

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

FEDERAL SINGLE AUDIT REPORT

OF

CITY OF SOUTH BEND

ST. JOSEPH COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED

07/17/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Jennifer C. Hockenhull (Vacant) Daniel T. Parker	01-01-18 to 10-23-18 10-24-18 to 12-09-18 12-10-18 to 12-31-19
Mayor	Pete Buttigieg	01-01-16 to 12-31-19
City Clerk	Kareemah Fowler	01-01-16 to 12-31-19
President of the Board of Public Works	Gary A. Gilot	01-01-18 to 12-31-19
President of the Common Council	Tim Scott	01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Bend (City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 24, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

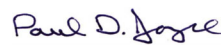
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002.

City of South Bend's Response to Findings

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

Purpose of This Report

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


Paul D. Joyce, CPA
State Examiner

June 24, 2019



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of South Bend's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

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

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 24, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures,

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

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

June 24, 2019

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

CITY OF SOUTH BEND
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2018

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
<u>Department of Commerce</u>					
Economic Development Cluster					
Economic Adjustment Assistance	Direct	11.307			
Industrial Revolving Fund, Loans Outstanding			06-19-01251	\$ -	\$ 7,087,722
Total - Economic Development Cluster				-	7,087,722
Total - Department of Commerce				-	7,087,722
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct	14.218			
Neighborhood Stabilization Grant 2008			B08-MN-18-0011	12,542	12,542
Neighborhood Stabilization Grant 2011 Program Income			B11-MN-18-0011	187,954	187,954
Block Grant 2015			B15-MC-18-0011	248,423	248,423
Block Grant 2016			B16-MC-18-0011	536,677	635,780
Block Grant 2017			B17-MC-18-0011	1,262,004	1,262,004
Block Grant 2017 Program Income			B17-MC-18-0011	789	789
Block Grant 2018			B18-MC-18-0011	645,722	645,722
Block Grant 2018 Program Income			B18-MC-18-0011	95,830	96,513
Total - Community Development Block Grants/Entitlement Grants				2,989,941	3,089,727
Total - CDBG - Entitlement Grants Cluster				2,989,941	3,089,727
Emergency Solutions Grant Program	Direct	14.231			
Hearth Emergency Shelter Grant			E11-MC-18-0011	2	2
Hearth Emergency Shelter Grant			E12-MC-18-0011	15,334	15,334
Hearth Emergency Shelter Grant			E13-MC-18-0011	2,000	2,000
Hearth Emergency Shelter Grant			E16-MC-18-0011	3,300	3,300
Hearth Emergency Shelter Grant			E17-MC-18-0011	178,685	178,685
Hearth Emergency Shelter Grant			E18-MC-18-0011	134,030	134,030
Total - Emergency Solutions Grant Program				333,351	333,351
Education and Outreach Initiatives	Direct	14.416	FF205K175014	-	107,372
Total - Department of Housing and Urban Development				3,323,292	3,530,450
<u>Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant Program	Direct	16.738		14,786	14,786
			2015-DJ-BX-0392	-	52,462
			2016-DJ-BX-0812	-	52,462
Total - Edward Byrne Memorial Justice Assistance Grant Program				14,786	67,248
Project Safe Neighborhoods	Indiana Criminal Justice Institution	16.609	6722	46,112	46,112
Equitable Sharing Program	Direct	16.922	CY 2018	-	22,100
Total - Department of Justice				60,898	135,460
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205		-	80,027
			A249-14-320311	-	57,536
			A249-15-320123A	-	144,888
			A249-15-320127A	-	23,613
			A249-15-L150057	-	8,905
			A249-15-L150058	-	21,104
			A249-16-L160016	-	1,884
			A249-16-L160015	-	67,161
			A249-16-L160021	-	69,036
			A249-16-L160022	-	49,536
			A249-16-L160023	-	49,536
Total - Highway Planning and Construction Cluster				-	523,691
Total - Department of Transportation				-	523,691
<u>Equal Employment Opportunity Commission</u>					
Employment Discrimination, State and Local Fair Employment Practices Agency Contracts	Direct	30.002	EEC45016C0084	-	41,941
Total - Equal Employment Opportunity Commission				-	41,941
<u>Environmental Protection Agency</u>					
Brownfields Assessment and Cleanup Cooperative Agreements	Direct	66.818	BF00E01371	-	32,925
Total - Environmental Protection Agency				-	32,925
<u>Department of Homeland Security</u>					
Staffing for Adequate Fire & Emergency Response (SAFER)	Direct	97.083	#EMW-2016-FH-00623	-	144,614
Assistance to Firefighters Grant	Direct	97.044	#EMW-2016-FP-00624	-	21,293
			#EMW-2017-FO-06260	-	15,910
Total - Assistance to Firefighters Grant				-	37,203
Total - Department of Homeland Security				-	181,817
Total federal awards expended				\$ 3,384,190	\$ 11,534,006

