

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

FEDERAL SINGLE AUDIT REPORT

OF

CITY OF SOUTH BEND

ST. JOSEPH COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
09/23/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	John H. Murphy Jennifer C. Hockenhull	01-01-16 to 07-24-17 07-25-17 to 12-31-17
Mayor	Peter Buttigieg	01-01-16 to 12-31-19
President of the Board of Public Works	Gary A. Gilot	01-01-16 to 12-31-17
President of the Common Council	Tim Scott	01-01-16 to 12-31-17



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Bend (City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 5, 2017.

**Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 that we consider to be a material weakness.

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

**Compliance and Other Matters**


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

**City of South Bend's Response to Findings**

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

**Purpose of This Report**

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

  
Paul D. Joyce, CPA  
State Examiner

June 5, 2017, except for our report on the  
Schedule of Expenditures of Federal Awards,  
for which the date is August 10, 2017



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of South Bend's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016. The City'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 Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Basis for Qualified Opinion on Continuum of Care Program and the Community Development Block Grants/Entitlement Grants***

As described in item 2016-003 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Subrecipient Monitoring that are applicable to its Continuum of Care Program and the Community Development Block Grants/Entitlement Grants. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

***Qualified Opinion on Continuum of Care Program and the Community Development Block Grants/Entitlement Grants***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Continuum of Care Program and the Community Development Block Grants/Entitlement Grants* paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Continuum of Care Program and the Community Development Block Grants/Entitlement Grants for the year ended December 31, 2016.

***Unmodified Opinion on the Other Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2016.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002. Our opinion on the other major federal program is not modified with respect to these matters.

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

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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. A significant deficiency in internal control over compliance is a deficiency, or 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)


Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002 and 2016-003, that we consider to be material weaknesses.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated June 5, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

  
Paul D. Joyce, CPA  
State Examiner

August 10, 2017

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the City. The schedule and notes are presented as intended by the City.

CITY OF SOUTH BEND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2016

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
<u>Department of Commerce</u>					
Economic Development Cluster					
Economic Adjustment Assistance	Direct				
Industrial Revolving Fund, Loans Outstanding		11.307	06-19-01251	\$ -	\$ 7,566,372
Total - Economic Development Cluster				-	7,566,372
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct				
Neighborhood Stabilization Grant 2008		14.218	B08-MN-18-0011	-	32,114
Neighborhood Stabilization Grant 2011			B11-MN-18-0011	-	338,908
Block Grant 2014			B14-MC-18-0011	914,375	1,007,087
Block Grant 2015			B15-MC-18-0011	566,053	961,442
Block Grant 2016			B16-MC-18-0011	39,283	544,634
Total - Community Development Block Grants/Entitlement Grants				1,519,711	2,884,185
Total - CDBG - Entitlement Grants Cluster				1,519,711	2,884,185
Emergency Solutions Grant Program	Direct				
Hearth Emergency Shelter Grant		14.231	E14-MC-18-0011	2,376	2,376
Hearth Emergency Shelter Grant			E15-MC-18-0011	91,984	93,984
Hearth Emergency Shelter Grant			E16-MC-18-0011	120,358	122,358
Total - Emergency Solutions Grant Program				214,718	218,718
Continuum of Care Program	Direct				
		14.267	IN0009L5H001407	224,777	224,777
			IN0012L5H001407	47,458	47,458
			IN0012L5H001508	59,818	59,818
Total - Continuum of Care Program				332,053	332,053
Education and Outreach Initiatives	Direct				
		14.416	FF205K105014	-	2,583
			FF205K165014	-	112,215
Total - Education and Outreach Initiatives				-	114,798
Total - Department of Housing and Urban Development				2,066,482	3,549,754
<u>Department of Justice</u>					
Project Safe Neighborhoods	Indiana Criminal Justice Institute	16.609	2014-GP-BX-0002	17,707	75,827
Edward Byrne Memorial Justice Assistance Grant Program	Direct				
		16.738	14DJBX0690	-	15,256
			2015-DJ-BX-0392	-	60,000
			20163DJBX0724	-	62,689
			2016-DJ-BX-0812	-	8,497
Total - Edward Byrne Memorial Justice Assistance Grant Program				-	146,442
Equitable Sharing Program	Direct				
		16.922	CY 2015	-	53,413
Total - Department of Justice				17,707	275,682
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205	A249-14-320311	-	97,612
			A249-15-320123A	-	81,343
			A249-15-320124	-	29,430
			A249-15-320126A	-	72,514
			A249-15-320127A	-	52,018
			A249-15-L150057	-	79,600
			A249-15-L150058	-	72,880
			A249-16-L160016	-	127,897
			A249-16-L160015	-	69,380
			A249-16-L160021	-	63,748
			A249-16-L160022	-	109,222
			A249-16-L160023	-	106,664
Total - Highway Planning and Construction				-	962,308
Total - Highway Planning and Construction Cluster				-	962,308
Total - Department of Transportation				-	962,308
<u>Department of US Treasury</u>					
National Foreclosure Mitigation Counseling Program	Indiana Housing and Community Development Authority	21.000	IFPN-2016-024	-	5,952
<u>Equal Employment Opportunity Commission</u>					
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	Direct				
		30.002	EEC45016C0084	-	70,891
<u>Environmental Protection Agency</u>					
Brownfields Assessment and Cleanup Cooperative Agreements	Direct				
		66.818	BF00E01371	-	172,817
Total federal awards expended				\$ 2,084,189	\$ 12,603,776

