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November 28, 2018

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

We have reviewed the audit report of the Housing Authority of the City of South Bend, which was opined on by Barton, Gonzalez & Myers, P.A., Certified Public Accountants, for the period October 1, 2016 to September 30, 2017. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the City of South Bend Housing Authority, as of September 30, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings. Management's responses and planned corrective actions may be found on pages 49-52.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

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

AUDIT REPORT

For the Year Ended September 30, 2017

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

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September 30, 2017

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Housing Authority of the City of South Bend ("Authority") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of South Bend, as of September 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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


Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority of the City of South Bend's basic financial statements. The accompanying financial information listed in the Table of Contents as Supplementary Information and the Financial Data Schedule are presented for additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is also not a required part of the basic financial statements.

This other information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial information listed in the Table of Contents as Supplementary Information, the Financial Data Schedule and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.


Barton, Gonzalez & Myers, P.A.
Certified Public Accountants
May 8, 2018

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2017

Management's Discussion and Analysis

This section of the Housing Authority of the City of South Bend, Indiana ("Authority") annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2017. Please read it in conjunction with the financial statements which begin on page 11.

We are pleased to submit the financial statements of the Authority for the year ended September 30, 2017. The accuracy of the data presented in the financial statements, as well as its completeness and fairness of presentation, is the responsibility of management. All necessary disclosures to enable the reader to gain an understanding of the Authority's financial affairs have been included in the footnotes accompanying the general purpose financial statements. The purpose of the financial statements is to provide complete and accurate financial information that complies with reporting requirements of the U.S. Department of Housing and Urban Development ("HUD") and the Governmental Accounting Standards Board.

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

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

Additionally, the Authority is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments and the Uniform Guidance (Title 2 U.S. Code of Federal Regulations (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards). Information related to this single audit includes a schedule of expenditures of federal awards, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs.

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

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2017

Financial Highlights

- Total assets were approximately \$8.6 million at September 30, 2017, a decrease of approximately \$1.3 million from the September 30, 2016 balance of approximately \$9.9 million. The decrease primarily related to a decrease in net capital assets.
- Net capital assets were approximately \$6.8 million at September 30, 2017, representing approximately a \$1.1 million decrease from the September 30, 2016, balance of approximately \$7.9 million.
- Net position at September 30, 2017, totaled approximately \$5.7 million and represented a decrease in net position of \$2.1 million from the year ending September 30, 2016.
- Total liabilities increased from approximately \$2.1 million at September 30, 2016 to approximately \$2.9 million, or by 38 %, at September 30, 2017. Liabilities increased due to recording a payable to HUD.
- Revenues also decreased by approximately \$1.2 million from approximately \$19.7 million during fiscal year 2016 to approximately \$18.5 million in fiscal year 2017. The decrease was primarily due to a decrease in HUD capital grants.
- Operating expenses, excluding depreciation, decreased by approximately \$100,000, or by 0.5%, to **approximately \$18.5 million** at September 30, 2017, from approximately \$18.6 million at September 30, 2016.

Using this Report

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

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

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

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2017

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

Overview of the Financial Reports

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

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

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

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

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

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

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

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2017

Financial Analysis of the Authority

Net Position

Net position represents the difference between total assets and total liabilities. As shown in Table 1, the Authority's total net position at September 30, 2017, was approximately \$5.7 million, a 27.4 percent decrease from the September 30, 2016, balance of \$7.8 million.

Table 1

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Current Assets	1,744	2,039	(295)	-14.5%
Capital Assets	<u>6,808</u>	<u>7,860</u>	<u>(1,052)</u>	-13.4%
Total Assets	<u>8,552</u>	<u>9,899</u>	<u>(1,347)</u>	-13.6%
Current Liabilities	1,367	1,638	(271)	-16.5%
Noncurrent Liabilities	<u>1,506</u>	<u>436</u>	<u>1,070</u>	245.4%
Total Liabilities	<u>2,873</u>	<u>2,074</u>	<u>799</u>	38.5%
Net Investment in Capital Assets	6,808	7,860	(1,052)	-13.4%
Restricted	874	830	44	5.3%
Unrestricted	<u>(2,003)</u>	<u>(865)</u>	<u>(1,138)</u>	131.6%
Total Net Position	<u>5,679</u>	<u>7,825</u>	<u>(2,146)</u>	-27.4%
Total Liabilities and Net Position	<u>8,552</u>	<u>9,899</u>	<u>(1,347)</u>	-13.6%

Current assets decreased by 14.5%, or approximately \$295,000 due to a decrease in cash, partially offset with an increase in receivables. Non-current or capital assets decreased by \$1,052,000 or 13.4% due to current year depreciation expense exceeding current year additions. Total liabilities decreased in the current category, but had a significant increase in the noncurrent category. Current liabilities decreased due to a decrease in payables due at year end. Noncurrent liabilities increased due to setting up a payable to HUD. Restricted net position is comprised of HAP equity and restricted cash accounts. The net investment in capital assets is made up of capital assets less any related debt. Unrestricted net position is the remaining portion of equity not considered to restricted or an investment in capital assets.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2017

Capital Assets

Capital assets decreased by approximately \$1,100,000 from \$7.9 million to \$6.8 million, as shown in the table below:

Housing Authority of the City of South Bend				
Capital Asset Analysis				
	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>Change</u>	Percent Change
Land and Improvements	1,325,275	1,325,275	-	0.0%
Buildings and Improvements	64,484,568	64,465,668	18,900	0.0%
Furniture and Equipment	2,093,864	2,041,992	51,872	2.5%
Less Accumulated Depreciation	<u>(61,095,551)</u>	<u>(59,972,642)</u>	<u>(1,122,909)</u>	1.9%
Total Capital Assets	<u>6,808,156</u>	<u>7,860,293</u>	<u>(1,052,137)</u>	

Depreciation expense was \$1,122,908. Net additions totaled \$70,772. There were no disposals noted. Please refer to the Notes to Financial Statements (Note 7) for additional disclosures concerning capital asset activity.

Debt

The Authority had no outstanding debt at the fiscal year ending September 30, 2017.

Other Liabilities

The Authority has other liabilities in the form of stale date checks. These checks represent outstanding checks that throughout the past years have failed to clear the bank. Checks are removed from the outstanding list to the stale dated checks account once they are a year old. As of September 30, 2017, total amount of stale dated checks was \$430,458 and is included in long term liabilities on the statement of net position.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2017

Changes in Net Position

Overall net position decreased by approximately \$2.1 million at September 30, 2017, as indicated below:

Table 2

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues	<u>18,463</u>	<u>17,834</u>	<u>629</u>	3.5%
Operating Expenses	18,509	18,573	(64)	-0.3%
Depreciation	<u>1,123</u>	<u>1,118</u>	<u>5</u>	0.4%
Total Expenses	19,632	19,691	(59)	-0.3%
Operating Loss	<u>(1,169)</u>	<u>(1,857)</u>	<u>688</u>	-37.0%
Nonoperating Revenues	<u>1</u>	<u>1</u>	<u>(0)</u>	0.0%
Contributions – Capital Grants	51	1,832	(1,781)	-97.2%
Change in Net Position	<u>(1,117)</u>	<u>(24)</u>	<u>(1,093)</u>	4,554.2%
Beginning Net Position	<u>7,824</u>	<u>7,848</u>	<u>(24)</u>	-0.3%
Prior Period Adjustments	(1,028)	0	(1,028)	0.0%
Ending Net Position	<u><u>5,679</u></u>	<u><u>7,824</u></u>	<u><u>(2,145)</u></u>	-27.4%

The Authority's total operating revenues, which included HUD Operating Grants, tenant rents, and other income were approximately \$18.5 million, compared to approximately \$17.8 million in 2016, a 3.5 percent increase. HUD Capital Grants decreased by over 76% due to decreased Capital Fund program activity involving capitalized expenditures.

Total expenses, including depreciation, decreased by 0.3 percent.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2017

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

Table 3

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Administrative	1,983	2,265	(282)	-12.5%
Tenant Services	1	0	1	0.0%
Utilities	557	564	(7)	-1.2%
Ordinary Maintenance	3,008	3,612	(604)	-16.7%
Protective Services	215	246	(31)	-12.6%
General	543	1,246	(703)	-56.4%
Casualty Loss	162	0	162	0.0%
Housing Assistance Payments	12,040	10,640	1,400	13.2%
Depreciation	<u>1,123</u>	<u>1,118</u>	<u>5</u>	0.4%
Total Operating Expenses	<u>19,632</u>	<u>19,691</u>	<u>(59)</u>	-0.3%

Significant increases occurred in HAP and casualty loss expense, in addition to small increases in tenant services and depreciation. These were offset by significant decreases in administrative, maintenance, and general expenses, in addition to more modest decreases to utilities and protective services.

