>\$ 2,975,555</u>	<u>\$ 2,975,555</u>

These inter-program receivables and payables have been eliminated on the financial statements.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 5: Other Receivables

Other receivables consist of the following:

	Low-rent Public Housing	HCV Fraud Receivable	Total
Tenant receivables - Repayment Agreements	\$ 18,822	\$ 128,611	\$ 147,433
Less allowance for doubtful accounts		(116,000)	(116,000)
	\$ 18,822	\$ 12,611	\$ 31,433

NOTE 6: Accounts Receivable - HUD

Amounts due from the U.S. Department of Housing and Urban Development as of September 30, 2014 are composed of the following:

Amounts due for the Lead-based Paint Program	\$ 283,091
Amount due for Public Housing operating subsidy	613,641
	\$ 896,732

NOTE 7: Capital Assets

The capital assets (at cost) of the Housing Authority of the City of South Bend at September 30, 2014 consisted of the following:

	Balance at September 30, 2013	Additions	Deletions	Transfers	Balance at September 30, 2014
Nondepreciable capital assets:					
Land	\$ 1,325,275	\$ -	\$ -	\$ -	\$ 1,325,275
Construction in progress	-	291,751	-	(291,751)	-
	1,325,275	291,751	-	(291,751)	1,325,275
Depreciable capital assets:					
Buildings and improvements	60,700,585	11,095	-	285,986	60,997,666
Furniture, equipment, vehicles	1,972,427	-	-	5,765	1,978,192
	62,673,012	11,095	-	291,751	62,975,858
Accumulated Depreciation:					
Buildings and improvements	(56,380,827)	(1,181,462)	-	-	(57,562,289)
Furniture, equipment, vehicles	(207,668)	(41,073)	(1)	-	(248,742)
	(56,588,495)	(1,222,535)	(1)	-	(57,811,031)
Total Capital Assets, net	\$ 7,409,792	\$ (919,689)	\$ (1)	\$ -	\$ 6,490,102

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 8: Retirement Plan

The Authority maintains the Housing Authority of the City of South Bend, Indiana Employees Retirement Plan (the "Plan"), which is a defined contribution retirement plan administered by Fidelity Investments. The plan was amended at the end of February 2014 to become a profit sharing plan providing for discretionary employer contributions to be determined annually by the Authority. The Plan covers all permanent full-time employees who worked for at least six months and at least 20 hours weekly.

Participants' benefits in the Authority matching contributions are fully vested after five years of participation. All employees are 100 percent vested when they reach their 55th birthday, regardless of their years of service. The Plan's assets are accumulated in pooled investments maintained by Fidelity Investments.

The Authority made all the required contributions to the Plan through February 2014 and has made no discretionary contributions subsequent to that date.

Defined contribution expense for the year ended September 30, 2014, totaled \$119,069. Covered payroll, prior to the plan amendment, was approximately \$995,000.

NOTE 9: Noncurrent Liabilities

For the year ended September 30, 2014, the change in noncurrent liabilities is as follows:

	September 30, 2013		Additions	Payments	September 30, 2014	
	Long-Term Portion	Current Portion			Long-Term Portion	Current Portion
Accrued compensated absences	\$ -	86,640	\$ 1	\$ -	\$ -	\$ 86,641
Other liabilities	278,159	-	149,779		427,938	-
Capital lease payable	-	40,000	-	(40,000)	-	-
	<u>\$ 278,159</u>	<u>\$ 126,640</u>	<u>\$ 149,780</u>	<u>\$ (40,000)</u>	<u>\$ 427,938</u>	<u>\$ 86,641</u>

Other liabilities as of September 30, 2014 are comprised of \$392,065 of stale dated checks and the HCV FSS escrow liability of \$35,873.

The stale dated checks represent outstanding checks that throughout the past years failed to clear the bank. Checks are removed from the outstanding list to the stale dated checks account once they are a year old. Once the status of the check is determined, either an adjusting entry is made to void the check or, if the check was issued and not cashed, per Indiana law, there needs to be attempts to locate the payee to pay them the amount owed. If the payee cannot be located and paid, then the money needs to be remitted to the State of Indiana as unclaimed property.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 10: Capital Lease

In July 2010, the Authority entered into a capital lease for the purchase of certain telephone and other equipment to be used in the operations of the Authority. The lease had a term of five years and was capitalized using an interest rate of 13.6% per year. During the year ended September 30, 2014, the Authority paid off the remaining amount due on the capital lease of \$40,000. Therefore, the total amount due at September 30, 2014 is \$0.

NOTE 11: Schedule of Changes in Net Position:

	Net Investment in Capital Assets	Restricted Net Position	Unrestricted Net Position	Total
Balance, beginning of year	\$ 7,369,792	\$ 1,860,813	\$ 356,865	\$ 9,587,470
Adjustments to restate beginning balance	-	(51,500)	29,411	(22,089)
Balance, beginning of year - restated	7,369,792	1,809,313	386,276	9,565,381
Decrease in net position	-	-	(1,276,181)	(1,276,181)
Changes in net investment in capital assets	(879,690)	-	879,690	-
Changes in restricted net position	-	(581,268)	581,268	-
Balance, end of year	<u>\$ 6,490,102</u>	<u>\$ 1,228,045</u>	<u>\$ 571,053</u>	<u>\$ 8,289,200</u>

Adjustments totaling \$22,089 were made to the beginning balances to correct various balance sheet accounts as of September 30, 2013.

NOTE 12: Risk Management

The Authority carries commercial insurance against all risks of loss, including property and general liability, auto, worker's comp, fidelity and public officials' liability insurance. There have been no significant reductions in insurance coverage in the prior year, and settled claims from these risks have not exceeded commercial insurance coverage in any of the last three fiscal years.

NOTE 13: Economic Dependency

The Authority received approximately 87% of its revenues from HUD during the fiscal year. If the amount of revenues received from HUD falls below critical levels, the Authority's operating results could be adversely affected.

NOTE 14: Commitments and Contingencies

Examinations - The Authority is subject to possible examinations made by Federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the Authority in the current and prior years.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Notes to Financial Statements

September 30, 2014

NOTE 14: Commitments and Contingencies (Continued)

In August of 2015 the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) completed an audit of the Authority's Housing Choice Voucher (HCV) program and issued a draft report wherein it recommended that the Authority (1) reimburse the HCV program nearly \$80,000 from non-Federal funds for ineligible housing assistance and utility allowance payments, (2) support or reimburse the HCV program more than \$432,000 from non-Federal funds for unsupported payments, (3) reimburse HUD more than \$24,000 for unearned Family Self-Sufficiency grant funds, and (4) implement adequate controls to address the findings cited in the draft audit report. The Authority is working closely with HUD and with the OIG to resolve the issues raised in the draft audit report in the hopes that little, if any, of the above amounts will actually need to be repaid. The ultimate outcome of this OIG audit is unknown as of this financial statement audit, and, as such, no liabilities have been accrued for any potential amounts to be repaid to HUD. The Authority does not expect the final resolution of the OIG audit to materially affect the financial statements.

Troubled Status – As a result of significant financial and compliance issues, HUD has placed the agency into "troubled" status. HUD more closely monitors an authority in troubled status and places significant oversight on the authority's ability to receive federal grant funds and on its ability to make disbursements. HUD has the ultimate right to take over operations of the Authority or to require changes in management of the Authority. Currently, the Authority is working very closely with HUD under a recovery plan to implement changes to improve its finances and operations in order to get out of troubled status.

Commitments - The Authority has, under its normal operations, entered into commitments for the purchase of maintenance, cleaning and other services. Such commitments are monthly or annual. The Authority's funding contracts require the fulfillment of certain conditions as set forth in the agreements. Failure to fulfill the conditions could result in the return of funds to grantors. Management believes the Authority has substantially complied with the provisions of its contracts and. Accordingly, no additional amounts are expected to be returned for noncompliance.

Claims and Judgments - The Authority is the defendant in various lawsuits filed against the Authority. Although the Authority will vigorously defend itself in any legal and administrative proceeding, the outcome of any proceeding arising out of the conduct of the Authority's business, including litigation with tenants, employment-related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. The likelihood that the Authority will sustain a material loss in excess of amounts covered by insurance, and the amount of any such loss, cannot be estimated at this time, and therefore, no liability for such potential loss has been accrued.

