

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, 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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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, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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 statements and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

July 26, 2018

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DEPARTMENT OF ADMINISTRATION AND FINANCE
CITY OF SOUTH BEND

DEPARTMENT OF ADMINISTRATION AND FINANCE
CITY OF SOUTH BEND
FEDERAL 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.

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.

DEPARTMENT OF ADMINISTRATION AND FINANCE
CITY OF SOUTH BEND
FEDERAL FINDINGS
(Continued)

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).

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:

DEPARTMENT OF ADMINISTRATION AND FINANCE
CITY OF SOUTH BEND
FEDERAL FINDINGS
(Continued)

"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:

- (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.

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(Continued)

- (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

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 3rd 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)

DEPARTMENT OF ADMINISTRATION AND FINANCE
CITY OF SOUTH BEND
EXIT CONFERENCE

The contents of this report were discussed on July 26, 2018, with Jennifer C. Hockenhill, Controller; Gary A. Gilot, President of the Board of Public Works; Tim Scott, President of the Common Council; Benjamin J. Dougherty, Deputy Controller; and Lory L. Timmer, Neighborhood Grants Manager.

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DEPARTMENT OF COMMUNITY INVESTMENT
CITY OF SOUTH BEND

DEPARTMENT OF COMMUNITY INVESTMENT
CITY OF SOUTH BEND
FEDERAL FINDING

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:

DEPARTMENT OF COMMUNITY INVESTMENT
CITY OF SOUTH BEND
FEDERAL FINDING
(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.

DEPARTMENT OF COMMUNITY INVESTMENT
CITY OF SOUTH BEND
FEDERAL FINDING
(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.



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

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DEPARTMENT OF COMMUNITY INVESTMENT
CITY OF SOUTH BEND
EXIT CONFERENCE

The contents of this report were discussed on July 26, 2018, with Jennifer C. Hockenull, Controller; Gary A. Gilot, President of the Board of Public Works; Tim Scott, President of the Common Council; Benjamin J. Dougherty, Deputy Controller; and Lory L. Timmer, Neighborhood Grants Manager.