

**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, 2017 to December 31, 2017



**FILED**  
08/09/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	John H. Murphy Jennifer C. Hockenhull	01-01-16 to 07-20-17 07-21-17 to 12-31-19
Mayor	Pete Buttigieg	01-01-16 to 12-31-19
City Clerk	Kareemah Fowler	01-01-16 to 12-31-19
President of the Board of Public Works	Gary A. Gilot	01-01-17 to 12-31-18
President of the Common Council	Tim Scott	01-01-17 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2017, 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 14, 2018.

***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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2017-002, that we consider to be material weaknesses.

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***

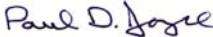
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-002.

***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 14, 2018, except for our report on the  
Schedule of Expenditures of Federal Awards,  
for which the date is July 26, 2018



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, 2017. 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 the Community Development Block Grants/Entitlement Grants***

As described in item 2017-003 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Subrecipient Monitoring that are applicable to its Community Development Block Grants/Entitlement Grants. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

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 the Community Development Block Grants/Entitlement Grants***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on 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 Community Development Block Grants/Entitlement Grants for the year ended December 31, 2017.

***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, 2017.

***Other 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.

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 item 2017-003, that we consider to be a material weakness.


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)

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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 14, 2018, 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

July 26, 2018

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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, 2017

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
<b>Department of Commerce</b>					
Economic Development Cluster					
Economic Adjustment Assistance	Direct	11.307			
Industrial Revolving Fund, Loans Outstanding			06-19-01251	\$ -	\$ 6,965,408
<b>Department of Housing and Urban Development</b>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct	14.218			
Neighborhood Stabilization Grant 2008			B08-MN-18-0011	-	24,515
Neighborhood Stabilization Grant 2011			B11-MN-18-0011	123,499	123,499
Block Grant 2014			B14-MC-18-0011	162,079	162,079
Block Grant 2015			B15-MC-18-0011	458,893	461,925
Block Grant 2016			B16-MC-18-0011	538,545	920,607
Block Grant 2017			B17-MC-18-0011	77,727	102,640
Total - Community Development Block Grants/Entitlement Grants				1,360,743	1,795,265
Total - CDBG - Entitlement Grants Cluster				1,360,743	1,795,265
Emergency Solutions Grant Program					
Hearth Emergency Shelter Grant	Direct	14.231			
Hearth Emergency Shelter Grant			E15-MC-18-0011	27,483	27,483
Hearth Emergency Shelter Grant			E16-MC-18-0011	87,232	87,232
Hearth Emergency Shelter Grant			E17-MC-18-0011	186,199	186,199
Total - Emergency Solutions Grant Program				300,914	300,914
Continuum of Care Program					
Continuum of Care Program	Direct	14.267			
Continuum of Care Program			IN0009L5H001508	265,789	265,789
Continuum of Care Program			IN0012L5H001508	27,913	27,913
Total - Continuum of Care Program				293,702	293,702
Education and Outreach Initiatives					
Education and Outreach Initiatives	Direct	14.416			
Education and Outreach Initiatives			FF205K105014	-	62,417
Education and Outreach Initiatives			FF205K165014	-	57,340
Total - Education and Outreach Initiatives				-	119,757
Total - Department of Housing and Urban Development				1,955,359	2,509,638
<b>Department of Justice</b>					
Project Safe Neighborhoods					
Project Safe Neighborhoods	Indiana Criminal Justice Institute	16.609	2014-GP-BX-0002	107,615	107,615
Equitable Sharing Program	Direct	16.922	CY 2015	-	149,201
Total - Department of Justice				107,615	256,816
<b>Department of Transportation</b>					
Highway Planning and Construction Cluster					
Highway Planning and Construction					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
Highway Planning and Construction			A249-14-320311	-	40,142
Highway Planning and Construction			A249-15-320123A	-	67,390
Highway Planning and Construction			A249-15-320124	-	13,123
Highway Planning and Construction			A249-15-320126A	-	43,134
Highway Planning and Construction			A249-15-320127A	-	65,282
Highway Planning and Construction			A249-15-L150057	-	42,526
Highway Planning and Construction			A249-15-L150058	-	7,672
Highway Planning and Construction			A249-16-L160016	-	182,141
Highway Planning and Construction			A249-16-L160015	-	151,591
Highway Planning and Construction			A249-16-L160021	-	165,213
Highway Planning and Construction			A249-16-L160022	-	125,290
Highway Planning and Construction			A249-16-L160023	-	23,769
Total - Highway Planning and Construction Cluster				-	927,273
Total - Department of Transportation				-	927,273
<b>Department of Treasury</b>					
NeighborWorks America					
NeighborWorks America	Indiana Foreclosure Prevention Network	21.000	IFPN-2016-024	-	8,928
<b>Equal Employment Opportunity Commission</b>					
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	Direct	30.002	EEC45016C0084	-	9,952
<b>Environmental Protection Agency</b>					
Brownfields Assessment and Cleanup Cooperative Agreements	Direct	66.818	BF00E01371	-	285,662
Total federal awards expended				\$ 2,062,974	\$ 10,963,677