NOTE 15: Subsequent Events

Management for the Authority has evaluated subsequent events after September 30, 2014, and through August 15, 2016, the date which the financial statements were available to be issued, and no events were identified that would require recognition or disclosure within these financial statements.

Housing Authority of the City of South Bend
South Bend, Indiana

Statement and Certification of Actual Capital Fund Program Costs

September 30, 2014

Annual Contributions Contract C977

1. The capital fund program costs of IN 5501 (2010) are as follows:

Funds approved	\$	1,547,836
Funds expended		<u>1,547,836</u>
Excess of funds approved	\$	<u><u>-</u></u>
Funds advanced	\$	1,547,836
Funds expended		<u>1,547,836</u>
Excess of funds advanced	\$	<u><u>-</u></u>

2. Costs incurred during the current audit period totaled \$16,305.
3. All costs have been paid and all related liabilities should be discharged through payment.
4. The Authority could not provide the Actual Modernization Cost Certificate submitted to HUD to determine whether it would be in agreement with the above amounts.

See auditor's report.

Housing Authority of the City of South Bend
South Bend, Indiana

Statement of Capital Fund Program Costs - Uncompleted

September 30, 2014

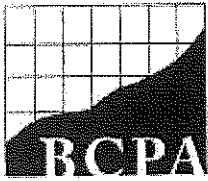
Annual Contributions Contract C977

1. The capital fund program costs of IN 5501 (2012) are as follows:

Funds approved	\$	1,104,112
Funds expended		<u>834,747</u>
Excess of funds approved	\$	<u><u>269,365</u></u>
Funds advanced	\$	834,747
Funds expended		<u>834,747</u>
Excess of funds advanced	\$	<u><u>-</u></u>

2. Costs incurred during the current audit period totaled \$518,480.

See auditor's report.



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

Board of Commissioners
Housing Authority of the City of South Bend
South Bend, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the Housing Authority of the City of South Bend (the "Authority"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 15, 2016.

Internal Control Over Financial Reporting

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

Our consideration of 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 a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

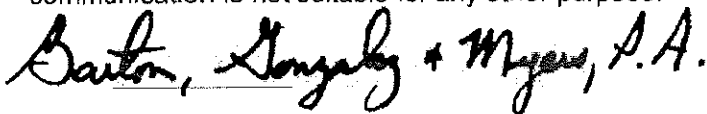
Housing Authority of the City of South Bend's Response to Findings

The Housing Authority of the City of South Bend's response to the findings identified in our audit is described in the accompanying corrective action plan. The Housing Authority of the City of South Bend'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.

We noted certain other matters that we reported to management of the Authority in a separate letter dated August 15, 2016.

Purpose of this Report

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



Barton, Gonzalez & Myers, P.A.
Certified Public Accountants
August 15, 2016



**Barton,
Gonzalez
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Commissioners
Housing Authority of the City of South Bend
South Bend, Indiana

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of South Bend's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2014. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Low-Rent Housing Program

As described in the accompanying schedule of findings and questioned costs, the Housing Authority of the City of South Bend did not comply with requirements regarding CFDA 14.850 Low-Rent Housing Program as described in finding numbers 2014-002 for reporting, 2014-003 for eligibility, 2014-004, 2014-010, 2014-011, and 2014-012 for special tests and provisions and 2014-014 for activities allowed or unallowed. Compliance with such requirements is necessary, in our opinion, for the Housing Authority of the City of South Bend to comply with the requirements applicable to that program.

Qualified Opinion on Low-Rent Housing Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Low-Rent Housing Program for the year ended September 30, 2014.

Basis for Qualified Opinion on Housing Choice Voucher Program

As described in the accompanying schedule of findings and questioned costs, the Housing Authority of the City of South Bend did not comply with requirements regarding CFDA 14.871 Housing Choice Voucher Program as described in finding numbers 2014-002, 2014-008 and 2014-013 for reporting, 2014-005 for eligibility, and 2014-006 and 2014-007 for special tests and provisions. Compliance with such requirements is necessary, in our opinion, for Housing Authority of the City of South Bend to comply with the requirements applicable to that program.

Qualified Opinion on Housing Choice Voucher Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Housing Choice Voucher Program for the year ended September 30, 2014.

Basis for Qualified Opinion on Capital Fund Program

As described in the accompanying schedule of findings and questioned costs, the Housing Authority of the City of South Bend did not comply with requirements regarding CFDA 14.872 Capital Fund Program as described in finding numbers 2014-002 for reporting and 2014-009 for the Davis-Bacon Act. Compliance with such requirements is necessary, in our opinion, for Housing Authority of the City of South Bend to comply with the requirements applicable to that program.

Qualified Opinion on Capital Fund Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Capital Fund Program for the year ended September 30, 2014.

Other Matters

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The Authority'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 Authority 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 Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-007, 2014-008, 2014-009, 2014-010, 2014-011, 2014-012, 2014-013 and 2014-014 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.



Barton, Gonzalez & Myers, P.A.
Certified Public Accountants
August 15, 2016

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

Section I - Summary of Auditor's Results:

Financial Statements

Type of report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal controls over major program:	
Material weakness(es) identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Type of report issued on the compliance for major program:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes
Identification of major program:	14.871 Section 8 – Housing Choice Voucher 14.850 Low-Rent Housing Program 14.872 Capital Fund Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$450,099
Did the Authority qualify as a low-risk auditee?	No

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

Section II - Financial Statement Findings:

The findings related to this area for the year ended September 30, 2014 are as follows.

2014-001 Inadequate Controls Over Financial Reporting

Material Weakness in Internal Control

Condition: The Authority did not have adequate controls over the period-end financial reporting process to detect material misstatements. The Authority did not properly record entries related to HUD receivables, allowance for uncollectible fraud receivables, prepaid insurance, accounts payable, accrued payroll, interprogram receivables and payables, and net position.

Criteria: The Authority should have the necessary controls over the period-end financial reporting process to detect material misstatements without Auditor detection.

Questioned Cost: None

Effect: As a result of the audit, the Authority recorded additional receivables from HUD of \$432,529, \$33,385 additional receivables from tenants, recorded \$116,000 for an allowance for uncollectible for fraud receivables, adjusted prepaid insurance by \$112,871, adjusted capital assets by \$35,534, adjusted accounts payable by \$175,956, adjusted accrued payroll by \$55,184, adjusted non-current liabilities by \$152,342, adjusted grant revenues by \$182,838 and adjusted various other asset, liability, revenue and expense accounts.

Cause: The Authority did not have the necessary controls over the period-end financial reporting process to detect material misstatements.

Auditor's Recommendation: The Authority should establish controls to ensure that appropriate year-end adjustments are recorded so that the financial statements are fairly presented.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

Section III - Federal Awards:

The findings related to this area for the year ended September 30, 2014 are as follows.

2014-002 Reporting – FDS Late Submission

Public and Indian Housing Program – CFDA 14.850
Housing Voucher Program – CFDA Number 14.871
Capital Fund Program CFDA 14.872
Material Weakness in Internal Control
Material Noncompliance

Condition: The Authority failed to submit the unaudited and audited Financial Data Schedule ("FDS") within the time frames specified by HUD. The Authority submitted the unaudited REAC on October 23, 2015 (and it was due by November 30, 2014). In addition, the audited submission was due by June 30th and is also late.

Criteria: The Real Estate Assessment Center ("REAC") requires the submission of unaudited and audited FDS information for September 30 fiscal year end Public Housing Authorities ("PHAs") by November 30 and June 30, respectively.

Effect: The Authority did not submit an acceptable unaudited and audited FDS in a timely manner and, therefore, was noncompliant with this reporting requirement.

Cause: The Authority experienced significant turnover among key personnel in the Finance Department during the fiscal year and did not have the necessary resources and control procedures in place to properly prepare the financial information required for the submission of an acceptable unaudited and audited FDS within the required time frames.

Recommendation: The Authority should make every effort to file its REAC submission timely.

2014-003 Eligibility – Tenant Files

Public and Indian Housing Program – CFDA 14.850
Material Weakness in Internal Control
Material Noncompliance

Condition: Forty tenant files were selected for testing, but testing was suspended after testing 20 files as a result of the following instances of noncompliance noted in the 20 files tested:

- 12 instances of not using the correct utility allowance schedule. The Board approved changes to the utility allowances but the changes were not implemented by the Authority.
- 5 instances of not calculating the tenant's annual income properly based on the supporting documentation in the file.
- 3 instances of the required annual recertification not being done timely – in all three cases the annual recertifications were done one month late.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

2014-003 Eligibility – Tenant Files (Continued)

- 3 instances of the EIV report not being obtained as part of the annual recertification performed.
- 1 instance of assets not being listed on the 50058 and income related thereto not being calculated and included as part of the annual income of the tenant.
- 1 instance of not obtaining documentation to verify full-time student status of child age 18 or older.
- 1 instance of a lack of a signed tenant certification in the file certifying as to accuracy of information provided on the 50058.