Budgetary Controls

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

Economic Factors

The Authority is primarily dependent upon HUD for the funding of operations; therefore, operating revenues are affected more by the Federal budget than by local economic conditions. The budget for 2018 has been approved by HUD.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2017

Contacting the Authority's Management

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

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

Statement of Net Position - Proprietary Fund Type

September 30, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets:	
Cash and cash equivalents	\$ 311,632
Cash and cash equivalents - restricted	873,895
Accounts receivable - HUD	267,984
Accounts receivable - other, net of allowance of \$120,632	198,991
Prepaid expenses	66,741
Supplies inventory, net of allowance for obsolescence of \$-0-	24,395
Total current assets	<u>1,743,638</u>
Noncurrent Assets:	
Capital Assets	
Nondepreciable capital assets	1,325,275
Depreciable capital assets, net	<u>5,482,881</u>
Total noncurrent assets	<u>6,808,156</u>
Total assets	8,551,794
Deferred Outflows of Resources	
	-
Total assets and deferred outflows of resources	<u>\$ 8,551,794</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 901,140
Accounts payable - HUD (current)	156,369
Accrued compensated absences	73,916
Tenant security deposits	190,754
Due to other governments	1,311
Unearned revenue	42,637
Other current liabilities	456
Total current liabilities	<u>1,366,583</u>
Noncurrent Liabilities:	
Accounts payable - HUD (long term)	1,008,815
Other liabilities	<u>497,156</u>
Total noncurrent liabilities	<u>1,505,971</u>
Total liabilities	<u>2,872,554</u>
Deferred Inflows of Resources	
	-
Net Position:	
Net investment in capital assets	6,808,156
Restricted net position	874,130
Unrestricted net position	<u>(2,003,046)</u>
Total net position	<u>5,679,240</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,551,794</u>

See auditor's report.

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

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

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

For the Year Ended September 30, 2017

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Operating revenues:	
Tenant rental revenue (net)	\$ 1,815,482
HUD operating grants	15,848,360
Other revenue	798,458
Total operating revenues	<u>18,462,300</u>
Operating expenses:	
Administration	1,982,891
Tenant services	1,028
Utilities	557,362
Ordinary maintenance	3,008,484
Protective services	215,226
General expenses	542,730
Casualty losses	161,522
Housing assistance payments	12,039,894
Depreciation	1,122,908
Total operating expenses	<u>19,632,045</u>
Operating loss	<u>(1,169,745)</u>
Nonoperating revenue and expense:	
Interest income	<u>1,422</u>
Net nonoperating revenue	<u>1,422</u>
Net loss	(1,168,323)
Contributions - capital grants	<u>50,941</u>
Decrease in net position	(1,117,382)
Net position, beginning of year (restated)	<u>6,796,622</u>
Net position, end of year	<u><u>\$ 5,679,240</u></u>

See auditor's report.

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

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

Statement of Cash Flows - Proprietary Fund Type

For the Year Ended September 30, 2017

<u>Cash flows from operating activities:</u>	
Cash received from tenants and others	\$ 2,411,051
Cash paid for housing assistance payments	(12,039,894)
Cash paid for goods and services	(5,211,318)
Cash paid to employees for services	(1,424,932)
HUD PHA grants received	15,650,467
Net cash used by operating activities	(614,626)
<u>Cash flows from capital and related financing activities:</u>	
Proceeds from capital grants	92,180
Acquisition of capital assets	(118,209)
Net cash used by capital and related financing activities	(26,029)
<u>Cash flows from investing activities:</u>	
Interest on investments	1,422
Net cash flows provided by investing activities	1,422
Net decrease in cash and cash equivalents	(639,233)
Cash and cash equivalents, beginning of year	1,824,760
Cash and cash equivalents, end of year	\$ 1,185,527
 <u>Reconciliation of operating loss to net cash used by operating activities:</u>	
Operating loss:	\$ (1,169,745)
<u>Adjustments to reconcile operating loss to net cash used by operating activities:</u>	
Depreciation	1,122,908
Increase in tenants, accounts receivable - government and other	(401,363)
Decrease in prepaid expenses	30,958
Increase in supplies inventory	(21,641)
Decrease in accrued compensated absences	(12,199)
Decrease in accounts payable, accrued liabilities and security deposits	(166,580)
Decrease in unearned revenue	(58,073)
Increase in other liabilities	61,109
Total adjustments	555,119
Net cash used by operating activities	\$ (614,626)
 <u>Supplemental Disclosure of Noncash Capital and Related Financing Activities:</u>	
Capital assets included in accounts payable at September 30, 2016	\$ 47,438
Capital assets included in accounts payable at September 30, 2017	-
Net change in cash paid for capital assets in accounts payable	47,438

See auditor's report.

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

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

Notes to Financial Statements

September 30, 2017

NOTE 1: Summary of Significant Accounting Policies:

Reporting Entity

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

The Governmental Accounting Standards Board ("GASB") Statement No. 61, "The Financial Reporting Entity: Omnibus", an amendment of GASB Statements No. 14 and No. 34, and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under the provisions of these statements, the Authority is considered a primary government, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments.

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

The Authority has included as a blended component unit the activity for the 100% A.W. Foundation, Inc. (the "Foundation"), a nonprofit organization. The Foundation has not been required to file separate financial statements. The Foundation is shown as a blended component unit because the Authority has financial accountability and controls its board of directors and management.

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

A significant portion of the funds held by the Foundation were from a bond issuance by the Authority for a project in 2002, which resulted in recaptured savings in the amount of \$553,500. The funds are to be used to provide affordable housing to low-income families or persons within the Authority's jurisdiction. The Foundation's total cash and investment balance as of September 30, 2017, was \$413,640.

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

Notes to Financial Statements

September 30, 2017

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

Description of a Public Housing Authority

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

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

Public Housing Operating Subsidiary - The Authority owns, operates, and maintains 814 units of Public Housing in nine (9) developments and various scattered sites throughout the city. The Authority does not have any properties outside of St. Joseph County or in any other surrounding area. Under the Low Rent Housing Assistance Program, low income tenants pay monthly rents which are determined by their need for assistance. HUD pays operating subsidies to the housing authority to enable the authority to maintain the low-income character of the neighborhood while providing adequate services and maintaining adequate reserves.

Section 8 Housing Choice Vouchers Program (HCV) - the Section 8 Housing Assistance Payments Program provides rental supplements to the owners of existing private housing who rent to qualified individuals. The Authority processes all applicants for the Section 8 Housing Assistance Payments Program, places approved applicants in housing, and pays the owner of the private housing a monthly rental supplement. Under the conditions of an annual contributions contract, HUD reimburses the Authority for the rental supplements and the administrative cost of managing the program, up to a per unit limit established in the annual contributions contract. As of September 30, 2017, the Authority administered 2,124 tenant-based vouchers authorized by Section 8.

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

Basis of Presentation

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

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

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

Notes to Financial Statements

September 30, 2017

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

Basis of Presentation (Continued)

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

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

Basis of Accounting

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

The financial statements for the Authority have been presented on the accrual basis. Under this basis, revenues are recorded when earned and expenses are recorded when incurred. Payments of outstanding debt and accrued interest by HUD which have been earned by the Authority, but not yet realized, are recorded as revenue. Operating income reported includes rental income, other tenant charges, operating grants and other revenue for the continuing operations of the fund. Operating expenses are the costs of providing goods and services. Other revenues and expenses are classified as non-operating in the financial statements. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Authority considers restricted funds to have been spent first.

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

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

Notes to Financial Statements

September 30, 2017

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

Budgetary Data

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

Deposits and Investments

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

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

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

Fair Value of Financial Instruments

The carrying amount of the Authority's financial instruments at September 30, 2017, including cash, investments, accounts receivable, accounts payable and debt closely approximates fair value.

Accounts Receivable – HUD

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

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

Notes to Financial Statements

September 30, 2017

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

Accounts Receivable - Tenant and Bad Debts

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

Inventories

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

Capital Assets

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

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

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

Impairment of Long-Lived Assets

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

Compensated Absences

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

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

Notes to Financial Statements

September 30, 2017

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

Net Position

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

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

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

Estimates

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

Income Taxes

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

NOTE 2: Stewardship, Compliance, and Accountability

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

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

Notes to Financial Statements

September 30, 2017

NOTE 3: Deposits and Investments

The Authority's deposits include deposits with financial institutions. The carrying amount of the Authority's deposits for cash and investments, including restricted amounts, was \$1,185,527.

Cash and Cash Equivalents - It is the Authority's policy for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation ("FDIC") insurance. However, public funds deposited in approved financial institutions which exceed the limits of coverage provided by FDIC are covered by the Indiana Public Deposit Insurance Fund ("PDIF"). The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

HUD Deposit and Investment Restrictions - HUD requires Authorities to invest excess HUD program funds in obligations of the United States, certificates of deposit or any other federally insured program. HUD also requires that deposits of HUD program funds be fully insured or collateralized at all times. Acceptable security includes FDIC/FSLIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

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

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

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

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

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

Notes to Financial Statements

September 30, 2017

NOTE 3: Deposits and Investments (Continued)

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

	<u>Carrying Amount</u>	<u>Balance Deposited with the Financial Institution</u>	<u>Covered by FDIC or PDIF Insurance</u>	<u>Under Secured Amount (not insured or collateralized)</u>
<u>Authority:</u>				
Bank deposits held	\$ 708,997	\$ 778,803	\$ 778,803	\$ -
Money market funds and savings	62,890	62,890	62,890	-
<u>Foundation:</u>				
Money market funds and savings	413,640	413,640	250,000	163,640
Total	<u>\$ 1,185,527</u>	<u>\$ 1,255,333</u>	<u>\$ 1,091,693</u>	<u>\$ 163,640</u>

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

Cash and cash equivalents - unrestricted	\$ 311,632
Cash and cash equivalents - restricted	873,895
Total cash and cash equivalents	<u>\$ 1,185,527</u>

Restricted cash and investments as of September 30, 2017, consisted of the following:

Tenant security deposits	\$ -
Section 8 HAP restricted cash	257,319
Section 8 FSS restricted cash	66,698
Section 8 Accounts Payable - HUD	2,358
Alonzo Watson Foundation	395,912
Milton grant restricted cash	1,508
Public Housing restriction for NNRO	150,100
Total	<u>\$ 873,895</u>

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

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

Notes to Financial Statements

September 30, 2017

NOTE 4: Inter-program Amounts

At September 30, 2017, inter-program receivables and payables consisted of the following:

	Due from	Due to
Program:		
COCC	\$ 1,734,812	\$ 95,000
Public Housing low rent program	1,672,543	2,118,433
Lead-based paint program	198,079	733,434
Section 8 – Housing Choice Voucher	-	640,839
Component Unit	-	17,728
	\$ 3,605,434	\$ 3,605,434

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

NOTE 5: Other Receivables

Other receivables consist of the following:

	Low-rent Public Housing	COCC	Section 8 HCV	Total
Tenant receivables	\$ 54,279	\$ -	\$ 149,069	\$ 203,348
Less allowance for doubtful accounts	(16,284)	-	(104,348)	(120,632)
HCV Port-in receivables			113,357	113,357
Miscellaneous	2,564	354	-	2,918
	\$ 40,559	\$ 354	\$ 158,078	\$ 198,991

NOTE 6: Accounts Receivable - HUD

Amounts due from the U.S. Department of Housing and Urban Development as of September 30, 2017 are composed of the following:

Amounts due for the Capital Fund Program	\$ 264,437
Amount due for Public Housing operating subsidy	3,547
	\$ 267,984

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

Notes to Financial Statements

September 30, 2017

NOTE 7: Capital Assets

The capital assets (at cost) of the Housing Authority of the City of South Bend at September 30, 2017 consisted of the following:

	Balance at September 30, 2016	Additions	Deletions	Transfers/ Reclassifications	Balance at September 30, 2017
Nondepreciable capital assets:					
Land	\$ 1,325,275	\$ -	\$ -	\$ -	\$ 1,325,275
Construction in progress	-	-	-	-	-
	<u>1,325,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,325,275</u>
Depreciable capital assets:					
Buildings and improvements	64,465,668	18,900	-	-	64,484,568
Furniture, equipment, vehicles	2,041,992	51,872	-	-	2,093,864
	<u>66,507,660</u>	<u>70,772</u>	<u>-</u>	<u>-</u>	<u>66,578,432</u>
Accumulated Depreciation:					
Buildings and improvements	(57,997,028)	(1,076,291)	(1)	-	(59,073,320)
Furniture, equipment, vehicles	(1,975,614)	(46,617)	-	-	(2,022,231)
	<u>(59,972,642)</u>	<u>(1,122,908)</u>	<u>(1)</u>	<u>-</u>	<u>(61,095,551)</u>
Total Capital Assets, net	<u>\$ 7,860,293</u>	<u>\$ (1,052,136)</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 6,808,156</u>

NOTE 8: Retirement Plan

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

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

The Authority did not make any discretionary contributions during the year ended September 30, 2017.

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

Notes to Financial Statements

September 30, 2017

NOTE 9: Noncurrent Liabilities

For the year ended September 30, 2017, the change in noncurrent liabilities is as follows:

	September 30, 2016		Additions	Payments	September 30, 2017	
	Long-Term Portion	Current Portion			Long-Term Portion	Current Portion
Accrued compensated absences	\$ -	86,115	\$ 1,838	\$ (14,037)	\$ -	\$ 73,916
Accounts Payable HUD	-	141,613	1,029,771	(6,200)	1,008,815	156,369
Other liabilities	436,047	-	61,109	-	497,156	-
	<u>\$ 436,047</u>	<u>\$ 227,728</u>	<u>\$ 1,092,718</u>	<u>\$ (20,237)</u>	<u>\$ 1,505,971</u>	<u>\$ 230,285</u>

Other Liabilities

Other liabilities as of September 30, 2017 are comprised of \$430,458 of stale dated checks and the HCV FSS escrow liability of \$66,698.

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

Accounts Payable HUD

On March 10, 2014, the U.S. Department of Housing and Urban Development (HUD) Office issued a QAD (Quality Assurance Division) Review report indicating that HCV program funds were inappropriately spent, resulting in a cash/investment balance that was insufficient to support the validated NRA (Net Restricted Assets) balance and that the Authority should repay from non-federal funds the amount of \$512,861 to reimburse the HCV program (and payable back to HUD). In addition, on September 25, 2015, the HUD Office of Inspector General (OIG) issued a report based on an audit of the Authority's Housing Choice Voucher (HCV) program wherein it recommended that the Authority (1) reimburse the HCV program (and payable back to HUD) \$79,884 from non-Federal funds for ineligible housing assistance and utility allowance payments, (2) support or reimburse the HCV program (and payable back to HUD) \$411,382 from non-Federal funds for unsupported payments, (3) reimburse HUD more than \$24,088 for unearned Family Self-Sufficiency grant funds, and (4) implement adequate controls to address the findings cited in the audit report. During the year ended September 30, 2017 HUD approved repayment agreements for the above to be paid out of non-federal funds (COCC).

In addition, in the prior year the Authority drew down funds of \$140,811 for capital fund grant ("CFP") costs that were not eligible for reimbursement because the invoices were already reimbursed in a prior year or the backup documentation to support the cost was not accurate or appropriate.

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

Notes to Financial Statements

September 30, 2017

NOTE 9: Noncurrent Liabilities (Continued)

The repayment agreements approved by HUD and amounts payable back to HUD for the ineligible CFP grant reimbursements are summarized below.

Total Amount Due	Less Current Payments	Due at Sept 30, 2017	Current Portion	Long Term Portion	Begin Date	Payment Terms
\$ 512,861	(6,000)	506,861	11,000	\$ 495,861	5/1/2017	\$1,000 per month until paid off 01/01/2060
411,382	-	411,382	-	411,382	1/1/2060	\$1,000 per month until paid off (34 years)
79,884	-	79,884	-	79,884	5/1/2094	\$500 per month until paid off
24,088	(200)	23,888	2,200	21,688	10/01/17	\$200 per month until paid off
<u>\$ 1,028,215</u>	<u>(6,200)</u>	<u>1,022,015</u>	13,200	1,008,815		
Due to HUD for Interest			2,358	-		
Due to HUD for CFP Ineligible Costs			<u>140,811</u>	-		
			<u>\$ 156,369</u>	<u>\$ 1,008,815</u>		

As discussed in Note 10, the \$1,028,215 was recorded as a prior period adjustment in the COCC program.

NOTE 10: Schedule of Changes in Net Position:

	Net Investment in Capital Assets	Restricted Net Position	Unrestricted Net Position	Total
Balance, beginning of year	\$ 7,860,293	\$ 829,436	\$ (864,892)	\$ 7,824,837
Adjustments to restate beginning balance	-	-	(1,028,215)	(1,028,215)
Balance, beginning of year - restated	7,860,293	829,436	(1,893,107)	6,796,622
Decrease in net position	-	-	(1,117,382)	(1,117,382)
Changes in net investment in capital assets	(1,052,137)	-	1,052,137	-
Changes in restricted net position	-	44,694	(44,694)	-
Balance, end of year	<u>\$ 6,808,156</u>	<u>\$ 874,130</u>	<u>\$ (2,003,046)</u>	<u>\$ 5,679,240</u>

As discussed in Note 9, the Authority recorded a prior period adjustment as a liability to HUD in the COCC program of \$1,028,215 as a result of the QAD review and OIG Audit.

NOTE 11: Risk Management

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

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

Notes to Financial Statements

September 30, 2017

NOTE 12: Economic Dependency

The Authority received approximately 86% of its revenues from HUD during the fiscal year. If the amount of revenues received from HUD falls below critical levels, the Authority's operating results could be adversely affected.

NOTE 13: Commitments and Contingencies

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

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

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

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

NOTE 14: Subsequent Events

Management for the Authority has evaluated subsequent events after September 30, 2017, and through May 8, 2018, the date which the financial statements were available to be issued, and no events were identified that would require recognition or disclosure within these financial statements.

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

Notes to Financial Statements

September 30, 2017

NOTE 15: Segment Information – 100% A.W. Foundation, Inc.

The following condensed component unit information represents 100% A.W. Foundation, Inc., a blended component unit of the Authority, as of and for the year ended September 30, 2017.

Condensed Statement of Net Position

Assets	
Current assets	\$ 413,640
Total assets	<u>\$ 413,640</u>
Liabilities	
Current liabilities	\$ 17,728
Total liabilities	<u>17,728</u>
Net position	
Restricted	395,912
Total net position	<u>395,912</u>
Total liabilities and net position	<u>\$ 413,640</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Operating revenues and (expenses):	
Operating revenues	\$ -
Depreciation	-
Operating expenses	<u>(27,276)</u>
Operating income (loss)	(27,276)
Nonoperating revenues and (expenses)	
Interest income	483
Change in net position	<u>(26,793)</u>
Beginning net position	497,705
Equity transfer	<u>(75,000)</u>
Ending net position	<u>\$ 395,912</u>

Condensed Statement of Cash Flows

Net cash provided by:	
Operating activities	\$ (101,793)
Net decrease in cash	<u>(101,793)</u>
Beginning cash	515,433
Ending cash	<u>\$ 413,640</u>

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

Statement and Certification of Actual Capital Fund Program Costs

September 30, 2017

Annual Contributions Contract C977

1. The capital fund program costs of IN 36 are as follows:

	<u>P015501-13</u>	<u>P015501-14</u>	<u>P015501-15</u>	<u>Sub-Total</u>
Funds approved	\$ 1,061,909	\$ 1,017,682	\$ 1,174,831	\$ 3,254,422
Funds expended	1,061,909	1,017,682	1,174,649	3,254,240
Funds to be recaptured	\$ -	\$ -	\$ 182	\$ 182
Funds advanced	\$ 1,061,909	\$ 1,017,682	\$ 1,174,649	\$ 3,254,240
Funds expended	1,061,909	1,017,682	1,174,649	3,254,240
Excess of funds advanced	\$ -	\$ -	\$ -	\$ -

2. Costs incurred during the current audit period
- | | | | | |
|--|----------|----------|--------|----------|
| | \$ 2,476 | \$ 1,662 | \$ 297 | \$ 4,435 |
|--|----------|----------|--------|----------|
3. All costs have been paid and all related liabilities should be discharged through payment.
4. The Actual Modernization Cost Certificate, submitted to HUD, is in agreement with the Authority's records.