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

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

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2018. The information in the SEFA is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

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

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The City has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance. Funds of \$404,713.00 were returned to HUD per HUD's request for grant year of 2017.

Note 3. Economic Adjustment Assistance, CFDA 11.307

The Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) requires that the Economic Adjustment Assistance program, CFDA 11.307, federal awards expended be reported on the Schedule of Expenditures of Federal Awards as shown below:

\$ 5,276,676	12-31-18 Revolving loan fund loans outstanding
76,300	12-31-18 Revolving loan fund land held for resale
1,632,491	12-31-18 Revolving loan fund cash and investments
<u>102,255</u>	12-31-18 Revolving loan fund administrative expenses
<u>\$ 7,087,722</u>	

CITY OF SOUTH BEND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	no

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

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

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

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

FINDING 2018-001

Subject: Cash and Investments, Financial Account Balances and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat of Finding 2017-001 from the immediately prior audit report regarding financial account balances and reporting.

Condition

There were deficiencies in the internal control system of the City related to cash and investments, financial account balances, and financial reporting of the Comprehensive Annual Financial Report (CAFR).

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

1. Cash and Investments: The City reconciled the bank balances to the fund balances monthly. For several months in the audit period, the City could not provide audit evidence that someone had performed a review of the reconciliation.
2. Financial Account Balances and Reporting: The internal control in place over the review of the CAFR was not effective in preventing, or detecting and correcting, errors. There were several immaterial errors throughout the CAFR.

The City submitted pension census data to the Indiana Public Retirement System (INPRS) regularly. There was no documented review or approval process in place for the data submitted. In a test performed on the data submitted, there were several immaterial errors in employee information. These errors, if material, could affect the actuary's study and, therefore, the account balances of net pension liability/asset and deferred inflows/outflows related to pensions.

Context

The lack of controls was a systemic issue related to the areas listed above.

Criteria

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

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

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

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

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

Cause

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

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

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the City's management establish controls related to cash and investments, financial account balances, and financial reporting.

Views of Responsible Officials

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

FINDING 2018-002

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

Repeat Finding

This is a repeat of Finding 2017-002 from the immediately prior audit report.

Condition

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

Context

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

1. Federal expenditures of the CDBG - Entitlement Grants Cluster were overstated by \$1,348,537.
2. Amounts passed through to subrecipients were overstated by \$361,958.

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

Criteria

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

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

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

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

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

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

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

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.

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

- (4) Include the total amount provided to subrecipients from each Federal program.

- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.

- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

No matters are reportable.

AUDITEE-PREPARED DOCUMENTS

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

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

DEPARTMENT OF ADMINISTRATION AND FINANCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-001 Internal Control over CAFR

Fiscal year in which the finding initially occurred:	<u>2017</u>
Contact Person Responsible for Corrective Action:	<u>Daniel Parker, City Controller</u>
Contact Phone Number:	<u>574-235-9822</u>
Status of Audit Finding:	<u>Complete</u>

The City offered the following corrective action plan:

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

Status of the corrective action plan:

For the 2018 audit, the City contracted with a new third-party consultant (Crowe) to assist in the compilation of the financial statements. This change helped drive a better, more efficient process to review the prepared financial statements and ensure agreement to the underlying financial schedules. In addition, the City implemented a more robust review process by utilizing technology to ensure that every account on the Conversion worksheet agreed to the underlying schedules, rather than spot checking just a few of the accounts. Finally, the City implemented a robust system for version control by ensuring that all adjustments (both before the preparation of the first draft sent to the auditors and audit adjustments) were compiled and made as a single group. This ensured that changes were made to the financial statements were comprehensively assessed and evaluated for all impacts, as well as ensuring that all appropriate changes made it onto the final financial statements.