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF SOUTH BEND  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2015. The information in the SEFA is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

The Uniform Guidance requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of City shall be conducted annually.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The City has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**Note 3. Economic Adjustment Assistance, CFDA 11.307**

The OMB Circular A-133 Compliance Supplement requires that the Economic Adjustment Assistance program, CFDA 11.307, federal awards expended be reported on the Schedule of Expenditures of Federal Awards as shown below:

\$ 4,059,177	12-31-16 Revolving loan fund loans outstanding
97,800	12-31-16 Revolving loan fund land held for resale
2,639,206	12-31-16 Revolving loan fund cash and investments
630,993	- Loans written off in 2016
139,196	2016 Revolving loan fund administrative expenses
<u>\$7,566,372</u>	Total (100% federal funding)

CITY OF SOUTH BEND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

CFDA Number	Name of Federal Program or Cluster	Opinion Issued
14.267	Economic Development Cluster CDBG - Entitlement Grants Cluster Continuum of Care Program	Unmodified Qualified Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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

**FINDING 2016-001**

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Condition*

There were deficiencies in the internal control system of the City of South Bend (City) related to financial transactions and reporting of the Century Center, a major fund of the City. There was a lack of segregation of duties as the Century Center transactions were recorded and reported by the City without a system of oversight or review, or other compensating control.

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

*Context*

This is a systemic issue, which occurred throughout the audit period.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in this manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

*Cause*

Management of the City had not established a proper system of internal control.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

*Recommendation*

We recommended that the City's management establish controls to ensure proper reporting of the Century Center transactions, a major fund of the City.

*Views of Responsible Officials*

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

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

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2016-002**

Subject: Economic Adjustment Assistance - Special Tests and Provisions -  
Increases to RLF Capital Base and Capital Utilization  
Federal Agency: Department of Commerce  
Federal Program: Economic Adjustment Assistance  
CFDA Number: 11.307  
Federal Award Number and Year (or Other Identifying Number): 06-19-01251  
Compliance Requirement: Special Test and Provisions - Increases  
to RLF Capital Base and Capital Utilization  
Audit Findings: Material Weakness, Other Matters

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with the grant agreement and the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement.

The City had not designed or implemented a control system to ensure that it managed its repayment and lending schedules at all times with at least 75 percent of the RLF capital loaned out or committed. The City did not comply; the capital available for lending exceeded 25 percent for 6 of the 12 months in 2016.

*Context*

This is a systemic issue, which occurred throughout the last six months of the audit period.

*Criteria*

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

"The auditee shall: . . . (b) Maintain internal control over the 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. . . ."

2 CFR section 200.303(a) states in part:

"Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States and the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

13 CFR 307.16 states in part: "During the Revolving Phase, 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. . . ."

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

*Cause*

The City had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Special Tests and Provisions - Increases to RLF Capital Base compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and to comply with the Special Tests and Provisions - Increases to RLF Capital Base compliance requirement.

*Views of Responsible Officials*

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

**FINDING 2016-003**

Subject: Community Development Block Grants/Entitlement Grants  
and Continuum of Care Program - Subrecipient Monitoring

Federal Agency: Housing and Urban Development

Federal Programs: Community Development Block Grant/Entitlement  
Grants and Continuum of Care Program

CFDA Numbers: 14.218, 14.267

Federal Award Numbers and Years (or Other Identifying Numbers): B08-MN-18-0011, B11-MN-18-0011,  
B14-MC-18-0011, B15-MC-18-0011,  
B16-MC-18-0011, IN0009L5H001407,  
IN0012L5H001407, IN0012L5H001508

Compliance Requirement: Subrecipient Monitoring

Audit Findings: Material Weakness, Other Matters/Modified Opinion

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Subrecipient Monitoring compliance requirement.