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, 2017. 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 minimis 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:

\$ 3,858,800	12-31-17 Revolving loan fund loans outstanding
76,300	12-31-17 Revolving loan fund land held for resale
2,917,106	12-31-17 Revolving loan fund cash and investments
<u>113,202</u>	12-31-17 Revolving loan fund administrative expenses
<u>\$ 6,965,408</u>	

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?	yes

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:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Economic Development Cluster	Unmodified
CDBG - Entitlement Grants Cluster	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 2017-001**

Subject: Financial Reporting  
Audit Finding: Material Weakness

*Condition*

There were deficiencies in the internal control system of the City related to financial reporting of the Comprehensive Annual Financial Report (CAFR).

The internal control in place over the review of the CAFR was not effective in preventing, or detecting and correcting, errors in a timely manner. There were numerous immaterial errors throughout the CAFR.

*Context*

The lack of controls was a systemic issue related to the financial reporting process.

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

*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 the 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 proper 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 related to financial reporting to ensure proper reporting of the CAFR.

*Views of Responsible Officials*

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

**FINDING 2017-002**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Condition*

The City did not have a proper system of internal control in place to prevent, or detect and correct, material errors on the Schedule of Expenditures of Federal Awards (SEFA).

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

*Context*

The lack of internal controls was a systemic issue related to the preparation of the SEFA. The SEFA contained the following material errors:

1. The CDBG - Entitlement Grants Cluster reported incorrect amounts passed through to subrecipients and of federal awards expended.
  - a. Amounts passed through to subrecipients of the Community Development Block Grants/Entitlement Grants were overstated \$157,581.
  - b. Federal expenditures of the Community Development Block Grants/Entitlement Grants were overstated by \$196,586.
2. The federal expenditures of the Highway Planning and Construction Cluster were overstated by \$193,337.

Audit adjustments were proposed, accepted by the City, and made to the SEFA.

*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 the 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. . . ."

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

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

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

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

*Cause*

Management of the City had not established a proper system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

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

*Recommendation*

We recommended that the City's management establish controls related to the preparation of the SEFA.

*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 2017-003**

Subject: CDBG - Entitlement Grants Cluster - Subrecipient Monitoring

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B08-MN-18-0011, B11-MN-18-0011,  
B14-MN-18-0011, B15-MN-18-0011,  
B16-MN-18-0011, B17-MN-18-0011

Compliance Requirement: Subrecipient Monitoring

Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-003.

*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 requirements.

The City's Department of Community Investment administered all Housing and Urban Development Grants, 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.

*Context*

The lack of controls and the noncompliance were systemic issues 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 200.303 states in part:

"The non-Federal entity must:

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

(a) 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 or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

24 CFR 85.40(a) states:

"*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 pass-through 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.
- (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 purchases. 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 had not developed a system of internal controls that would have ensured compliance with the subrecipient monitoring requirements.

*Effect*

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

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

*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.

#### 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**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding Number 2016-002 – Economic Adjustment Assistance - Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization

Original SBA Audit Report Number: B48745  
Fiscal Year: 2016  
Auditee Contact Person: Angelina Billo  
Title of Contact Person: Business Development Manager – Community Investment  
Phone Number: 574-235-5838  
Status of Finding: Complete

***The City offered the following course of action. Included in RED is the status of each item.***

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. **The Controller reviews the statements prepared by DCI staff and the reports are then emailed to all members of the IRF board on a monthly basis.**
- 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. **This is taking place. The Cash Available to Lend report is prepared and emailed to all members of the IRF board on a monthly basis.**
- 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. **This is taking place. The DCI staff has had a number of meetings with local banks, South Bend Regional Chamber and business communities promoting the IRF program. As a result, the \$1.2M of new loans were considered and approved by the IRF board (as of February 15, 2018), The DCI staff continues the marketing campaign in 2018.**
- 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. **This is taking place. The DCI staff reviews and updates the portfolio maturity report upon completion of each initial credit review.**