See auditor's report.

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

Statement Capital Fund Program Costs - Uncompleted

September 30, 2017

Annual Contributions Contract C977

1. The capital fund program costs of IN 36 are as follows:

	<u>R015501-16</u>	<u>R015501-17</u>	<u>Total</u>
Funds approved	\$ 1,233,005	\$ 1,275,711	\$ 2,508,716
Funds expended	<u>1,198,470</u>	<u>218,975</u>	<u>1,417,445</u>
Funds to be recaptured	<u>\$ 34,535</u>	<u>\$ 1,056,736</u>	<u>\$ 1,091,271</u>
Funds advanced	\$ 1,073,008	\$ 80,000	\$ 1,153,008
Funds expended	<u>1,198,470</u>	<u>218,975</u>	<u>1,417,445</u>
Excess of funds advanced	<u>\$ (125,462)</u>	<u>\$ (138,975)</u>	<u>\$ (264,437)</u>

2. Costs incurred during the current audit period	\$ 402,959	\$ 218,975	\$ 621,934
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See auditor's report.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the Housing Authority of the City of South Bend (the "Authority"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 8, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

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

Compliance and Other Matters

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

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

The Housing Authority of the City of South Bend's response to the findings identified in our audit is described in the accompanying corrective action plan. The Housing Authority of the City of South Bend's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the Authority in a separate letter dated May 8, 2018.

Purpose of this Report

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



Barton, Gonzalez & Myers, P.A.
Certified Public Accountants
May 8, 2018



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of South Bend's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Public and Indian Housing Program

As described in the accompanying schedule of findings and questioned costs, the Housing Authority of the City of South Bend did not comply with requirements regarding CFDA 14.850 Public and Indian Housing Program as described in finding numbers 2017-002 for reporting, 2017-003 for special tests and provisions and 2017-005 and 2017-006 for activities allowed or unallowed. Compliance with such requirements is necessary, in our opinion, for the Housing Authority of the City of South Bend to comply with the requirements applicable to that program.

Qualified Opinion on Public and Indian Housing Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Public and Indian Housing Program for the year ended September 30, 2017.

Basis for Qualified Opinion on Section 8 Housing Choice Vouchers Program

As described in the accompanying schedule of findings and questioned costs, the Housing Authority of the City of South Bend did not comply with requirements regarding CFDA 14.871 Section 8 Housing Choice Vouchers Program as described in finding numbers 2017-002 for reporting and 2017-007 for activities allowed or unallowed. Compliance with such requirements is necessary, in our opinion, for Housing Authority of the City of South Bend to comply with the requirements applicable to that program.

Qualified Opinion on Section 8 Housing Choice Vouchers Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Section 8 Housing Choice Vouchers Program for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-004. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Authority's internal control over compliance.

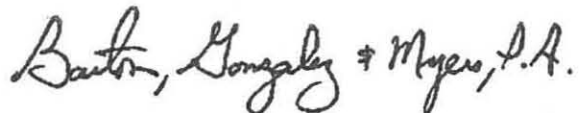
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-002, 2017-003, 2017-005, 2017-006, and 2017-07 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-004 that we consider to be a significant deficiency.

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

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.



Barton, Gonzalez & Myers, P.A.
Certified Public Accountants
May 8, 2018

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

Schedule of Findings and Questioned Costs

September 30, 2017

Section I - Summary of Auditor's Results:

Financial Statements

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

Federal Awards

Internal controls over major program:	
Material weakness(es) identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes

Identification of major programs and type of reports issued on compliance for major programs:

<u>CFDA#</u>	<u>Major Program Description</u>	<u>Type Report</u>
14.871	Section 8 Housing Choice Vouchers	Qualified
14.850	Public and Indian Housing Program	Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	Yes
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Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Did the Authority qualify as a low-risk auditee?	No
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HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
South Bend, Indiana

Schedule of Findings and Questioned Costs

September 30, 2017

Section II - Financial Statement Findings:

The findings related to this area for the year ended September 30, 2017 are as follows.

2017-001 Inadequate Controls Over Financial Reporting

Material Weakness in Internal Control

This is a repeat finding of 2016-001 from September 30, 2016 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: The Authority did not have adequate controls over the period-end financial reporting process to detect material misstatements. The Authority did not properly record entries related to HUD receivables, accounts payable, accounts payable-HUD, net position, and related revenue and expense accounts.

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

Questioned Cost: None

Effect: As a result of the audit, the Authority increased receivables from HUD by \$231,229, reduced accounts payable by \$116,188, increased accounts payable-HUD by \$1,028,215 (and related prior period adjustment), and increased restricted net position by \$148,592.

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

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

Views of Responsible Officials of the Auditee: We concur with the recommendation. We are in the process of establishing controls (starting December 21, 2016) to ensure that appropriate year-end adjustments are recorded so that financial statements are fairly presented.

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

Schedule of Findings and Questioned Costs

September 30, 2017

Section III - Federal Awards:

The findings related to this area for the year ended September 30, 2017 are as follows.

2017-002 Reporting – FDS and Late Submission

Public and Indian Housing Program – CFDA 14.850

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2016-002 from September 30, 2016 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: The Authority failed to submit the unaudited Financial Data Schedule ("FDS") within the time frames specified by HUD. The Authority submitted the unaudited REAC on December 27, 2017 (and it was due by November 30, 2017).

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

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

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

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

Views of Responsible Officials of the Auditee: We concur with the recommendation. We are in the process of establishing controls (starting December 21, 2016) to ensure that the REAC filing is submitted timely.

2017-003 Special Tests and Provisions – Waiting List and New Admissions

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2016-004 from September 30, 2016 (initially occurred as Finding 2014-004 from September 30, 2014)

Condition: Out of 15 new admissions tested (out of a population of 149), we noted the following:

- 10 instances where the tenant's preference points on the application did not agree to the amount listed on the waiting list.
- 3 instances where the tenant's date/time on the application did not agree to the date/time listed on the waiting list.
- 1 instance where a tenant was admitted to the program, but did not qualify due to having income in excess of HUD income limits.

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

Schedule of Findings and Questioned Costs

September 30, 2017

2017-003 Special Tests and Provisions – Waiting List and New Admissions (Continued)

In addition, 40 applicants were selected from the waiting list for testing and the following was noted:

- 3 instances where the tenant's date/time on the application did not agree to the date/time listed on the waiting list.
- 1 instance where an applicant was not listed on the waiting list.

As a result, applicants are not being selected for housing in the proper order.

In addition, we noted that the waiting lists from which applicants are selected were not printed timely and/or placed in the tenant's file to prove that the applicant was properly selected from the waiting list. We also noticed that the preference points were not printed on the waiting list. This caused difficulty to test whether or not tenants were properly selected from the waiting list.

Criteria: The Authority is required to maintain a waiting list and admit tenants based on the waiting list in accordance with HUD requirements and the Authority's policies as stated in the Admissions and Continued Occupancy Policy. In addition, only applicants who are eligible should be included on the waiting list and admitted to the program.

Questioned Costs: None.

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

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

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

Views of Responsible Officials of the Auditee: We concur with the recommendation. We are implementing review procedures and have provided training (May 2017 and July 26, 2017) to insure that the applicable HUD regulations are being followed for waiting lists.

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

Schedule of Findings and Questioned Costs

September 30, 2017

2017-004 Eligibility – Tenant Files

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Significant Deficiency in Internal Control Other Matter to be Reported Under the Uniform Guidance

This is a repeat finding of 2016-005 from September 30, 2016 (initially occurred as Finding 2012-5 from September 30, 2012)

Condition: 25 tenant files were selected for testing (out of approximately 2000 vouchers) and the following was noted:

- 2 files with income calculation errors on the Form 50058
- 1 file where an incorrect utility allowance was used
- 1 instance of the EIV report documentation not included in the file.

As part of our new admissions testing (25 files files tested out of approximately 483 new admissions), we also noted the following:

- 1 instance where a HUD 214 Affidavit (documenting citizenship) was not included in the tenant's file.
- 1 instance where a criminal background was missing from the tenant's file.

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

Questioned Costs: None.

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

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

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

Views of Responsible Officials of the Auditee: We concur with the recommendation. We are implementing review procedures and have provided training (February 2017 and November 2017) to insure that the applicable HUD regulations are being followed for tenant certification.

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

Schedule of Findings and Questioned Costs

September 30, 2017

2017-005 Activities Allowed or Unallowed – Interprogram Activity

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2016-011 from September 30, 2016 (initially occurred as Finding 2014-014 from September 30, 2014)

Condition: The Authority has loaned monies from the Public and Indian Housing Program to the COCC. As of September 30, 2017 these loans totaled \$95,000.

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

Questioned Costs: \$95,000.

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

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

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

Views of Responsible Officials of the Auditee: We concur with the recommendation and already are repaying these monies (starting in March 2017).

2017-006 Activities Allowed or Unallowed – Use of Tenant Security Deposits

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2016-012 from September 30, 2016 (initially occurred as Finding 2015-012 from September 30, 2015)

Condition: The Authority does not have enough cash to cover tenant security deposits of \$190,754.

