

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SOUTH BEND

ST. JOSEPH COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**  
11/13/2015



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### SCHEDULE OF OFFICIALS

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



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

This report is supplemental to our audit report of the City of South Bend (City), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

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

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

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

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

September 2, 2015

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CITY CONTROLLER  
CITY OF SOUTH BEND

CITY CONTROLLER  
CITY OF SOUTH BEND  
FEDERAL FINDINGS

***FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING***

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

1. Revenues: The City has not established proper controls over the revenues received from the various Departments. The City Controller's Office does not request sufficient information to properly verify collections to be deposited be submitted by each department.
2. Financial Close and Reporting: The internal controls over the financial closing and reporting process were not effective to ensure complete and accurate financial statements. Some of the problems that were identified were as follows:
  - a. Financial information presented in the Management's Discussion and Analysis did not always agree to the financial statements.
  - b. There were many draft versions of the financial statements and notes presented for audit. These versions contained errors and omissions that were over looked in the review process.
  - c. The Governmental Funds Balance Sheet did not always agree to the Combining Balance Sheets.
  - d. The Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position did not always agree with the financial statements and/or Notes to the Financial Statements.
  - e. The Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds to the Statement of Activities did not always agree with the financial statements and/or Notes to the Financial Statements.
  - f. The Statement of Cash Flows did not include the section disclosing the Noncash Activities.
  - g. Amounts in the Notes to the Financial Statements did not always agree to the financial statements.
  - h. The financial statements originally presented for audit did not include a fund for a bank account that was held by the Police Department.
3. Monitoring of Controls: An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

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

CITY CONTROLLER  
CITY OF SOUTH BEND  
FEDERAL FINDINGS  
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FINDING 2014-002 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

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

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

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

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

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

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

## DEPARTMENT OF ADMINISTRATION AND FINANCE

### CORRECTIVE ACTION PLAN

#### ***FINDING 2014-001 (Revenues)***

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

#### Description of Corrective Action Plan:

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

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





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

**FINDING 2014-001 (Financial Close & Reporting)**

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

Description of Corrective Action Plan:

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

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

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

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

John D. Murphy  
(Signature)

CITY CONTROLLER  
(Title)

8-24-15  
(Date)

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

### **From SBOA:**

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

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

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

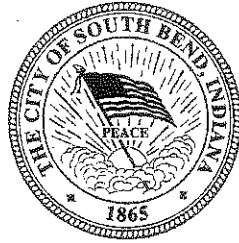
- c. The Governmental Funds Balance Sheet did not always agree to the Combining Balance Sheets.
- d. The Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position was not easily traceable to the notes and/or financial statements.
- e. The Governmental Funds Reconciliation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

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

### **Additional City Response:**

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

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

## DEPARTMENT OF ADMINISTRATION AND FINANCE

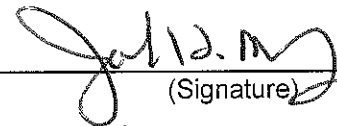
### *FINDING 2014-001 (Monitoring of Controls)*

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

#### Description of Corrective Action Plan:

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

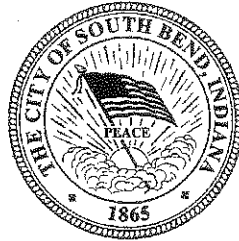
Anticipated Completion Date: Ongoing improvement, as needed.

  
\_\_\_\_\_  
(Signature)

CITY COMPTROLLER  
\_\_\_\_\_  
(Title)

8-24-15  
\_\_\_\_\_  
(Date)

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

## DEPARTMENT OF ADMINISTRATION AND FINANCE

### CORRECTIVE ACTION PLAN

#### **FINDING 2014-002**

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

#### Description of Corrective Action Plan:

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

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

John D. Murphy  
(Signature)

CITY CONTROLLER  
(Title)

8/24/15  
(Date)

CITY CONTROLLER  
CITY OF SOUTH BEND  
EXIT CONFERENCE

The contents of this report were discussed on September 2, 2015, with Pete Buttigieg, Mayor; Tim Scott, President of the Common Council; John Murphy, City Controller; and Jennifer Hockenhill, Deputy Controller.

POLICE DEPARTMENT  
CITY OF SOUTH BEND

POLICE DEPARTMENT  
CITY OF SOUTH BEND  
AUDIT RESULTS AND COMMENTS

***POLICE BUY MONEY***

An Ordinance establishing the Police Buy Money Program and allowing the associated expenditures was not available for audit.