Criteria: HUD regulations require that the Authority perform certain prescribed verification procedures and obtain the required documentation to assure that tenants qualify for low income housing and that amounts submitted to HUD for tenant assistance are calculated according to HUD rules.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations.

Cause: The Authority had turnover in staff and staff may need more training. In addition, review procedures should be used to reduce errors.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for verification of tenant information and calculation of tenant rents.

2014-004 Special Tests and Provisions – Waiting List and New Admissions

Public and Indian Housing Program – CFDA 14.850
Material Weakness in Internal Control
Material Noncompliance

Condition: In testing 40 applicants on the current waiting list and 9 new admissions for the year, the following instances of noncompliance were noted:

- The Board approved preference for elderly, near-elderly, disabled or working families were not being used for 2, 3, 4 or 5 bedroom units. The staff of the Authority misunderstood the preference and were only applying it to applicants on the one bedroom waiting list.
- The Authority lacks the proper controls and procedures to track the aging of an applicant to determine when the applicant may qualify for the near-elderly preference.
- One applicant's original application could not be located to verify data on the current waiting list.
- Three instances existed where the date of the original application did not agree with the application date shown on the current waiting list.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

2014-004 Special Tests and Provisions – Waiting List and New Admissions (Continued)

- One instance where the applicant was on the one bedroom waiting list when updated information in the application file indicated a change in family size but the applicant had not been placed on the larger bedroom waiting list.
- Two instances where the criminal background checks were performed more than 20 months and 32 months before admission.
- Five instances where it appears new tenants were admitted ahead of other applicants with older dates of application and/or preference.

Criteria: The Authority is required to maintain a waiting list and admit tenants based on the waiting list in accordance with HUD requirements and the Authority's policies as stated in the Admissions and Continued Occupancy Policy.

Questioned Costs: None.

Effect: The Authority is not in compliance with its waiting list policies.

Cause: The Authority did not have adequate internal controls in place over waiting lists.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for waiting lists and new admissions including preferences. In addition, the Authority should implement a review procedure to make sure that all tenants are admitted in the proper order, and that all eligible applicants are included on the waiting list.

2014-005 Eligibility – Tenant Files

Housing Voucher Program – CFDA Number 14.871

Material Weakness in Internal Control

Material Noncompliance

Condition: Forty tenant files were selected for testing, but testing was suspended after testing 20 files as a result of the following instances of noncompliance noted in the 20 files tested:

- All twenty files did not include the original signed applications (though current applications were in the files).
- 7 instances in which Form 214 was not included in the file.
- 10 instance where the file did not include the signed lease agreement.
- 8 instance where the file did not include the signed HAP agreement.
- 6 instances where the lead based paint notice was not included in the file.
- 2 instances of not calculating the tenant's annual income properly based on the supporting documentation in the file.
- 2 instances of failed inspections where the re-inspection was not performed within 30 days.
- 1 instance of the EIV report documentation not included in the file.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

2014-005 Eligibility – Tenant Files (Continued)

Criteria: 24 CFR 982.516 requires internal controls to be in place to ensure compliance with HUD requirements, as well as complete and accurate tenant files. In addition, the Authority's administrative plan also requires following proper procedures for determination of HAP and documentation in the tenant files.

Questioned Costs: None.

Effect: The Authority is not in compliance with all of the HUD requirements regarding eligibility and tenant recertifications, which could result in incorrect total tenant payments for rent and HAP payment to landlords.

Cause: The Authority had turnover in staff and staff may need more training. In addition, review procedures should be used to reduce errors.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for verification of tenant information and calculation of tenant rents.

2014-006 Special Tests and Provisions – Waiting List and New Admissions

Housing Voucher Program – CFDA Number 14.871

Material Weakness in Internal Control

Material Noncompliance

Condition: In testing 25 applicants on the current waiting list and 7 new admissions for the year, the following instances of noncompliance were noted:

- 8 instances where the date and time on the waiting list did not agree to the original application. All of these instances relate to 2009 where in an attempt to implement the Authority's preference for tenants residing in South Bend, the Authority personnel placed a secondary date and time stamp on the application of all applicants who at the time were not residents of South Bend. Not using the original application date will cause all such applicants to be considered in the wrong order when and if their address should change to being a resident of South Bend.
- 3 instances where the original application was not in the file, thus the date and time on the waiting list could not be verified.
- 1 instance where the determination of rent reasonableness was not documented in the file prior to admission.

Criteria: The Authority is required to maintain a waiting list and admit tenants based on the waiting list, sorted in order by preferences and date and time, in accordance with HUD requirements and the Authority's policies as stated in the Section 8 Administrative Plan.

Questioned Costs: None.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

2014-006 Special Tests and Provisions – Waiting List and New Admissions (Continued)

Effect: The Authority is not in compliance with its waiting list policies.

Cause: The Authority did not have adequate internal controls in place over waiting lists.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for waiting lists and new admissions. In addition, the Authority should implement a review procedure to make sure that all tenants are admitted in the proper order, and that all eligible applicants are included on the waiting list.

2014-007 Special Tests and Provisions - Housing Quality Standard (HQS) Failed Inspections

Housing Voucher Program – CFDA Number 14.871
Material Weakness in Internal Control
Material Noncompliance

Condition: In testing 25 failed HQS inspections the following instances of noncompliance were noted:

- 8 instances where the original failed inspection report was not in the file, so it was not possible to evaluate whether any of the required repairs would be an immediate hazard to health and safety (a 24 hour repair requirement).
- 5 instances where the required repairs were not made in a timely manner and the Authority failed to timely abate HAP payments due to the landlord.
- 1 instance where the inspection revealed that there was exposed wiring on the stove, but this was not identified by the Authority as a repair that would be an immediate hazard to health and safety that would require a 24 hour repair.

Criteria: HUD regulations require that units leased to a family are inspected at least annually to determine if the unit meets Housing Quality Standards (HQS). In addition, inspections must be documented on a unit inspection report. For units that fail inspections, any life threatening deficiencies must be corrected within 24 hours and all other deficiencies must be corrected within 30 calendar days or within a specified PHA-approved extension. If the deficiency is not corrected, the HAP payment must be abated no later than the first of the following month.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations.

Cause: Significant turnover and lack of proper oversight contributed to the errors noted. The Authority did not have adequate internal controls in place over failed inspections.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

2014-007 Special Tests and Provisions - Housing Quality Standard (HQS) Failed Inspections
(Continued)

Recommendation: The Authority should make sure that failed HQS inspections are done within the required time frame or are properly abated. If the Authority doesn't do the inspection within the required time frame and doesn't abate the HAP payment, the Authority should document the reason in order to determine if it was reasonable. Also, the Authority should assure that all critical repairs for life threatening deficiencies are completed within 24 hours.

2014-008 Reporting - SEMAP

Housing Voucher Program – CFDA Number 14.871
Material Weakness in Internal Control
Material Noncompliance

Condition: During our testing of the Section Eight Management Assessment Program (SEMAP), we noted that the Authority failed to provide documentation to support its assessment of the following SEMAP Indicators:

- Indicator 2 – *Reasonable Rent*
- Indicator 3 - *Determination of Adjusted Income*
- Indicator 6 - *HQS Enforcement*

Criteria: According to 24 CFR 985.1, the Section 8 Management Assessment Program (SEMAP) is designed to assess whether the Section 8 tenant-based assistance programs operate to help eligible families afford decent rental units at the correct subsidy cost. SEMAP provides procedures for HUD to identify PHA management capabilities and deficiencies in order to target monitoring and program assistance more effectively.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations. The Authority's score for SEMAP may change based on the lack of documentation.

Cause: The Authority did not properly perform, document and report the required results for SEMAP.