Criteria: The Authority is allowed to collect security deposits from tenants to cover potential damage to the rental units. However, the deposits should be refunded back to the tenants after they have vacated the unit if there were no damages to the units and if there were no rents due to the Authority. The Authority should have enough cash set aside to cover the tenant security deposit liability.

Questioned Costs: None.

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

Schedule of Findings and Questioned Costs

September 30, 2017

2017-006 Activities Allowed or Unallowed – Use of Tenant Security Deposits (Continued)

Effect: The Authority is not in compliance with applicable regulations regarding eligible use of tenant security deposits.

Cause: The Authority either spent these funds on operations or allowed other programs to borrow these funds.

Recommendation: The Authority should set aside enough cash to cover the security deposit liability once it has enough cash available.

Views of Responsible Officials of the Auditee: We concur with the recommendation and will set aside enough cash to cover the security deposit liability once the cash becomes available.

2017-007 Activities Allowed or Unallowed – Use of HCV FSS Escrow and HAP Monies

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Material Weakness in Internal Control Material Noncompliance

Condition: The Authority does not have sufficient cash in the HCV program to cover the FSS escrow liability and the HAP restricted net position (RNP), as well as an amount due to HUD (for interest) and is short approximately \$70,799. Total cash in the HCV program of \$326,375 is insufficient to cover the FSS escrow liability (\$66,698), HAP RNP (\$328,118) and accrued interest owed to HUD (\$2,358) totaling \$397,174.

Criteria: The FSS program is a program that enables HUD-assisted families to increase their earned income and reduce their dependency on welfare assistance and rental subsidies by setting aside monies for future use. An interest-bearing escrow account is established by the PHA for each participating family. Any increases in the family's rent as a result of increased earned income during the family's participation in the program result in a credit to the family's escrow account and thus the monies are restricted.

In addition, HUD enters into Annual Contributions Contracts (ACCs) with PHAs under which the Department of Housing and Urban Development (HUD) provides funds to the PHAs to administer the HCV program locally. HUD provides funds both for administration of the program (which are unrestricted for use in the HCV program) and for payments to landlords (which are restricted and classified as RNP). RNP is the balance of unspent HAP any given point in time and cash should be sufficient to cover the RNP balance. HAP RNP monies may not be used to cover administrative expenses nor may HAP RNP be loaned, advanced, or transferred to other component units or other programs such as Public and Indian Housing.

Questioned Costs: \$70,799.

Effect: The Authority is not in compliance with applicable regulations regarding eligible use of HCV FSS escrow deposits and HCV RNP monies.

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

Schedule of Findings and Questioned Costs

September 30, 2017

2017-007 Activities Allowed or Unallowed – Use of HCV FSS Escrow and HAP Monies (Continued)

Cause: The Authority either spent these funds on operations or allowed other programs to borrow these funds.

Recommendation: The Authority should set aside enough cash to cover the FSS liability and HAP RNP once it has enough cash available.

Views of Responsible Officials of the Auditee: We concur with the recommendation and will set aside enough cash to cover the FSS escrows and HCV NRP once the cash becomes available.

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

Summary Schedule of Prior Year Findings

September 30, 2017

The prior audit report for the year ended September 30, 2016 contained the following findings:

2016-001 Inadequate Controls Over Financial Reporting

Material Weakness in Internal Control

This is a repeat finding of 2015-001 from September 30, 2015 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: The Authority did not have adequate controls over the period-end financial reporting process to detect material misstatements. The Authority did not properly record entries related to HUD receivables, fixed assets, accounts payable, accounts payable-HUD, net position, and related revenue and expense accounts.

In addition, interprogram receivables and payables, which are eliminated in the financial statements, are not being tracked properly. Throughout the year, the Authority adjusted cash to record intercompany receivables and payables, but did not transfer the cash. At year-end, the Authority made significant adjustments to various cash accounts to adjust intercompany cash balances on the unaudited Financial Data Schedule ("FDS").

Recommendation: The Authority should establish controls to ensure that appropriate year-end adjustments are recorded so that the financial statements are fairly presented. In addition, the Authority should track interprogram receivables and payables through the intercompany receivable and payable accounts instead of cash.

Current Status: The finding was not corrected and will be repeated. See current year finding 2017-001.

2016-002 Reporting – FDS and FAC Late Submissions

Public and Indian Housing Program – CFDA 14.850

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Public Housing Capital Fund Program – CFDA 14.872

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2015-002 from September 30, 2015 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: The Authority failed to submit the unaudited Financial Data Schedule ("FDS") within the time frames specified by HUD. The Authority submitted the unaudited REAC on December 22, 2016 (and it was due by November 30, 2016).

In addition, the Single audit reporting package and data collection form was not submitted to the Federal Audit Clearinghouse (FAC) timely. It was submitted on June 2, 2017 (and it was due on June 30, 2016, which is nine months after the fiscal year end).

Recommendation: The Authority should make every effort to file its REAC and FAC submissions timely.

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

Summary Schedule of Prior Year Findings

September 30, 2017

2016-002 Reporting – FDS and FAC Late Submissions (Continued)

Current Status: The finding was cleared for the late submission to the Federal Audit Clearinghouse (FAC). However, the late unaudited REAC submission was not corrected and will be repeated. See current year finding 2017-002.

2016-003 Eligibility – Tenant Files

Public and Indian Housing Program – CFDA 14.850
Material Weakness in Internal Control Material Noncompliance
This is a repeat finding of 2015-003 from September 30, 2015 (initially occurred as Finding 2012-12 from September 30, 2012)

Condition: 40 tenant files were selected for testing, but testing was suspended after testing 20 files as a result of the following instances of noncompliance noted in the 20 files tested:

- 3 instances of not using the correct utility allowance schedule.
- 2 instances of not calculating the tenant's annual income properly based on the supporting documentation in the file.
- 2 instances where full time student was checked, but there was no backup documentation in the file. The deduction was not taken, but it's not clear if it should have been or not.

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

Current Status: The finding was cleared.

2016-004 Special Tests and Provisions – Waiting List and New Admissions

Public and Indian Housing Program – CFDA 14.850
Material Weakness in Internal Control Material Noncompliance
This is a repeat finding of 2015-004 from September 30, 2015 (initially occurred as Finding 2014-004 from September 30, 2014)

Condition: The testing of new admissions was suspended after 5 files (14 files were selected for testing) and the current waiting list was not tested because the waiting list is not being maintained properly and the Authority is not selecting applicants from the waiting list properly. The Authority has preference points, but has not been using the preference points on the waiting list. The waiting list is being ranked by bedroom size, and then by date and time instead of being sorted using preference points. As a result, applicants are not being selected for housing in the proper order.

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

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

Summary Schedule of Prior Year Findings

September 30, 2017

2016-004 Special Tests and Provisions – Waiting List and New Admissions (Continued)

Current Status: The finding was not corrected and will be repeated. See current year finding 2017-003.

2016-005 Eligibility – Tenant Files

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2015-005 from September 30, 2015 (initially occurred as Finding 2012-5 from September 30, 2012)

Condition: 40 tenant files were selected for testing, but testing was suspended after testing 20 files as a result of the following instances of noncompliance noted in the 20 files tested:

- 15 files did not include the original signed applications (though current applications were in the files).
- 1 instance in which Form 214 was not included in the file.
- 1 instance where the annual re-examination was not completed timely.
- 2 instances of the EIV report documentation not included in the file.

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

Current Status: The finding was not corrected and will be repeated. See current year finding 2017-004.

2016-006 Special Tests and Provisions – Waiting List and New Admissions

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2015-006 from September 30, 2015 (initially occurred as Finding 2014-006 from September 30, 2014)

Condition: In testing 25 applicants on the current waiting list and 23 new admissions for the year, the following instances of noncompliance were noted for new admissions:

- 1 instance where the original application was not in the file.
- 1 instance where the file did not have sufficient support for the extensions of the voucher. The tenant was issued a voucher, but did not move in until almost a year later.
- 1 instance where evidence of performing a background check was not in the file.
- 1 instance where the HAP contract was executed 90 days after the beginning of the lease.

Recommendation: The Authority should improve review procedures and increase training to employees and reviewers to insure that the Authority is in compliance with HUD rules for waiting lists and new admissions, including maintaining proper documentation in the file.

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

Summary Schedule of Prior Year Findings

September 30, 2017

2016-006 Special Tests and Provisions – Waiting List and New Admissions (Continued)

Current Status: The finding was cleared.

2016-007 Special Tests and Provisions - Housing Quality Standard (HQS) Failed Inspections

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2015-007 from September 30, 2015 (initially occurred as Finding 2014-007 from September 30, 2014)

Condition: In testing 12 failed HQS inspections, the following instances of noncompliance were noted:

- 4 files had re-inspections past the 30 day requirement and no abatement of payment was completed.
- 1 file did not complete a life threatening deficiency inspection within the proper timeframe (24 hours).
- 2 passed inspections were listed on the failed inspection report in error.

Recommendation: The Authority should make sure that failed HQS inspections are properly documented on the inspection report, and done within the required time frame or are properly abated.

If the Authority doesn't do the inspection within the required time frame and doesn't abate the HAP payment, the Authority should document the reason in order to determine if it was reasonable. Also, the Authority should assure that all critical repairs for life threatening deficiencies are completed within 24 hours.

Current Status: The finding was cleared.

2016-008 Special Tests and Provisions – Bank Depository Agreements

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2015-008 from September 30, 2015 (initially occurred as Finding 2014-011 from September 30, 2014)

Condition: The Authority could not locate the bank Depository Agreements for its bank accounts, nor could it provide documentation from one bank for pledged securities for amounts in excess of FDIC insurance amounts for the year ended September 30, 2016.