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

1. under Indiana Code 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures;
2. an appropriation for such purpose must be obtained in the manner authorized by state statutes;
3. petty cash fund procedures are to be followed as authorized by Indiana Code 36-1-8-3; and
4. a minimum documentation procedure must be followed, similar to either:
  - A. "Guidelines for the Expenditure of Confidential Funds," published by the U. S. Department of Criminal Justice.
  - B. "Guidelines for Obtaining and Accounting For Confidential Funds Used in Support of Criminal Investigations," (Revised S.O.P. INV-009), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2014)

***CONDITION OF RECORDS - POLICE DISTRIBUTIONS PAYABLE***

The Police Department confiscates money in certain cases. This money is held by the Department until the case is adjudicated and distributed as directed by the Court. A complete list of the balances of the open cases at December 31, 2014, was not available for audit. The City began compiling a list by case number and as of May 22, 2015, the City had identified \$356,125 of \$823,940 held in the bank. The remaining balance had not been identified as of June 28, 2015.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

## DEPARTMENT OF ADMINISTRATION AND FINANCE

CITY OF SOUTH BEND  
OFFICIAL RESPONSE

### **City Response: *POLICE BUY MONEY***

The City was not aware that an ordinance was required for the Police Buy Money Program. The activity of the program has been kept confidential and has been audited by the State Board of Accounts on an annual basis for many years. The City will comply with the procedures stated above in the future. An ordinance will be prepared and submitted for Common Council approval authorizing the Police Buy Money Program in compliance with State law.

### **City Response: *CONDITION OF RECORDS – POLICE DISTRIBUTIONS PAYABLE***

The City Controller's Office was not aware of the account prior to the audit. The City Controller's Office held a meeting with the legal team and the Police Department's fiscal officers to discuss handling of this account in the future. The results of this meeting and subsequent meetings will be reported back in summary to the SBOA for the 2015 audit.

The Police Department's fiscal officer maintains an Excel listing of transactions of the account and reconciles the ending cash balance and the listing to the bank statement each month. Bank statements are available from 2005 to the present. Account information prior to 2005 will be reviewed and identified by case number and the unpaid portion of the cash determined. If the unpaid portion of the case cannot be identified, the amounts will be disposed of according to Indiana State Law. The Department maintains procedures with regards to the handling of cash related to this account in their Duty Manual (procedure attached). Although the detail was not available in a clean format for the audit, the fiscal officer over the Police Department stated that the information is available on a case by case basis and will be in a better format and materially reconciled prior to the start of the 2015 financial statement audit. As of August 31, 2015, he has been able to fully account for 89% of the funds in this account.

Effective July 31, 2015, account reconciliations will be reviewed and signed by the Deputy City Controller and City Controller. As of the date of this response, the Controller's Office has obtained, reviewed and signed all reconciliations of this bank account for 2015. Per discussions with the police department, this account has been reconciled monthly since 2005. Finally, the Controller's Office set up this account as an agency fund (Fund No. 726) in its regular accounting system to facilitate regular bank account reconciliation to the general ledger.

POLICE DEPARTMENT  
CITY OF SOUTH BEND  
EXIT CONFERENCE

The contents of this report were discussed on September 2, 2015, with Pete Buttigieg, Mayor; Tim Scott, President of the Common Council; John Murphy, City Controller; Jennifer Hockenhill, Deputy Controller; and Ken Glowacki, Director of Financial Services.

COMMUNITY INVESTMENT  
CITY OF SOUTH BEND

COMMUNITY INVESTMENT  
CITY OF SOUTH BEND  
FEDERAL FINDINGS

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

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

*Internal Controls*

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

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

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

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

*Compliance*

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

13 CFR 307.16(c) states in part:

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

COMMUNITY INVESTMENT  
CITY OF SOUTH BEND  
FEDERAL FINDINGS  
(Continued)

13 CFR 307.16(c)(2) states:

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

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

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

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

**FINDING 2014-004 - REPORTING**

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

*Internal Controls*

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

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

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

COMMUNITY INVESTMENT  
CITY OF SOUTH BEND  
FEDERAL FINDINGS  
(Continued)

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

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

*Compliance*

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

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

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

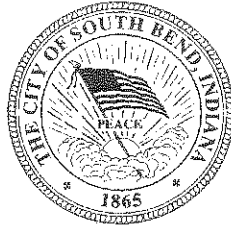
(b) *Report contents.* RLF Recipients must certify as part of the semi-annual report to EDA that the RLF is operating in accordance with the applicable RLF Plan. RLF Recipients also must describe (and propose pursuant to §307.9) any modifications to the RLF Plan to ensure effective use of the RLF as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

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

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

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

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

CORRECTIVE ACTION PLAN

**FINDING 2014-003**

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

Description of Corrective Action Plan:

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

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

B/C ZA  
(Signature)

Director of Economic Resources  
(Title)

8/21/15  
(Date)

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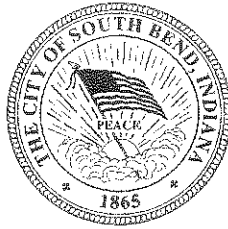
ASSISTANT EXECUTIVE DIRECTOR  
CHRIS FIELDING

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

CORRECTIVE ACTION PLAN

**FINDING 2014-004**

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

Description of Corrective Action Plan:

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

Anticipated Completion Date: March 31, 2015

B/C ZA  
(Signature)

Director of Economic Resources  
(Title)

8/21/15  
(Date)

ASSISTANT EXECUTIVE DIRECTOR  
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CITY OF SOUTH BEND  
EXIT CONFERENCE

The contents of this report were discussed on September 2, 2015, with Pete Buttigieg, Mayor; Tim Scott, President of the Common Council; John Murphy, City Controller; Jennifer Hockenhill, Deputy Controller; and Brock Zeeb, Director of Economic Resources.