The City's Department of Community Investment administered all Housing and Urban Development Grants (HUD), which included monitoring subrecipients. The City did not comply with the Subrecipient Monitoring requirement to ensure that its subrecipients complied with federal requirements in a timely manner. The City relied on desktop monitoring to ensure its subrecipients' compliance with the requirements during the grant period. This consisted of reviewing reimbursement claims and the attached supporting documentation submitted by the subrecipients. The supporting documentation provided to the City was not sufficient to ensure that the subrecipients paid for services prior to requesting reimbursement from the City.

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

Additionally, onsite reviews were performed, but only after the grants had been completed. Based on the City's current practice of performing eight onsite visits each year for any HUD subrecipients, some would not receive an onsite visit for a number of years. In 2016, only one Community Development Block Grant subrecipient received an onsite visit. The onsite visit for the Continuum of Care Program covered grants that were reported in the 2015 Schedule of Expenditure of Federal Awards (SEFA). The current Continuum of Care Program grants reported in the 2016 SEFA were not even scheduled for an onsite visit in 2017.

*Context*

This is a systemic problem, which occurred throughout the audit period.

*Criteria*

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. . . ."

2 CFR section 200.303(a) states in part:

"Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States and the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

24 CFR 85.40(a) states in part:

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

2 CFR 200.331(d) states:

"Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

- (1) Reviewing financial and performance reports required by the passthrough entity.
- (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass through entity detected through audits, on-site reviews, and other means.

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

- (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521 Management decision."

Community Development Program Contracts - Financial and Administrative Reports states in part:

"The Agency shall submit the Reimbursement and Progress Report supplied by the City upon completion of each purchase. The Agency understands that claims for reimbursement of expenses shall be accompanied by proper documentation (checks copies, invoices, staff time distributions, etc.)

The City reserves the right to refuse any or all claims not properly supported with adequate and proper documentation of claim and activity progress."

*Cause*

Management of the City had not established a proper system of internal control that would have ensured compliance with the Subrecipient Monitoring compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and to comply with the Subrecipient Monitoring compliance requirement.

*Views of Responsible Officials*

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

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#### AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.





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

CORRECTIVE ACTION PLAN

**FINDING 2016-001**

Contact Person Responsible for Corrective Action: Jen Hockenhill and John Murphy  
Contact Phone Number: 574-235-9822 and 574-235-7678

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

During the course of the Century Center 2016 fiscal year and audit it became increasingly difficult to reconcile the Century Center records maintained by the City's management company with the records maintained in the City's accounting system. The management company keeps its records based on the accrual basis of accounting (which is typical for private companies) while the City keeps its records based on the cash basis of accounting (during the year for interim reporting and budgeting) and converts the accounts to the accrual basis at year end for the audit and CAFR preparation. In addition, the management company keeps a more detailed chart of accounts for revenue and expenses based on functional cost centers (i.e. Executive, Finance, Sales) while the City keeps broader revenue and expense categories broken into only two divisions—general operations and food & beverage operations.

The City Administration and Century Center management offer the following corrective action plan:

- With the permission of the State Examiner of the State Board of Accounts, the City has adopted the full accrual basis of accounting for Century Center Fund 670 starting in 2017.
- The City has changed its revenue and expenditure accounts to more closely match the accounts used by the management company. This change will also provide the Civic Center Board of Managers and City Administration with more detailed and useful financial information regarding the operations of Century Center. The new accounts will be used beginning January 1, 2018 and are being incorporated into the 2018 budget.
- Effective for the month of April, 2017, the Century Center Finance Director is preparing a monthly reconciliation of management company financial statements with City financial statements and is providing this report to senior finance staff in the Department of Administration and Finance for review and approval.
- Century Center staff has been granted access to the City's shared drive and is completing the City's standard monthly budget to actual reports that all City funds and departments are required to complete. This report is posted on the City website every month.
- The Century Center General Manager has initiated bi-weekly conference calls with senior finance officials in the Department of Administration and Finance to discuss any ongoing accounting and financial reporting issues occurring at Century Center.