Recommendation: Although the Authority entered into an agreement in March 2017 to collateralize the balances, we recommend the Authority execute bank depository agreements and have balances properly collateralized for any new bank accounts; and the Authority should require all banks to provide periodic documentation that pledged securities are provided for amounts in excess of FDIC insurance coverage.

Current Status: The finding was cleared.

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

Summary Schedule of Prior Year Findings

September 30, 2017

2016-009 Special Tests and Provisions – Project Based Budgeting

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2015-009 from September 30, 2015 (initially occurred as Finding 2012-4 from September 30, 2012)

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

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

Current Status: The finding was cleared.

2016-010 Activities Allowed or Unallowed – Ineligible Costs

Public Housing Capital Fund Program – CFDA 14.872

Material Weakness in Internal Control Material Noncompliance

Condition: The Authority drew down funds of \$140,811 for capital fund grant IN36P015501-12 that were for costs that were not eligible for reimbursement because the invoices were already reimbursed in a prior year or the backup documentation to support the cost was not accurate or appropriate.

Recommendation: The Authority should improve internal controls in order to maintain appropriate accounting records with backup documentation to properly support the costs for each capital fund program draw.

Current Status: The finding was cleared.

2016-011 Activities Allowed or Unallowed – Interprogram Activity

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2015-011 from September 30, 2015 (initially occurred as Finding 2014-014 from September 30, 2014)

Condition: The Authority has loaned monies from the Public and Indian Housing Program to the COCC. As of September 30, 2016 these loans totaled \$839,630.

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

Current Status: The finding was not corrected and will be repeated-see current year finding 2017-005.

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

Summary Schedule of Prior Year Findings

September 30, 2017

2016-012 Activities Allowed or Unallowed – Use of Tenant Security Deposits

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2015-012 from September 30, 2015

Condition: The Authority does not have enough cash to cover tenant security deposits of \$194,764.

Recommendation: The Authority should set aside enough cash to cover the security deposit liability once it has enough cash available.

Current Status: The finding was not corrected and will be repeated. See current year finding 2017-006.

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

Corrective Action Plan

September 30, 2017

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

Finding
No.

2017-001 Inadequate Controls Over Financial Reporting

Material Weakness in Internal Control

This is a repeat finding of 2016-001 from September 30, 2016 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: The Authority did not have adequate controls over the period-end financial reporting process to detect material misstatements. The Authority did not properly record entries related to HUD receivables, accounts payable, accounts payable-HUD, net position, and related revenue and expense accounts.

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

Action Taken: We concur with the recommendation. We established controls effective February 2017 to ensure that appropriate year-end adjustments are recorded so that financial statements are fairly presented.

2017-002 Reporting – FDS Late Submission

Public and Indian Housing Program – CFDA 14.850

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2016-002 from September 30, 2016 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: The Authority failed to submit the unaudited Financial Data Schedule ("FDS") within the time frames specified by HUD. The Authority submitted the unaudited REAC on December 27, 2017 (and it was due by November 30, 2017).

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

Action Taken: We concur with the recommendation. We established controls effective February 2017 to ensure that the REAC filing is submitted timely.

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

Corrective Action Plan

September 30, 2017

2017-003 Special Tests and Provisions – Waiting List and New Admissions

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2016-004 from September 30, 2016 (initially occurred as Finding 2014-004 from September 30, 2014)

Condition: Out of 15 new admissions tested (out of a population of 149), we noted the following:

- 10 instances where the tenant's preference points on the application did not agree to the amount listed on the waiting list.
- 3 instances where the tenant's date/time on the application did not agree to the date/time listed on the waiting list.
- 1 instance where a tenant was admitted to the program, but did not qualify due to having income in excess of HUD income limits.

In addition, 40 applicants were selected from the waiting list for testing and the following was noted:

- 3 instances where the tenant's date/time on the application did not agree to the date/time listed on the waiting list.
- 1 instance where an applicant was not listed on the waiting list.

As a result, applicants are not being selected for housing in the proper order.

In addition, we noted that the waiting lists from which applicants are selected were not printed timely and/or placed in the tenant's file to prove that the applicant was properly selected from the waiting list. We also noticed that the preference points were not printed on the waiting list. This caused difficulty to test whether or not tenants were properly selected from the waiting list.

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

Action Taken: We concur with the recommendation. We are implementing review procedures and have provided training (May 2017 and July 26, 2017) to insure that the applicable HUD regulations are being followed for waiting lists.

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

Corrective Action Plan

September 30, 2017

2017-004 Eligibility – Tenant Files

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Significant Deficiency in Internal Control Other Matter to be Reported Under the Uniform Guidance

This is a repeat finding of 2016-005 from September 30, 2016 (initially occurred as Finding 2012-5 from September 30, 2012)

Condition: 25 tenant files were selected for testing (out of approximately 2000 vouchers) and the following was noted:

- 2 files with income calculation errors on the Form 50058
- 1 file where an incorrect utility allowance was used
- 1 instance of the EIV report documentation not included in the file.

As part of our new admissions testing (25 files files tested out of approximately 483 new admissions), we also noted the following:

- 1 instance where a HUD 214 Affidavit (documenting citizenship) was not included in the tenant's file.
- 1 instance where a criminal background was missing from the tenant's file.

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

Action Taken: We concur with the recommendation. We are implementing review procedures and have provided training (February 2017 and November 2017) to insure that the applicable HUD regulations are being followed for tenant certification.

2017-005 Activities Allowed or Unallowed – Interprogram Activity

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2016-011 from September 30, 2016 (initially occurred as Finding 2014-014 from September 30, 2014)

Condition: The Authority has loaned monies from the Public and Indian Housing Program to the COCC. As of September 30, 2017 these loans totaled \$95,000.

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

Action Taken: We concur with the recommendation and continue to work with our fee accountants and with HUD to develop a plan to repay these monies (effective March 2017) and have begun to repay these monies.

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

Corrective Action Plan

September 30, 2017

2017-006 Activities Allowed or Unallowed – Use of Tenant Security Deposits

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

This is a repeat finding of 2016-012 from September 30, 2016 (initially occurred as Finding 2015-012 from September 30, 2015)

Condition: The Authority does not have enough cash to cover tenant security deposits of \$190,754.

Recommendation: The Authority should set aside enough cash to cover the security deposit liability once it has enough cash available.

Action Taken: We concur with the recommendation and will set aside enough cash to cover the security deposit liability once the cash becomes available.

2017-007 Activities Allowed or Unallowed – Use of HCV FSS Escrow and HAP Monies

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Material Weakness in Internal Control Material Noncompliance

Condition: The Authority does not have sufficient cash in the HCV program to cover the FSS escrow liability and the HAP restricted net position (RNP), as well as an amount due to HUD (for interest) and is short approximately \$70,799. Total cash in the HCV program of \$326,375 is insufficient to cover the FSS escrow liability (\$66,698), HAP RNP (\$328,118) and accrued interest owed to HUD (\$2,358) totaling \$397,174.

Recommendation: The Authority should set aside enough cash to cover the FSS liability and HAP RNP once it has enough cash available.

Action Taken: We concur with the recommendation and will set aside enough cash to cover the FSS escrows and HCV NRP once the cash becomes available.

Effective Date: May 8, 2018

Contact Information

Tonya Robinson, Executive Director
Housing Authority of the City of South Bend
501 Alonzo Watson Drive
South Bend, IN 46601
(574) 235-9346

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

Schedule of Expenditures of Federal Awards

For the twelve months ended September 30, 2017

<u>FEDERAL GRANTOR</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Disbursements or Expenditures</u>
U. S. Department of HUD			
Public Housing:			
Public and Indian Housing	* + 14.850	\$ 2,494,654	\$ 2,494,654
Public Housing Capital Fund Program	** 14.872	5,763,138	626,369
Section 8 Housing Choice Vouchers	* + 14.871	12,778,278	12,778,278
TOTAL		<u>\$ 21,036,070</u>	<u>\$ 15,899,301</u>

This schedule includes the federal grant activity of the Housing Authority of the City of South Bend and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance (Title 2 U.S. Code of Federal Regulations (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The Authority has not elected to use the 10% de minimis cost rate.

* Type A Program

** Type B Program

+ Major Program

See auditor's report.



**Barton,
Gonzalez
& Myers, P.A.**
Certified Public Accountants

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May 8, 2018

Ms. Tonya Robinson, Executive Director
and Board of Commissioners
Housing Authority of South Bend
501 Alonzo Watson Drive
South Bend, IN 46601

Dear Ms. Robinson and Board of Commissioners:

In planning and performing our audit of the financial statements of the Housing Authority of South Bend for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. This letter does not affect our report dated May 8, 2018, on the financial statements of the Housing Authority of South Bend.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Authority personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Prior Year Comments That Continue to Apply

Section 8 Admin Plan:

The Section 8 Administrative Plan needs to be amended to reflect the Authority's practice of applying a local preference for applicants that reside within the City of South Bend. Also, the Admin Plan states that the "HASB will offer a preference to any family that has been terminated from its HCV program due to insufficient program funding." However, this is no longer a preference. Thus, the Admin Plan needs to be updated for this change as well.

Stale Dated Checks:

As part of our testing of bank reconciliations and recorded liabilities, we noted that the Authority has recorded a liability for stale dated checks in the amount of \$430,459 (of which \$370,320 is for the Section 8 HCV program). No specific listing could be provided for who these monies were due. State law requires that unclaimed property be turned over to the state after attempts have been made to contact and deliver the monies to the proper owner. The state may assess significant penalties against the Authority for failing to comply with this state law. We continue recommend that the Authority determine the rightful owners of these amounts and document its efforts to locate the owners, and if unable to locate the owners, then file reports and remit the funds to the state. We also recommend that the Authority consult with its attorney to make sure it understands and complies with its legal obligation over these monies.