Recommendation: The Authority needs to correctly perform and *document* the SEMAP review and report accurately according to the samples tested.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

2014-009 Davis-Bacon Act

Capital Fund Program CFDA 14.872
Material Weakness in Internal Control
Material Noncompliance

Condition: The Authority did not provide documentation to show that it complied with the Davis-Bacon act related to reviewing certified payrolls to make sure the payrolls are in excess of the prevailing wage rates in the area and did not provide documentation that employee interviews were being conducted.

Criteria: Projects funded with Capital Funds that are developed in accordance with 24 CFR part 941 – Public Housing Development and/or modernized in accordance with 24 CFR part 968 – Public Housing Modernization that contain only public housing units and mixed-finance projects developed in accordance 24 CFR part 941 subpart F – Public/Private Partnerships for the Mixed-Finance Development of Public Housing are subject to the Davis-Bacon Act ("Act"). The Authority is required by the Act to obtain certified payrolls from all contractors and sub-contractors working on jobs funded with federal monies. The Authority should make sure that all wage amounts being paid are in excess of the prevailing wage rates set for this geographic area. Additionally the Authority should go to the job site periodically and select construction workers such as laborers & mechanics at the job-site to interview. The information obtained during these interviews should be tracked to the certified payrolls submitted by the contractors and sub-contractors prior to the contractor invoice for this period being paid.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable Davis-Bacon Act regulations.

Cause: The Authority did not provide documentation that it was complying with the Davis-Bacon Act.

Recommendation: The Authority needs to properly document its compliance with the Davis-Bacon Act for all construction related awards.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

2014-010 Special Tests and Provisions – Declarations of Trust

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control

Material Noncompliance

Condition: The Authority could not locate the Declarations of Trust (DOT) for its public housing properties.

Criteria: A current Declaration of Trust (DOT), in a form acceptable to HUD, must be recorded against all public housing property owned by PHAs that has been acquired, developed, maintained, or assisted with funds from the US Housing Act of 1937. A DOT is a legal instrument that grants HUD an interest in public housing property. It provides public notice that the property must be operated in accordance with all Federal public housing requirements, including the requirement not to convey or otherwise encumber the property unless expressly authorized by federal law and/or HUD. In PIH Notice 2009-28 (HA), PHAs were asked to ensure that current (unexpired) DOTs were recorded against all of their public housing property within 12 months of the date of PHA's next fiscal year beginning with PHAs with fiscal years commencing on October 1, 2009.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations. HUD could be harmed if a public housing property is not listed on the declaration of trust instrument.

Cause: The Authority had turnover in staff and could not locate these documents.

Recommendation: The Authority should locate the declarations of trust for all public housing properties and have them available for review.

2014-011 Special Tests and Provisions – Bank Depository Agreements

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control

Material Noncompliance

Condition: The Authority could not locate the bank Depository Agreements for its bank accounts, nor could it provide documentation from one bank for pledged securities for amounts in excess of FDIC insurance amounts.

Criteria: PHAs are required to enter into depository agreements with their financial institution using the HUD-51999 (*OMB No. 2577-0270*) or a form required by HUD in the ACC. The agreements serve as safe guards for Federal funds and provide third-party rights to HUD (Section 9 of the ACC).

Questioned Costs: None.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
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Schedule of Findings and Questioned Costs

September 30, 2014

2014-011 Special Tests and Provisions – Bank Depository Agreements (Continued)

Effect: The Authority is not in compliance with applicable HUD regulations.

Cause: The Authority had turnover in staff and could not locate these documents.

Recommendation: The Authority should either locate all the bank depository agreements or execute new ones for all of its bank accounts; and the Authority should require all banks to provide periodic documentation that pledged securities are provided for amounts in excess of FDIC insurance coverage.

2014-012 Special Tests and Provisions – Project Based Budgeting

Public and Indian Housing Program – CFDA 14.850
Material Weakness in Internal Control
Material Noncompliance

Condition: The Authority did not timely adopt budgets nor did it periodically review budget to actual comparisons and address significant variances among budget to actual data.

Criteria: PHAs implementing asset management shall develop and maintain a system of budgeting and accounting for each project in a manner that allows for analysis of actual revenues and expenses associated with each property (24 CFR section 990.280(a)). Prior to the beginning of its fiscal year, a PHA is required to prepare an operating budget.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations. Failure to budget timely and failure to track budget to actual amounts impairs the Authority's ability to make effective financial decisions at the project level.

Cause: The Authority had turnover in staff and was focused on other issues related to its troubled status.

Recommendation: The Authority should prepare project based budgets timely and should track budget to actual amounts and explain significant variances timely.

2014-013 Reporting - FSS Escrows

Housing Voucher Program – CFDA Number 14.871
Material Weakness in Internal Control
Material Noncompliance

Condition: The Authority was unable to provide an accounting showing the FSS escrow balance applicable to each FSS family.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2014

2014-013 Reporting - FSS Escrows (Continued)

Criteria: According to 24 CFR 984.305(a)(2), the Authority is required to maintain a subsidiary ledger showing the FSS account balance applicable to each participating FSS family.

Questioned Costs: None.

Effect: The Authority is not in compliance with the federal regulations regarding accounting for FSS account balances.

Cause: The Authority has experienced a great deal of employee turnover, and as a result was not able to produce the proper accounting records to support the FSS escrow balances.

Recommendation: The Authority needs to create the accounting records to properly support the FSS escrow balances for each participating family and establish controls to make sure this accounting is maintained and reconciled on a regular basis.

2014-014 Activities Allowed or Unallowed – Interprogram Activity

Public and Indian Housing Program – CFDA 14.850
Material Weakness in Internal Control
Material Noncompliance

Condition: The Authority has loaned monies from the Public and Indian Housing Program to the COCC. As of September 30, 2014 these loans totaled \$942,841.

Criteria: Per HUD regulations and the line definition guide issued by HUD for the Financial Data Schedule, funds in the AMP can only be transferred to other AMPs or to the COCC for a fee for service, an EPC agreement for a percentage of the energy savings, or other pre-approved HUD exceptions. The Authority is cautioned that funds are normally not fungible between different federal programs regardless of the nature of the transfer or receivable. Inappropriate use of funds, even a temporary loan, are ineligible costs resulting in non-compliance. The AMPs, under current laws, cannot loan the COCC any funds.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations regarding eligible use of federal funds.

Cause: The COCC borrowed these funds to advance to the Section 8 HCV Program, which has experienced operating losses in excess of its available funds.

Recommendation: The Authority should develop a plan based on budgeting and monitoring of COCC and HCV expenses to have the ability to reimburse funds to the Public and Indian Housing Program.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Summary Schedule of Prior Year Findings

September 30, 2014

The prior audit report for the year ended September 30, 2013 contained the following findings:

- 2013-1 Late FDS Submissions
Public and Indian Housing Program – CFDA 14.850
Housing Voucher Program – CFDA Number 14.871
Capital Fund Program CFDA 14.872
Type of Finding: Internal Control – Material Weakness, Compliance – Reporting
- Statement of Condition The Authority failed to submit the unaudited and audited Financial Data Schedule ("FDS") within the time frames specified by HUD.
- Recommendation The Authority should reassess its personnel needs and more closely monitor the performance of the Finance Department including the responsibility for financial reporting in accordance with REAC and HUD requirements.
- Current Status The finding was not corrected and will be repeated. See current year finding 2014-002.
- 2013-2 Low-Rent Public Housing Tenant Lease Files
Public and Indian Housing Program – CFDA 14.850
Type of Finding: Internal Control – Significant Deficiency, Compliance – Eligibility
- Statement of Condition Forty (40) tenant lease files were tested for compliance with requirements of the program. Within the sample, one (1) lease file was unable to be located.
- Recommendation The Authority should adopt procedures to ensure tenant lease files are retained for an adequate period of time after the tenant vacates the premises.
- Current Status The finding was corrected.
- 2013-3 Housing Choice Voucher Program Tenant Lease Files
Housing Voucher Program – CFDA Number 14.871
Type of Finding: Internal Control – Significant Deficiency, Compliance – Eligibility
- Statement of Condition Forty (40) tenant lease files were tested for compliance with requirements of the program. Within the sample, five (5) tenants did not have a HAP contract with the owner and one (1) tenant was observed to have had no inspection, no HAP contract with the owner and an incorrectly calculated utility allowance.
- Recommendation The Authority should adopt procedures to ensure all required documentation and materials are included in tenant files and that all calculations are accurate.
- Current Status The finding was not corrected and will be repeated. See current year finding 2014-005.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Summary Schedule of Prior Year Findings