- The City Administration and Century Center management have agreed that all bank reconciliations will be completed and sent to the Department of Administration and Finance no later than 20 days after month end. Senior finance staff at the City are reviewing and signing these bank reconciliations in addition to signatures by the Century Center Finance Director and Century Center General Manager.

Anticipated Completion Date: Certain tasks in the corrective action plan have been completed, with full completion of all remaining tasks planned for fiscal year 2018.



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

CORRECTIVE ACTION PLAN

**FINDING 2016-002**

Contact Person Responsible for Corrective Action: Angelina Billo  
Contact Phone Number: 574-235-5838

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Per federal requirements, the City's Industrial Revolving Fund (IRF) is required to have a minimum of 75% of its capital loaned out at any point in time during the year. For the City's IRF and other large programs, the Economic Development Administration requires that 80% of the capital be loaned out. The IRF did not satisfy these requirements during 2016.

The City understands this finding but notes the IRF Board is reluctant to make loans that do not have a reasonable chance for success. The use of cash for poorly advised loans does not appear to be a prudent way to run a portfolio. In addition, occasionally IRF loan recipients pay off early which necessitates the need to find replacement loan opportunities in an expedited manner. Having said this, the IRF is pleased to announce that two new loans totaling \$1.2 million dollars were recently approved which reduces the unobligated cash balance in the fund to 13.4% and the IRF is, therefore, currently in compliance with plan loan requirements.

City Administration offers the following corrective action plan:

- The IRF will continue to provide comprehensive monthly financial statements to the IRF Board Members and City Finance Staff that include a balance sheet, income statement, cash position, commitments and applications. The IRF staff will continue to prepare and present to the IRF Board a schedule of outstanding loans, including principal outstanding, interest rates and repayment schedules.
- Included in the monthly IRF financial report noted above is a schedule that calculates compliance with the loan percentage requirements discussed in this audit finding. This calculation will be discussed with IRF Board Members at their meetings.
- The IRF staff will aggressively seek out prudent lending opportunities to small businesses that are both likely to be repaid and will assist in meeting these loan percentage requirements.
- All future loans will continue to be documented to inform IRF Board Members of the loan principal in relation to the current IRF asset balance at the time of the loan initiation.

Anticipated Completion Date: August 10, 2017



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

CORRECTIVE ACTION PLAN

**FINDING 2016-003**

Contact Person Responsible for Corrective Action: Pam Meyer  
Contact Phone Number: 574-235-5485

Views of Responsible Official: We do not concur with the finding for the following reasons.

The City Administration disagrees that there was a failure to comply as the established process was followed as approved by the Department of Housing and Urban Development (HUD). There is no federal citation that mandates a predetermined time frame within a contract period in which monitoring is required. Desk top monitoring plus regular meetings and inspections of sub-recipients keep reviews and communications current. Some of the sub-recipients receive multiple program funding and while monitoring may be designated to a certain fund in a particular year, the process and culture of the sub-recipient systems are being reviewed.

Monitoring as noted in the HUD Plan states that the City monitors at least eight sub-recipients from one or more of the funding programs. It does not define a number per program. Further, the internal schedule/process ensures those sub-recipients with larger dollar awards are monitored annually and any new sub-recipient is monitored.

The monitoring does not generally occur for the current year funds because funding is available and contracted so late in the year. Sub-recipients most often have not even started to address the current year funding and monitoring is not prudent or necessary, thus monitoring is performed on the previous year funding/projects.

The Continuum of Care funds are grants that cover two years as they are not a January-December grant. Toward the end of the 2016, the SEFA reported on grants covering the 2016-2017 time frame. Monitoring in 2017 is appropriate for this type of contract.

Finally, it was noted that supporting documentation was not always sufficient to ensure sub-recipients paid for services prior to requesting reimbursement from the City.

Description of Corrective Action Plan:

City Administration offers the following corrective action plan:

- The City will consider modification of the monitoring schedule with its next substantial amendment to the current 2014-2019 HCD Plan. This could include a number of options such as denoting monitoring a certain number of sub-recipients per program per year and/or establishing a dollar amount of the award that would trigger an annual monitoring visit.
- The City Administration will consider two options for the program based on the sub-recipient capacity. The first method would be a reimbursement method which would require requested documentation to include, but not limited to, payment documentation by sub-recipients. The cash advance method would also require documentation to be provided at the end of the agreement period. The contracts will be revised to reflect any changes made.

Anticipated Completion Date: December 31, 2017

#### OTHER REPORTS

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