Current Year Comments

Public Housing ACOP:

The Public Housing ACOP (Admissions and Continued Occupancy Policy) needs to be amended to reflect the correct preference points applicants are entitled to. The Authority assigns 3 preference points for a working family, but that is not reflected in the ACOP Policy. Also, the Authority assigns 1 preference point for a local applicant, for those affected by the "Violence Against Women Act", and for affected by a natural disaster, but these preference points are not reflected in the ACOP Policy.

Capital Fund Program Actual Modernization Cost Certificate (AMCC):

We noted the Authority submitted and received draw requests for Capital Fund Program grants where the grant was closed in a prior year and the Form HUD-53001 "Actual Modernization Cost Certificates" (AMCC) already submitted to HUD. The Authority should not request funds from closed grants. In addition, although the amounts received on these closed grants were completely immaterial (and represented the small balance of initial unused funds), we recommend new AMCC be filed with the correct amounts received and disbursed listed.

HCV New Admissions Testing:

Out of 25 new admissions tested, we noted 5 admissions where the "Request for Tenancy Application" (RTA) was signed after the voucher expiration date. The Authority personnel assert that extensions were granted on the tenant's vouchers (where the extension date was written on the voucher given to the tenant), but the Authority did not keep copies of the written extension on the vouchers. We recommend that all extensions be properly documented and copies of extended vouchers in the tenant files.

Section 8 Failed Inspections:

HUD requires all failed inspections to be completed within 30 days unless an extension is granted to the landlord by the Authority. We noted one inspection that was past the 30 day requirement and had no supporting documentation for a granted extension or HAP abatement. Therefore, we recommend the Authority assure inspections are completed within 30 days, or keep supporting documentation as to why an extension was granted or HAP was abated.

We wish to thank the Executive Director and her staff for their support and assistance during our audit.

This report is intended solely for the information and use of management, Board of Commissioners, others within the Authority, and the Department of Housing and Urban Development (HUD), and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Barton, Gonzalez & Myers, P.A.
Certified Public Accountants

Financial Data Schedule

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

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2017

	Project Total	14,900 Lead-Based Paint Hazard Control in Privately- Owned Housing	14,871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted		\$61,099		\$17,728	\$232,805	\$311,632		\$311,632
112 Cash - Restricted - Modernization and Development								
113 Cash - Other Restricted	\$150,100		\$326,375	\$395,912	\$1,508	\$873,895		\$873,895
114 Cash - Tenant Security Deposits								
115 Cash - Restricted for Payment of Current Liabilities								
100 Total Cash	\$150,100	\$61,099	\$326,375	\$413,640	\$234,313	\$1,185,527	\$0	\$1,185,527
121 Accounts Receivable - PHA Projects			\$113,357			\$113,357		\$113,357
122 Accounts Receivable - HUD Other Projects	\$267,984					\$267,984		\$267,984
124 Accounts Receivable - Other Government								
125 Accounts Receivable - Miscellaneous	\$2,564				\$354	\$2,918		\$2,918
126 Accounts Receivable - Tenants	\$54,279					\$54,279		\$54,279
126.1 Allowance for Doubtful Accounts - Tenants	-\$16,284					-\$16,284		-\$16,284
126.2 Allowance for Doubtful Accounts - Other	\$0		\$0		\$0	\$0		\$0
127 Notes, Loans, & Mortgages Receivable - Current								
128 Fraud Recovery			\$149,069			\$149,069		\$149,069
128.1 Allowance for Doubtful Accounts - Fraud			-\$104,348			-\$104,348		-\$104,348
129 Accrued Interest Receivable								
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$308,543	\$0	\$158,078	\$0	\$354	\$466,975	\$0	\$466,975
131 Investments - Unrestricted								
132 Investments - Restricted								
135 Investments - Restricted for Payment of Current Liability								
142 Prepaid Expenses and Other Assets	\$54,951	\$0	\$1,429		\$10,361	\$66,741		\$66,741
143 Inventories	\$24,395					\$24,395		\$24,395
143.1 Allowance for Obsolete Inventories	\$0					\$0		\$0
144 Inter Program Due From	\$1,672,543	\$198,079			\$1,734,812	\$3,605,434	-\$3,605,434	\$0
145 Assets Held for Sale								
150 Total Current Assets	\$2,210,532	\$259,178	\$485,882	\$413,640	\$1,979,840	\$5,349,072	-\$3,605,434	\$1,743,638
161 Land	\$1,325,275				\$0	\$1,325,275		\$1,325,275
162 Buildings	\$63,914,531				\$570,037	\$64,484,568		\$64,484,568
163 Furniture, Equipment & Machinery - Dwellings	\$656,994					\$656,994		\$656,994
164 Furniture, Equipment & Machinery - Administration	\$962,791		\$283,847		\$190,232	\$1,436,870		\$1,436,870
165 Leasehold Improvements								
166 Accumulated Depreciation	-\$60,098,039		-\$264,718		-\$732,794	-\$61,095,551		-\$61,095,551
167 Construction in Progress								
168 Infrastructure								
160 Total Capital Assets, Net of Accumulated Depreciation	\$6,761,552	\$0	\$19,129	\$0	\$27,475	\$6,808,156	\$0	\$6,808,156
171 Notes, Loans and Mortgages Receivable - Non-Current								
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due								
173 Grants Receivable - Non Current								
174 Other Assets								
176 Investments in Joint Ventures								
180 Total Non-Current Assets	\$6,761,552	\$0	\$19,129	\$0	\$27,475	\$6,808,156	\$0	\$6,808,156
200 Deferred Outflow of Resources								
290 Total Assets and Deferred Outflow of Resources	\$8,972,084	\$259,178	\$505,011	\$413,640	\$2,007,315	\$12,157,228	-\$3,605,434	\$8,551,794
311 Bank Overdraft								
312 Accounts Payable <= 90 Days	\$773,742	\$433	\$59,183		\$36,044	\$869,402		\$869,402
313 Accounts Payable >90 Days Past Due								
321 Accrued Wage/Payroll Taxes Payable	\$15,366	\$373	\$8,864		\$7,135	\$31,738		\$31,738
322 Accrued Compensated Absences - Current Portion	\$30,608	\$1,287	\$15,037		\$26,984	\$73,916		\$73,916
324 Accrued Contingency Liability								
325 Accrued Interest Payable								
331 Accounts Payable - HUD PHA Programs	\$140,811		\$2,358		\$13,200	\$156,369		\$156,369
332 Account Payable - PHA Projects								
333 Accounts Payable - Other Government	\$1,311					\$1,311		\$1,311
341 Tenant Security Deposits	\$190,754					\$190,754		\$190,754
342 Unearned Revenue	\$41,129				\$1,508	\$42,637		\$42,637
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue								
344 Current Portion of Long-term Debt - Operating Borrowings								
345 Other Current Liabilities	\$456					\$456		\$456
346 Accrued Liabilities - Other								
347 Inter Program - Due To	\$2,118,433	\$733,434	\$640,839	\$17,728	\$95,000	\$3,605,434	-\$3,605,434	\$0

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

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2017

	Project Total	14,900 Lead-Based Paint Hazard Control in Privately- Owned Housing	14,871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
348 Loan Liability - Current								
310 Total Current Liabilities	\$3,312,610	\$735,527	\$726,281	\$17,728	\$179,871	\$4,972,017	-\$3,605,434	\$1,366,583
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue								
352 Long-term Debt, Net of Current - Operating Borrowings								
353 Non-current Liabilities - Other	\$56,722		\$437,181		\$1,012,068	\$1,505,971		\$1,505,971
354 Accrued Compensated Absences - Non Current								
355 Loan Liability - Non Current								
356 FASB 5 Liabilities								
357 Accrued Pension and OPEB Liabilities								
350 Total Non-Current Liabilities	\$56,722	\$0	\$437,181	\$0	\$1,012,068	\$1,505,971	\$0	\$1,505,971
300 Total Liabilities	\$3,369,332	\$735,527	\$1,163,462	\$17,728	\$1,191,939	\$6,477,988	-\$3,605,434	\$2,872,554
400 Deferred Inflow of Resources								
508.4 Net Investment in Capital Assets	\$6,761,552		\$19,129		\$27,475	\$6,808,156		\$6,808,156
511.4 Restricted Net Position	\$150,100		\$328,118	\$395,912		\$874,130		\$874,130
512.4 Unrestricted Net Position	-\$1,308,900	-\$476,349	-\$1,005,698	\$0	\$787,901	-\$2,003,046		-\$2,003,046
513 Total Equity - Net Assets / Position	\$5,602,752	-\$476,349	-\$658,451	\$395,912	\$815,376	\$5,679,240	\$0	\$5,679,240
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$8,972,084	\$259,178	\$505,011	\$413,640	\$2,007,315	\$12,157,228	-\$3,605,434	\$8,551,794