September 30, 2014

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- 2013-4 Low-Rent Public Housing and Capital Fund Program Special Tests and Provisions
Public and Indian Housing Program – CFDA 14.850
Capital Fund Program CFDA 14.872
Type of Finding: Internal Control – Material Weakness, Compliance – Special Tests
- Statement of Condition The Authority did not demonstrate appropriate budgetary and monitoring control over financial accounting and reporting. Budgetary oversight is a critical component of internal control over financial reporting, and the Authority did not demonstrate such oversight or monitoring of budget-to-actual financial analysis. Operating budgets should include all data needed to report and monitor the activities to be reported in the project-based FDS, as well as administrative costs, in accordance with GAAP. The Authority failed to have such a budgetary and financial monitoring system in place.
- Recommendation Budgetary oversight is a critical internal control over financial reporting. The Authority should reassess its personnel needs and more closely monitor performance, including the responsibility for budgetary analysis and the use of budgets for monitoring financial reporting.
- Current Status The finding was cleared for the Capital Fund Program, but not for the Public and Indian Housing Program. See current year finding 2014-012.
- 2013-5 Operating Fund Program Activities Allowed or Unallowed
Public and Indian Housing Program – CFDA 14.850
Type of Finding: Internal Control – Significant Deficiency, Compliance – Activities Allowed
- Statement of Condition The Authority was unable to provide documentation for certain Operating Fund Program expenditures.
- Recommendation The Authority should reassess its personnel needs and more closely monitor performance, including the responsibility for maintaining proper supporting documentation for all financial reporting activities.
- Current Status The finding was cleared.
- 2013-6 Housing Choice Voucher Program Special Tests and Provisions
Housing Voucher Program – CFDA Number 14.871
Type of Finding: Internal Control – Significant Deficiency, Compliance – Special Tests
- Statement of Condition Section 8 Management Assessment Program ("SEMAP") score was rated as troubled.
- Recommendation The Authority should reassess its personnel needs and more closely monitor performance, including the responsibility for financial reporting and the related submission of the accurately completed SEMAP as required and within the required time frame.
- Current Status The finding was cleared.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Summary Schedule of Prior Year Findings

September 30, 2014

- 2013-7 Housing Choice Voucher Program Delinquent Tenants
Housing Voucher Program – CFDA Number 14.871
Type of Finding: Internal Control – Significant Deficiency, Compliance – Special Tests
- Statement of Condition The Authority has a receivable balance due from ninety-one (91) tenants who had been determined to have previously underreported income. Currently, these tenants are technically considered to be in a delinquent status, although they have continued to be recertified.
- Recommendation The Authority should adopt procedures to ensure that all delinquent tenant rents are pursued, including those resulting from previously underreported income, and the Authority should consider the appropriateness of recertifying these tenants.
- Current Status The finding was cleared.
- 2013-8 Capital Fund Program Activities Allowed or Unallowed
Capital Fund Program CFDA 14.872
Type of Finding: Internal Control – Significant Deficiency, Compliance – Activities Allowed
- Statement of Condition The Authority was unable to provide documentation for certain Capital Fund Program expenditures, which would allow for verification of the absence of questioned costs.
- Recommendation The Authority should reassess its personnel needs and more closely monitor performance, including the responsibility for maintaining proper supporting documentation for all financial reporting activities.
- Current Status The finding was cleared.
- 2013-9 Material Adjustments Made to Prior Periods
Public and Indian Housing Program – CFDA 14.850
Housing Voucher Program – CFDA Number 14.871
Capital Fund Program CFDA 14.872
Type of Finding: Internal Control – Material Weakness, Compliance – Reporting
- Statement of Condition Management has determined that material adjustments and reclassifications were required to be made by the Finance Department, such that the beginning balances of the previously audited financial statements and FDS would be presented fairly in accordance with GAAP.
- Recommendation The Authority should reassess its personnel needs and more closely monitor the performance of the Finance Department including the responsibility for financial reporting in accordance with all material GAAP requirements.
- Current Status The finding was not corrected and will be repeated. See current year finding 2014-001.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Corrective Action Plan

September 30, 2014

The following is the corrective action planned by the Authority regarding the current findings:

Finding
No.

2014-001 Inadequate Controls Over Financial Reporting
Material Weakness in Internal Control

Condition: The Authority did not have adequate controls over the period-end financial reporting process to detect material misstatements. The Authority did not properly record entries related to HUD receivables, allowance for uncollectible fraud receivables, prepaid insurance, accounts payable, accrued payroll, interprogram receivables and payables, and net position.

Auditor's Recommendation: The Authority should establish controls to ensure that appropriate year-end adjustments are recorded so that the financial statements are fairly presented.

Action Taken: We concur with the recommendation. We are in the process of establishing controls to ensure that appropriate year-end adjustments are recorded so that financial statements are fairly presented.

2014-002 Reporting – FDS Late Submission

Public and Indian Housing Program – CFDA 14.850
Housing Voucher Program – CFDA Number 14.871
Capital Fund Program CFDA 14.872
Material Weakness in Internal Control
Material Noncompliance

Condition: The Authority failed to submit the unaudited and audited Financial Data Schedule ("FDS") within the time frames specified by HUD. The Authority submitted the unaudited REAC on October 23, 2015 (and it was due by November 30, 2014). In addition, the audited submission was due by June 30th and is also late.

Recommendation: The Authority should make every effort to file its REAC submission timely.

Action Taken: We concur with the recommendation. We are in the process of establishing controls to ensure that the REAC filing is submitted timely.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Corrective Action Plan

September 30, 2014

2014-003 Eligibility – Tenant Files

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control

Material Noncompliance

Condition: Forty tenant files were selected for testing, but testing was suspended after testing 20 files as a result of the following instances of noncompliance were noted in the 20 files tested:

- 12 instances of not using the correct utility allowance schedule. The annual Board approved changes to the utility allowances were not well communicated to the property managers.
- 5 instances of not calculating the tenant's annual income properly based on the supporting documentation in the file.
- 3 instances of the required annual recertification not being done timely -- in all three cases the annual recertifications were done one month late.
- 3 instances of the EIV report not being obtained as part of the annual recertification performed.
- 1 instance of assets not being listed on the 50058 and income related thereto not being calculated and included as part of the annual income of the tenant.
- 1 instance of not obtaining documentation to verify full-time student status of child age 18 or older.
- 1 instance of a lack of a signed tenant certification in the file certifying as to accuracy of information provided on the 50058.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for verification of tenant information and calculation of tenant rents.

Action Taken: We concur with the recommendation. We are implementing review procedures and providing training to insure that the applicable HUD regulations are being followed for tenant certification.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Corrective Action Plan

September 30, 2014

2014-004 Special Tests and Provisions – Waiting List and New Admissions

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control

Material Noncompliance

Condition: In testing 40 applicants on the current waiting list and 9 new admissions for the year, the following instances of noncompliance were noted:

- The Board approved preference for elderly, near-elderly, disabled or working families were not being used for 2, 3, 4 or 5 bedroom units. The staff of the Authority misunderstood the preference and were only applying it to applicants on the one bedroom waiting list.
- The Authority lacks the proper controls and procedures to track the aging of an applicant to determine when the applicant may qualify for the near-elderly preference.
- One applicant's original application could not be located to verify data on the current waiting list.
- Three instances existed where the date of the original application did not agree with the application date shown on the current waiting list.
- One instance where the applicant was on the one bedroom waiting list when updated information in the application file indicated a change in family size but the applicant had not been placed on the larger bedroom waiting list.
- Two instances where the criminal background checks were performed more than 20 months and 32 months before admission.
- Five instances where it appears new tenants were admitted ahead of other applicants with older dates of application and/or preference.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for waiting lists and new admissions including preferences. In addition, the Authority should implement a review procedure to make sure that all tenants are admitted in the proper order, and that all eligible applicants are included on the waiting list.

Action Taken: We concur with the recommendation. We are implementing review procedures and providing training to insure that the applicable HUD regulations are being followed for waiting lists.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Corrective Action Plan

September 30, 2014

2014-005 Eligibility – Tenant Files

Housing Voucher Program – CFDA Number 14.871
Material Weakness in Internal Control
Material Noncompliance

Condition: Forty tenant files were selected for testing, but testing was suspended after testing 20 files as a result of the following instances of noncompliance noted in the 20 files tested:

- All twenty files did not include the original signed applications (though current applications were in the files).
- 7 instances in which Form 214 was not included in the file.
- 10 instance where the file did not include the signed lease agreement.
- 8 instance where the file did not include the signed HAP agreement.
- 6 instances where the lead based paint notice was not included in the file.
- 2 instances of not calculating the tenant's annual income properly based on the supporting documentation in the file.
- 2 instances of failed inspections where the re-inspection was not performed within 30 days.
- 1 instance of the EIV report documentation not included in the file.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for verification of tenant information and calculation of tenant rents.