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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number 2016-003 – Community Development Block Grants/Entitlement Grants and Continuum of Care Program - Subrecipient Monitoring

Original SBA Audit Report Number: B48745  
Fiscal Year: 2016  
Auditee Contact Person: Pam Meyer  
Title of Contact Person: Director II – Community Investment  
Phone Number: 574-235-5845  
Status of Finding: In Process

***The City offered the following course of action. Included in RED is the status of each item.***

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. **There has been no reason for a substantial amendment process at this time. However, the City has determined that its regular monthly meetings with sub-recipients will be considered monitoring and documented as such.**
- 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. **The City has begun implementation of this change/option and reflecting it in new contracts.**
- **The City submitted a new policy to HUD for their approval in December 2017. This new policy will take effect during 2018.**



# CITY OF SOUTH BEND

## ADMINISTRATION & FINANCE

### CORRECTIVE ACTION PLAN

#### **FINDING 2017-001**

Contact Person Responsible for Corrective Action: Jennifer Hockenull  
Contact Phone Number: 574-235-9822

Views of Responsible Official: The City spends considerable time reviewing the funds and accounts for the entire City. While there were errors detected, as noted in the finding, none of the errors noted were material.

Description of Corrective Action Plan: The City will continue to improve the review process of the financial statements. For the 2018 audit, the City will work closely with the 3<sup>rd</sup> party who compiles the financial statements to ensure better accuracy in the financial statements. The City will also work with internal staff to ensure an additional review of the financial statements prior to sending to the SBOA. The City will also limit any adjustments being made after the information is sent in for compilation. While the City only had a handful of smaller adjustments after the first draft was completed, it added to several immaterial errors being noted throughout the process.

Anticipated Completion Date: Prior to start of 2018 Financial Statement Audit.

#### **FINDING 2017-002**

Contact Person Responsible for Corrective Action: Jennifer Hockenull  
Contact Phone Number: 574-235-9822

Views of Responsible Official: The City agrees with this finding.

Description of Corrective Action Plan: The City will use lessons learned from the 2017 audit to ensure that the 2018 reports are properly stated by reviewing the statements against all available documentation to ensure only the required expenditures are reported on the SEFA. The City also has a new Grants Administrator as of May 2018. The City will send the new Grants Administrator to training during 2018 to ensure a full understanding of SEFA reporting for 2018.

Anticipated Completion Date: Prior to start of 2018 Financial Statement Audit.

  
(Signature)

City Controller  
(Title)

7.25.18

(Date)



# CITY OF SOUTH BEND

## COMMUNITY INVESTMENT

### JAMES MUELLER, EXECUTIVE DIRECTOR

#### CORRECTIVE ACTION PLAN

#### **FINDING 2017-003**

Contact Person Responsible for Corrective Action: Pamela C. Meyer  
Contact Phone Number: 574-235-5845

Views of Responsible Official: The City disagrees with this finding as the schedule and number of monitoring visits are per the current 2014-2019 HCD Plan.

Description of 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. To date there has been no need for a substantial amendment process. However, the City has determined that its regular monthly meetings with sub-recipients will be considered and documented as monitoring visits. The "Community Development Block Grant (CDBG) Claim Reimbursement Policy" was submitted to the HUD Indianapolis Field Office December 29, 2017, and approved by HUD in a letter dated January 11, 2018. Department of Community Investment staff are following the policy as of January 2018, and contracts executed for 2018 grant dollars will incorporate language that speaks to requirements outlined in the policy.

Anticipated Completion Date: Currently Occurring

*Pamela C. Meyer*  
(Signature)

*Director, Neighborhood  
Development*  
(Title)

*July 25, 2018*

DANIEL J. BUCKENMEYER  
BUSINESS DEVELOPMENT

ALKEYNA ALDRIDGE  
ENGAGEMENT & ECONOMIC EMPOWERMENT

PAMELA MEYER  
NEIGHBORHOOD DEVELOPMENT

TIM CORCORAN  
PLANNING & COMMUNITY RESOURCES

EXCELLENCE | ACCOUNTABILITY | INNOVATION | INCLUSION | EMPOWERMENT

1400S County-City Building | 227 W. Jefferson Blvd. | South Bend, Indiana 46601 | p 574.235.9371 | www.southbendin.gov

#### 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/>.