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

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2017

	Project Total	14 900 Lead-Based Paint Hazard Control in Privately- Owned Housing	14 871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$1,697,891					\$1,697,891		\$1,697,891
70400 Tenant Revenue - Other	\$117,591					\$117,591		\$117,591
70500 Total Tenant Revenue	\$1,815,482	\$0	\$0	\$0	\$0	\$1,815,482	\$0	\$1,815,482
70600 HUD PHA Operating Grants	\$3,070,082		\$12,778,278			\$15,848,360		\$15,848,360
70610 Capital Grants	\$50,941					\$50,941		\$50,941
70710 Management Fee					\$910,211	\$910,211	-\$910,211	\$0
70720 Asset Management Fee								
70730 Book Keeping Fee					\$251,452	\$251,452	-\$251,452	\$0
70740 Front Line Service Fee								
70750 Other Fees								
70700 Total Fee Revenue					\$1,161,663	\$1,161,663	-\$1,161,663	\$0
70800 Other Government Grants								
71100 Investment income - Unrestricted	\$439		\$500	\$19		\$958		\$958
71200 Mortgage Interest Income								
71300 Proceeds from Disposition of Assets Held for Sale								
71310 Cost of Sale of Assets								
71400 Fraud Recovery			\$55,932			\$55,932		\$55,932
71500 Other Revenue	\$139,672	\$1,121	\$558,429		\$43,304	\$742,526		\$742,526
71600 Gain or Loss on Sale of Capital Assets								
72000 Investment Income - Restricted				\$464		\$464		\$464
70000 Total Revenue	\$5,076,616	\$1,121	\$13,393,139	\$483	\$1,204,967	\$19,676,326	-\$1,161,663	\$18,514,663
91100 Administrative Salaries	\$369,902	\$17,231	\$389,258		\$289,451	\$1,065,842		\$1,065,842
91200 Auditing Fees	\$19,988	\$2,468	\$19,988		\$6,909	\$49,353		\$49,353
91300 Management Fee	\$618,167		\$292,044			\$910,211	-\$910,211	\$0
91310 Book-keeping Fee	\$68,925		\$182,527			\$251,452	-\$251,452	\$0
91400 Advertising and Marketing					\$694	\$694		\$694
91500 Employee Benefit contributions - Administrative	\$79,480	\$350	\$55,903		\$83,505	\$219,238		\$219,238
91600 Office Expenses	\$226,559	\$3,144	\$130,429	\$216	\$95,974	\$456,322		\$456,322
91700 Legal Expense	\$44,965		\$9,546		\$10,192	\$64,703		\$64,703
91800 Travel	\$13,653	\$6	\$6,530		\$3,285	\$23,474		\$23,474
91810 Allocated Overhead								
91900 Other	\$8,181	\$596	\$2,708		\$91,780	\$103,265		\$103,265
91000 Total Operating - Administrative	\$1,449,820	\$23,795	\$1,088,933	\$216	\$581,790	\$3,144,554	-\$1,161,663	\$1,982,891
92000 Asset Management Fee								
92100 Tenant Services - Salaries								
92200 Relocation Costs								
92300 Employee Benefit Contributions - Tenant Services								
92400 Tenant Services - Other	\$1,028					\$1,028		\$1,028
92500 Total Tenant Services	\$1,028	\$0	\$0	\$0	\$0	\$1,028	\$0	\$1,028
93100 Water	\$236,592				\$781	\$237,373		\$237,373
93200 Electricity	\$216,502		\$364		\$2,332	\$219,198		\$219,198
93300 Gas	\$92,613		\$8,178			\$100,791		\$100,791
93400 Fuel								
93500 Labor								
93600 Sewer								
93700 Employee Benefit Contributions - Utilities								
93800 Other Utilities Expense								
93000 Total Utilities	\$545,707	\$0	\$8,542	\$0	\$3,113	\$557,362	\$0	\$557,362
94100 Ordinary Maintenance and Operations - Labor	\$295,174					\$295,174		\$295,174
94200 Ordinary Maintenance and Operations - Materials and Other	\$262,419					\$262,419		\$262,419
94300 Ordinary Maintenance and Operations Contracts	\$2,356,694	\$16,065	\$3,087		\$9,166	\$2,385,012		\$2,385,012
94500 Employee Benefit Contributions - Ordinary Maintenance	\$65,879					\$65,879		\$65,879
94000 Total Maintenance	\$2,980,166	\$16,065	\$3,087	\$0	\$9,166	\$3,008,484	\$0	\$3,008,484
95100 Protective Services - Labor	\$49,880					\$49,880		\$49,880
95200 Protective Services - Other Contract Costs	\$165,346				\$0	\$165,346		\$165,346
95300 Protective Services - Other								
95500 Employee Benefit Contributions - Protective Services								
95000 Total Protective Services	\$215,226	\$0	\$0	\$0	\$0	\$215,226	\$0	\$215,226
96110 Property Insurance	\$78,833		\$34,770		\$19,373	\$132,976		\$132,976
96120 Liability Insurance	\$156,558	\$483	\$95,549		\$3,962	\$256,552		\$256,552

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

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2017

	Project Total	14 900 Lead-Based Paint Hazard Control in Privately- Owned Housing	14 871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
96130 Workmen's Compensation	\$16,999		\$12,295		\$4,100	\$33,394		\$33,394
96140 All Other Insurance	\$9,285		\$2,476		\$2,981	\$14,742		\$14,742
96100 Total insurance Premiums	\$261,675	\$483	\$145,090	\$0	\$30,416	\$437,664	\$0	\$437,664
96200 Other General Expenses			\$6,867	\$27,060	\$0	\$33,927		\$33,927
96210 Compensated Absences	\$1,046	\$555	\$237			\$1,838		\$1,838
96300 Payments in Lieu of Taxes								
96400 Bad debt - Tenant Rents	\$54,719		\$14,582			\$69,301		\$69,301
96500 Bad debt - Mortgages								
96600 Bad debt - Other								
96800 Severance Expense								
96000 Total Other General Expenses	\$55,765	\$555	\$21,886	\$27,060	\$0	\$105,066	\$0	\$105,066
96710 Interest of Mortgage (or Bonds) Payable								
96720 Interest on Notes Payable (Short and Long Term)								
96730 Amortization of Bond Issue Costs								
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
96900 Total Operating Expenses	\$5,509,387	\$40,898	\$1,267,338	\$27,276	\$624,485	\$7,469,384	-\$1,161,663	\$6,307,721
97000 Excess of Operating Revenue over Operating Expenses	-\$432,771	-\$39,777	\$12,125,801	-\$26,793	\$580,482	\$12,206,942	\$0	\$12,206,942
97100 Extraordinary Maintenance								
97200 Casualty Losses - Non-capitalized	\$161,522					\$161,522		\$161,522
97300 Housing Assistance Payments			\$11,523,844			\$11,523,844		\$11,523,844
97350 HAP Portability-In			\$516,050			\$516,050		\$516,050
97400 Depreciation Expense	\$1,111,276		\$4,536		\$7,096	\$1,122,908		\$1,122,908
97500 Fraud Losses								
97600 Capital Outlays - Governmental Funds								
97700 Debt Principal Payment - Governmental Funds								
97800 Dwelling Units Rent Expense								
90000 Total Expenses	\$6,782,185	\$40,898	\$13,311,768	\$27,276	\$631,581	\$20,793,708	-\$1,161,663	\$19,632,045
10010 Operating Transfer In	\$254,589					\$254,589	-\$254,589	\$0
10020 Operating transfer Out	-\$254,589					-\$254,589	\$254,589	\$0
10030 Operating Transfers from/to Primary Government								
10040 Operating Transfers from/to Component Unit								
10050 Proceeds from Notes, Loans and Bonds								
10060 Proceeds from Property Sales								
10070 Extraordinary Items, Net Gain/Loss								
10080 Special Items (Net Gain/Loss)								
10091 Inter Project Excess Cash Transfer In								
10092 Inter Project Excess Cash Transfer Out								
10093 Transfers between Program and Project - In	\$0					\$0	-\$56,000	-\$56,000
10094 Transfers between Project and Program - Out					\$0	\$0	\$56,000	\$56,000
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$1,705,569	-\$39,777	\$81,371	-\$26,793	\$573,386	-\$1,117,382	\$0	-\$1,117,382
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$7,308,321	-\$436,572	-\$739,822	\$497,705	\$1,195,205	\$7,824,837		\$7,824,837
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0		\$0	-\$75,000	-\$953,215	-\$1,028,215		-\$1,028,215
11050 Changes in Compensated Absence Balance								
11060 Changes in Contingent Liability Balance								
11070 Changes in Unrecognized Pension Transition Liability								
11080 Changes in Special Term/Severance Benefits Liability								
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents								
11100 Changes in Allowance for Doubtful Accounts - Other								
11170 Administrative Fee Equity			-\$986,569			-\$986,569		-\$986,569
11180 Housing Assistance Payments Equity			\$328,118			\$328,118		\$328,118
11190 Unit Months Available	9768	0	25488	0	0	35256		35256
11210 Number of Unit Months Leased	9190	0	24337	0	0	33527		33527
11270 Excess Cash	-\$1,783,971					-\$1,783,971		-\$1,783,971
11610 Land Purchases	\$0				\$0	\$0		\$0
11620 Building Purchases	\$10,771				\$0	\$10,771		\$10,771
11630 Furniture & Equipment - Dwelling Purchases	\$12,780				\$0	\$12,780		\$12,780
11640 Furniture & Equipment - Administrative Purchases	\$27,390				\$0	\$27,390		\$27,390

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

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2017

	Project Total	14.900 Lead-Based Paint Hazard Control in Privately- Owned Housing	14.871 Housing Choice Vouchers	6.2 Component Unit - Blended	COCC	Subtotal	ELIM	Total
11650 Leasehold Improvements Purchases	\$0				\$0	\$0		\$0
11660 Infrastructure Purchases	\$0				\$0	\$0		\$0
13510 CFFP Debt Service Payments	\$0				\$0	\$0		\$0
13901 Replacement Housing Factor Funds	\$0				\$0	\$0		\$0