Action Taken: We concur with the recommendation. We are implementing review procedures and providing training to insure that the applicable HUD regulations are being followed for tenant certification.

2014-006 Special Tests and Provisions – Waiting List and New Admissions

Housing Voucher Program – CFDA Number 14.871
Material Weakness in Internal Control
Material Noncompliance

Condition: In testing 25 applicants on the current waiting list and 7 new admissions for the year, the following instances of noncompliance were noted:

- 8 instances where the date and time on the waiting list did not agree to the original application. All of these instances relate to 2009 where in an attempt to implement the Authority's preference for tenants residing in South Bend, the Authority personnel placed a secondary date and time stamp on the application of all applicants who at the time were not residents of South Bend. Not using the original application date will cause all such applicants to be considered in the wrong order when and if their address should change to being a resident of South Bend.
- 3 instances where the original application was not in the file, thus the date and time on the waiting list could not be verified.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Corrective Action Plan

September 30, 2014

2014-006 Special Tests and Provisions – Waiting List and New Admissions (Continued)

- 1 instance where the determination of rent reasonableness was not documented in the file prior to admission.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for waiting lists and new admissions. In addition, the Authority should implement a review procedure to make sure that all tenants are admitted in the proper order, and that all eligible applicants are included on the waiting list.

Action Taken: We concur with the recommendation. We are implementing review procedures and providing training to insure that the applicable HUD regulations are being followed for waiting lists.

2014-007 Special Tests and Provisions - Housing Quality Standard (HQS) Failed Inspections

Housing Voucher Program – CFDA Number 14.871

Material Weakness in Internal Control

Material Noncompliance

Condition: In testing 25 failed HQS inspections the following instances of noncompliance were noted:

- 8 instances where the original failed inspection report was not in the file, so it was not possible to evaluate whether any of the required repairs would be an immediate hazard to health and safety (a 24 hour repair requirement).
- 5 instances where the required repairs were not made in a timely manner and the Authority failed to timely abate HAP payments due to the landlord.
- 1 instance where the inspection revealed that there was exposed wiring on the stove, but this was not identified by the Authority as a repair that would be an immediate hazard to health and safety that would require a 24 hour repair.

Recommendation: The Authority should make sure that failed HQS inspections are done within the required time frame or are properly abated. If the Authority doesn't do the inspection within the required time frame and doesn't abate the HAP payment, the Authority should document the reason in order to determine if it was reasonable. Also, the Authority should assure that all critical repairs for life threatening deficiencies are completed within 24 hours.

Action Taken: We concur with the recommendation. We will implement procedures to assure that failed HQS inspections are performed during the required time frame or initiate abatement procedures and will document the reasons for the result of each failed inspection and assure that all critical repairs are completed timely.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Corrective Action Plan

September 30, 2014

2014-008 Reporting - SEMAP

Housing Voucher Program – CFDA Number 14.871
Material Weakness in Internal Control
Material Noncompliance

Condition: During our testing of the Section Eight Management Assessment Program (SEMAP), we noted that the Authority failed to provide documentation to support its assessment of the following SEMAP Indicators:

- Indicator 2 – *Reasonable Rent*
- Indicator 3 - *Determination of Adjusted Income*
- Indicator 6 - *HQS Enforcement*

Recommendation: The Authority needs to correctly perform and *document* the SEMAP review and report accurately according to the samples tested.

Action Taken: We concur with the recommendation and will maintain the documentation to support our conclusions for the SEMAP report.

2014-009 Davis-Bacon Act

Capital Fund Program CFDA 14.872
Material Weakness in Internal Control
Material Noncompliance

Condition: The Authority did not provide documentation to show that it complied with the Davis-Bacon act related to reviewing certified payrolls to make sure the payrolls are in excess of the prevailing wage rates in the area and did not provide documentation that employee interviews were being conducted.

Recommendation: The Authority needs to properly document its compliance with the Davis-Bacon Act for all construction related awards.

Action Taken: We are implementing review procedures and providing training to insure that the applicable Davis-Bacon Act regulations are being adhered to and properly documented.

2014-010 Special Tests and Provisions – Declarations of Trust

Public and Indian Housing Program – CFDA 14.850
Material Weakness in Internal Control
Material Noncompliance

Condition: The Authority could not locate the Declarations of Trust (DOT) for its public housing properties.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Corrective Action Plan

September 30, 2014

2014-010 Special Tests and Provisions – Declarations of Trust (Continued)

Recommendation: The Authority should locate the declarations of trust for all public housing properties and have them available for review.

Action Taken: We concur with the recommendation and will locate these documents and properly store them and have available for future review.

2014-011 Special Tests and Provisions – Bank Depository Agreements

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control

Material Noncompliance

Condition: The Authority could not locate the bank Depository Agreements for its bank accounts, nor could it provide documentation from one bank for pledged securities for amounts in excess of FDIC insurance amounts.

Recommendation: The Authority should either locate all the bank depository agreements or execute new ones for all of its bank accounts; and the Authority should require all banks to provide periodic documentation that pledged securities are provided for amounts in excess of FDIC insurance coverage.

Action Taken: We concur with the recommendation and will locate the missing depository agreements or will have new ones executed by the banks. Additionally, we will contact the one bank to obtain documentation of pledged securities.

2014-012 Special Tests and Provisions – Project Based Budgeting

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control

Material Noncompliance

Condition: The Authority did not timely adopt budgets nor did it periodically review budget to actual comparisons and address significant variances among budget to actual data.

Recommendation: The Authority should prepare project based budgets timely and should track budget to actual amounts and explain significant variances timely.

Action Taken: We concur with the recommendation and have recently hired a new fee accounting firm to assist us with budget preparation and monitoring.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Corrective Action Plan

September 30, 2014

2014-013 Reporting - FSS Escrows

Housing Voucher Program – CFDA Number 14.871

Material Weakness in Internal Control

Material Noncompliance

Condition: The Authority was unable to provide an accounting showing the FSS escrow balance applicable to each FSS family.

Recommendation: The Authority needs to create the accounting records to properly support the FSS escrow balances for each participating family and establish controls to make sure this accounting is maintained and reconciled on a regular basis.

Action Taken: We concur with the recommendation and will create the reconciliation of the FSS escrow balances and will assign personnel to maintain this reconciliation on an ongoing basis.

2014-014 Activities Allowed or Unallowed – Interprogram Activity

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control

Material Noncompliance

Condition: The Authority has loaned monies from the Public and Indian Housing Program to the COCC. As of September 30, 2014 these loans totaled \$942,841.

Recommendation: The Authority should develop a plan based on budgeting and monitoring of COCC and HCV expenses to have the ability to reimburse funds to the Public and Indian Housing Program.

Action Taken: We concur with the recommendation and will begin working with our new fee accountants and with HUD to develop a plan to repay these monies.

Effective Date: August 15, 2016

Contact Information

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Housing Authority of the City of South Bend
South Bend, Indiana

Schedule of Expenditures of Federal Awards

For the twelve months ended September 30, 2014

<u>FEDERAL GRANTOR</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Disbursements or Expenditures</u>
U. S. Department of HUD			
Public Housing:			
Low-rent Housing Program	* + 14.850	\$ 2,722,680	\$ 2,722,680
Capital Fund Program	* + 14.872	2,651,948	534,785
Housing Choice Voucher Program	* + 14.871	11,339,146	11,339,146
Lead-Based Paint Hazard Control	** 14.900	406,678	406,678
TOTAL		<u>\$ 17,120,452</u>	<u>\$ 15,003,289</u>

This schedule includes the federal grant activity of the Housing Authority of the City of South Bend and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

- * Type A Program
- ** Type B Program
- + Major Program

See auditor's report.

Financial Data Schedule

Housing Authority of South Bend (IN015)
SOUTH BEND, IN
Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14.000 Lead-Based Paint Hazard Control in Privately-Owned Housing	14.871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$2,846	\$341,454		\$17,728	\$194,879	\$656,907		\$556,807
112 Cash - Restricted - Modernization and Development								
113 Cash - Other Restricted			\$632,838	\$631,906	\$1,508	\$1,266,252		\$1,266,252
114 Cash - Tenant Security Deposits	\$184,497					\$184,497		\$184,497
115 Cash - Restricted for Payment of Current Liabilities								
100 Total Cash	\$187,343	\$341,454	\$632,838	\$649,634	\$196,387	\$2,007,656	\$0	\$2,007,656
121 Accounts Receivable - PHA Projects								
122 Accounts Receivable - HUD Other Projects	\$613,641	\$283,081				\$896,722		\$896,722
124 Accounts Receivable - Other Government								
125 Accounts Receivable - Miscellaneous	\$18,822					\$18,822		\$18,822
126 Accounts Receivable - Tenants	\$81,124					\$81,124		\$81,124
126.1 Allowance for Doubtful Accounts - Tenants	-\$71,158					-\$71,158		-\$71,158
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0				\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current								
128 Fraud Recovery			\$128,611			\$128,611		\$128,611
128.1 Allowance for Doubtful Accounts - Fraud			-\$116,000			-\$116,000		-\$116,000
129 Accrued Interest Receivable								
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$642,429	\$283,081	\$12,611	\$0	\$0	\$938,131	\$0	\$938,131
131 Investments - Unrestricted								
132 Investments - Restricted								
135 Investments - Restricted for Payment of Current Liability								
142 Prepaid Expenses and Other Assets	\$96,940		\$7,965		\$11,600	\$116,505		\$116,505
143 Inventories	\$87,414					\$87,414		\$87,414
143.1 Allowance for Obsolete Inventories	-\$1,749					-\$1,749		-\$1,749
144 Inter Program Due From	\$1,618,545	\$200	\$0		\$1,356,810	\$2,975,555	-\$2,975,555	\$0
145 Assets Held for Sale								
150 Total Current Assets	\$2,630,922	\$624,745	\$653,414	\$649,634	\$1,564,797	\$6,123,512	-\$2,975,555	\$3,147,957
161 Land	\$1,325,275					\$1,325,275		\$1,325,275
162 Buildings	\$60,435,758				\$561,908	\$60,997,666		\$60,997,666
163 Furniture, Equipment & Machinery - Dwellings	\$685,468					\$685,468		\$685,468
164 Furniture, Equipment & Machinery - Administration	\$946,851		\$298,241		\$186,832	\$1,292,724		\$1,292,724
165 Leasehold Improvements								
166 Accumulated Depreciation	-\$55,885,265		-\$248,741		-\$697,025	-\$57,811,031		-\$57,811,031
167 Construction in Progress								
168 Infrastructure								
160 Total Capital Assets, Net of Accumulated Depreciation	\$6,427,887	\$0	\$10,600	\$0	\$51,715	\$6,490,102	\$0	\$6,490,102
171 Notes, Loans and Mortgages Receivable - Non-Current								
172 Notes, Loans, & Mortgages Receivable - Non-Current - Past Due								
173 Grants Receivable - Non-Current								
174 Other Assets								
176 Investments in Joint Ventures								
180 Total Non-Current Assets	\$6,427,887	\$0	\$10,600	\$0	\$51,715	\$6,490,102	\$0	\$6,490,102
200 Deferred Outflow of Resources								
290 Total Assets and Deferred Outflow of Resources	\$9,058,809	\$624,745	\$663,814	\$649,634	\$1,616,512	\$12,613,614	-\$2,975,555	\$9,638,059
311 Bank Overdraft								
312 Accounts Payable <= 90 Days	\$330,001	\$80,888	\$17,742		\$56,968	\$463,599		\$463,599
313 Accounts Payable >90 Days Past Due								
321 Accrued Wage/Payroll Taxes Payable	\$36,468	\$3,697	\$10,589		\$18,693	\$69,347		\$69,347
322 Accrued Compensated Absences - Current Portion	\$23,736	\$1,460	\$18,874		\$36,571	\$86,641		\$86,641
324 Accrued Contingency Liability								
325 Accrued Interest Payable								
331 Accounts Payable - HUD PHA Programs								
332 Account Payable - PHA Projects								
333 Accounts Payable - Other Government								
341 Tenant Security Deposits	\$182,449					\$182,449		\$182,449
342 Unearned Revenue					\$1,508	\$1,508		\$1,508

Housing Authority of South Bend (IN015)
 SOUTH BEND, IN
 Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14,900 Lead-Based Paint Hazard Control in Privately-Owned Housing	14,871 Housing Choice Vouchers	6 2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue								
344 Current Portion of Long-term Debt - Operating Borrowings								
345 Other Current Liabilities								
346 Accrued Liabilities - Other	\$456				\$116,921	\$117,377		\$117,377
347 Inlet Program - Due To	\$675,704	\$644,428	\$694,856	\$17,728	\$942,841	\$2,975,555	-\$2,975,555	\$0
348 Loan Liability - Current								
310 Total Current Liabilities	\$1,282,814	\$700,471	\$742,061	\$17,728	\$1,173,402	\$3,896,478	-\$2,975,555	\$820,921
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue								
352 Long-term Debt, Net of Current - Operating Borrowings								
353 Non-current Liabilities - Other	\$58,722		\$367,963		\$3,253	\$427,938		\$427,938
354 Accrued Compensated Absences - Non Current								
355 Loan Liability - Non Current								
356 FASB 5 Liabilities								
357 Accrued Pension and OPEB Liabilities								
350 Total Non-Current Liabilities	\$58,722	\$0	\$367,963	\$0	\$3,253	\$427,938	\$0	\$427,938
300 Total Liabilities	\$1,319,536	\$700,471	\$1,110,024	\$17,728	\$1,176,655	\$4,324,414	-\$2,975,555	\$1,348,659
400 Deferred Inflow of Resources								
508.4 Net Investment in Capital Assets	\$6,427,687		\$10,500		\$51,715	\$6,480,102		\$6,480,102
511.4 Restricted Net Position	\$0		\$596,965	\$631,080		\$1,228,045		\$1,228,045
512.4 Unrestricted Net Position	\$1,311,386	-\$75,726	-\$1,053,575	\$828	\$388,142	\$571,053		\$571,053
513 Total Equity - Net Assets / Position	\$7,739,273	-\$75,726	-\$446,110	\$631,906	\$439,857	\$8,289,200	\$0	\$8,289,200
500 Total Liabilities, Deferred Inflows of Resources and Equity	\$9,058,809	\$624,745	\$663,914	\$649,634	\$1,616,512	\$12,613,614	-\$2,975,555	\$9,638,059

Housing Authority of South Bend (IN015)
SOUTH BEND, IN
Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14,900 Lead-Based Paint Hazard Control in Privately-Owned Housing	14,871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$1,151,704					\$1,151,704		\$1,151,704
70400 Tenant Revenue - Other	\$73,977					\$73,977		\$73,977
70500 Total Tenant Revenue	\$1,225,681	\$0	\$0	\$0	\$0	\$1,225,681	\$0	\$1,225,681
70600 HUD PHA Operating Grants	\$2,945,292	\$408,878	\$11,339,148			\$14,691,116		\$14,691,116
70610 Capital Grants	\$312,173					\$312,173		\$312,173
70710 Management Fee					\$696,600	\$696,600	-\$696,600	\$0
70720 Asset Management Fee					\$55,170	\$55,170	-\$55,170	\$0
70730 Book Keeping Fee					\$189,207	\$189,207	-\$189,207	\$0
70740 Front Line Service Fee								
70760 Other Fees								
70700 Total Fee Revenue					\$942,977	\$942,977	-\$942,977	\$0
70800 Other Government Grants								
71100 Investment Income - Unrestricted	\$1,258		\$303	\$849		\$2,208		\$2,208
71200 Mortgage Interest Income								
71300 Proceeds from Disposition of Assets Held for Sale								
71310 Cost of Sale of Assets								
71400 Fraud Recovery			\$20,768			\$20,768		\$20,768
71500 Other Revenue	\$67,125	\$44,352	\$668,450		\$18,588	\$998,495		\$998,495
71600 Gain or Loss on Sale of Capital Assets								
72000 Investment Income - Restricted			\$677			\$677		\$677
70000 Total Revenue	\$4,851,527	\$451,030	\$12,229,344	\$649	\$361,545	\$18,194,095	-\$942,977	\$17,251,118
91100 Administrative Salaries	\$382,266	\$117,620	\$295,950		\$560,558	\$1,356,415		\$1,356,415
91200 Auditing Fees	\$11,734		\$5,703		\$1,533	\$19,000		\$19,000
91300 Management Fee	\$530,391		\$168,208		\$698,600	\$698,600	-\$698,600	\$0
91310 Book-keeping Fee	\$68,496		\$120,709		\$189,207	\$189,207	-\$189,207	\$0
91400 Advertising and Marketing		\$21,468				\$21,468		\$21,468
91500 Employee Benefit contributions - Administrative	\$69,861	\$18,981	\$140,004		\$138,851	\$390,697		\$390,697
91600 Office Expenses	\$98,967	\$16,088	\$71,304	\$216	\$79,869	\$266,462		\$266,462
91700 Legal Expense	\$6,354				\$180,506	\$196,860		\$196,860
91800 Travel	\$50	\$2,950	\$941		\$5,405	\$9,047		\$9,047
91810 Allocated Overhead								
91900 Other	\$40,060	\$55,458	\$7,325		\$27,079	\$130,423		\$130,423
91000 Total Operating - Administrative	\$1,228,221	\$232,583	\$613,076	\$216	\$1,004,103	\$3,278,199	-\$887,907	\$2,390,392
92000 Asset Management Fee	\$55,170					\$55,170	-\$55,170	\$0
92100 Tenant Services - Salaries	\$3,108					\$3,108		\$3,108
92200 Relocation Costs								
92300 Employee Benefit Contributions - Tenant Services	\$6,445					\$6,445		\$6,445
92400 Tenant Services - Other	\$1,581					\$1,581		\$1,581
92500 Total Tenant Services	\$11,134	\$0	\$0	\$0	\$0	\$11,134	\$0	\$11,134
93100 Water	\$177,954		\$219		\$8,745	\$186,918		\$186,918
93200 Electricity	\$217,124		\$290		\$19,640	\$237,194		\$237,194
93300 Gas	\$187,668		\$310		\$21,964	\$209,942		\$209,942
93400 Fuel								
93500 Labor								
93600 Sewer								
93700 Employee Benefit Contributions - Utilities								
93800 Other Utilities Expense								
93000 Total Utilities	\$582,746	\$0	\$759	\$0	\$50,549	\$834,054	\$0	\$834,054
94100 Ordinary Maintenance and Operations - Labor	\$572,849					\$572,848		\$572,849
94200 Ordinary Maintenance and Operations - Materials and Other	\$201,629	\$454	\$1,433		\$1,482	\$204,898		\$204,898
94300 Ordinary Maintenance and Operations Contracts	\$628,832	\$2,835	\$4,151		\$5,032	\$640,650		\$640,650
94500 Employee Benefit Contributions - Ordinary Maintenance	\$218,904					\$218,904		\$218,904
94000 Total Maintenance	\$1,621,914	\$3,289	\$5,584	\$0	\$6,514	\$1,637,301	\$0	\$1,637,301
95100 Protective Services - Labor	\$10,389					\$10,389		\$10,389
95200 Protective Services - Other Contract Costs	\$172,811					\$172,811		\$172,811

Housing Authority of South Bend (IN015)
SOUTH BEND, IN
Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14,900 Lead-Based Paint Hazard Control In Privately-Owned Housing	14,871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELJM	Total
95300 Protective Services - Other								
95500 Employee Benefit Contributions - Protective Services	\$735					\$735		\$735
95000 Total Protective Services	\$184,045	\$0	\$0	\$0	\$0	\$184,045	\$0	\$184,045
96110 Property Insurance	\$87,684		\$19,086		\$10,844	\$117,624		\$117,624
96120 Liability Insurance	\$41,729		\$19,554		\$42,133	\$103,416		\$103,416
96130 Workmen's Compensation	\$11,869		\$4,421		\$8,014	\$24,304		\$24,304
96140 All Other Insurance	\$28,676	\$604	\$7,298		\$13,011	\$49,587		\$49,587
96100 Total Insurance Premiums	\$169,958	\$604	\$50,367	\$0	\$74,002	\$294,931	\$0	\$294,931
96200 Other General Expenses	\$68	\$290,280	\$8,806			\$299,174		\$299,174
96210 Compensated Absences								
96300 Payments in Lieu of Taxes								
96400 Bad debt - Tenant Rents	-\$1,165					-\$1,165		-\$1,165
96500 Bad debt - Mortgages								
96600 Bad debt - Other								
96800 Severance Expense								
96800 Total Other General Expenses	-\$1,077	\$290,280	\$8,806	\$0	\$0	\$288,009	\$0	\$288,009
96710 Interest of Mortgage (or Bonds) Payable								
96720 Interest on Notes Payable (Short and Long Term)								
96730 Amortization of Bond Issue Costs								
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$3,852,111	\$526,766	\$878,592	\$216	\$1,135,168	\$6,392,840	-\$942,977	\$5,449,865
97000 Excess of Operating Revenue over Operating Expenses	\$699,416	-\$75,726	\$11,350,752	\$433	-\$173,623	\$11,801,252	\$0	\$11,801,252
97100 Extraordinary Maintenance								
97200 Casualty Losses - Non-capitalized								
97300 Housing Assistance Payments			\$11,050,626			\$11,050,626		\$11,050,626
97350 HAP Portability-In			\$804,271			\$804,271		\$804,271
97400 Depreciation Expense	\$1,146,564		\$41,072		\$34,899	\$1,222,535		\$1,222,535
97500 Fraud Losses								
97600 Capital Outlays - Governmental Funds								
97700 Debt Principal Payment - Governmental Funds								
97800 Dwelling Units Rent Expense								
90000 Total Expenses	\$4,998,675	\$526,766	\$12,774,561	\$216	\$1,170,067	\$19,470,275	-\$942,977	\$18,527,298
10010 Operating Transfer In								
10020 Operating transfer Out								
10030 Operating Transfers from/to Primary Government								
10040 Operating Transfers from/to Component Unit								
10050 Proceeds from Notes, Loans and Bonds								
10060 Proceeds from Property Sales								
10070 Extraordinary Items, Net Gain/Loss								
10080 Special Items (Net Gain/Loss)								
10091 Inter Project Excess Cash Transfer In								
10092 Inter Project Excess Cash Transfer Out								
10093 Transfers between Program and Project - In								
10094 Transfers between Project and Program - Out								
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$447,148	-\$75,726	-\$545,217	\$433	-\$208,622	-\$1,276,180	\$0	-\$1,276,180
11020 Required Annual Debt Principal Payments	\$13,595	\$0	\$11,321	\$0	\$15,094	\$40,000		\$40,000
11030 Beginning Equity	\$8,136,326	\$326,847	\$186,144	\$0	\$367,680	\$8,956,997		\$8,956,997
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$51,085	-\$326,847	-\$87,037	\$631,473	\$340,699	\$609,383		\$609,383
11050 Changes in Compensated Absence Balance								
11080 Changes in Contingent Liability Balance								
11070 Changes in Unrecognized Pension Transition Liability								
11080 Changes in Special Term/Severance Benefits Liability								

Housing Authority of South Bend (IN015)
 SOUTH BEND, IN
 Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	Project Total	14,900 Lead-Based Paint Hazard Control in Privately-Owned Housing	14,871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents								
11100 Changes in Allowance for Doubtful Accounts - Other								
11170 Administrative Fee Equity			-1,043,075			-1,043,075		-1,043,075
11180 Housing Assistance Payments Equity			\$596,965			\$596,965		\$596,965
11190 Unit Months Available	12117	0	25488	0		37605		37605
11210 Number of Unit Months Leased	11483	0	22961	0		34434		34434
11270 Excess Cash	\$964,495					\$964,495		\$964,495
11610 Land Purchases	\$0				\$0	\$0		\$0
11620 Building Purchases	\$312,173				\$0	\$312,173		\$312,173
11630 Furniture & Equipment - Dwelling Purchases	\$0				\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$0				\$0	\$0		\$0
11650 Leasehold Improvements Purchases	\$0				\$0	\$0		\$0
11660 Infrastructure Purchases	\$0				\$0	\$0		\$0
13510 CFFP Debt Service Payments	\$0				\$0	\$0		\$0
13901 Replacement Housing Factor Funds	\$0				\$0	\$0		\$0