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

DEPARTMENT OF ADMINISTRATION AND FINANCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-002 SEFA – Noncompliance and Internal Control

Fiscal year in which the finding initially occurred:	<u>2017</u>
Contact Person Responsible for Corrective Action:	<u>Daniel Parker, City Controller</u>
Contact Phone Number:	<u>574-235-9822</u>
Status of Audit Finding:	<u>In Process</u>

The City offered the following corrective action plan:

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

Status of the corrective action plan:

While the timing of the change in the Grants Administrator position created some challenges in the hand-off of information, the City has spent much of 2018 ensuring that the Grants Administrator fully understands the requirements of the SEFA and has adequate tools available to track expenditures effectively. This continues to be an ongoing process and includes substantial work with City departments to educate them on the requirements of the SEFA. The job scope and responsibilities of the Grants Administrator continue to be refined to ensure that this position is able to effectively track grant spending and ensure compliance with Federal guidelines.

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DEPARTMENT OF ADMINISTRATION AND FINANCE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-003 CDBG Subrecipient Monitoring

Fiscal year in which the finding initially occurred:	2017
Contact Person Responsible for Corrective Action:	Pam Meyer, Director of Neighborhood Development
Contact Phone Number:	574-235-5845
Status of Audit Finding:	In Process

The City offered the following corrective action plan:

The City will consider modification of the monitoring schedule with its next substantial amendment to the current 2014-2019 HCD Plan. This could include a number of options such as denoting monitoring a certain number of sub-recipients per program per year and/or establishing a dollar amount of the award that would trigger an annual monitoring visit. To date there has been no need for a substantial amendment process. However, the City has determined that its regular monthly meetings with sub-recipients will be considered and documented as monitoring visits. The "Community Development Block Grant (CDBG) Claim Reimbursement Policy" was submitted to the HUD Indianapolis Field Office December 29, 2017, and approved by HUD in a letter dated January 11, 2018. Department of Community Investment staff are following the policy as of January 2018, and contracts executed for 2018 grant dollars will incorporate language that speaks to requirements outlined in the policy.

Status of the corrective action plan:

The City will consider modification of the monitoring schedule as it works to create the upcoming 2020-2024 HCD Plan. Community Investment staff continue to monitor a specific number of sub-recipients each year as denoted in the current 2015-2019 HCD Plan. In addition, staff documents its regular meetings with sub-recipients as monitoring visits. "Community Development Block Grant (CDBG) Claim Reimbursement Policy" language is incorporated into all CDBG contracts executed with PY2018 and later grant dollars. The policy is also provided as a separate document in subrecipients' contract packages. DCI staff work continuously to ensure the policy requirements are followed by subrecipients.

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

DEPARTMENT OF ADMINISTRATION AND FINANCE

FINDING 2018-001

Contact Person Responsible for Corrective Action: Daniel Parker
Contact Phone Number: (574) 235-9822

Views of Responsible Official: The City continuously strives to monitor and improve upon its system of internal controls. However, the City recognizes that specific breakdowns in internal control led to certain immaterial misstatements in the CAFR, which were subsequently corrected. The City's system of internal controls is designed to provide reasonable assurance regarding the reliability of financial reporting and is not intended to provide absolute assurance that financial reports will be free from error.

Description of Corrective Action Plan: The City is midway through the implementation of a new Enterprise Resource Planning (ERP) software system. As a part of the implementation process, the City is revising or establishing policies and procedures related to all areas of financial management, including purchasing, accounts payable, transaction accounting, payroll, accounts receivable, fixed asset reporting, cash management, and inventory.

This process of evaluation of financial practices has helped the City ensure that financial procedures are consistent with good internal control, as well as helped the City communicate the importance of following these controls. In addition, the capabilities of the new system have allowed the City to implement more effective internal controls through the use of technology. Although the new ERP system will not be fully implemented until the spring of 2020, the City has already seen the benefits of more controlled and consistent financial processes. For this reason, we are confident that there will be fewer immaterial misstatements in the 2019 financial statements.

In addition, the new software system will allow for a much more streamlined and consistent method of preparing the City's financial statements, which will reduce the opportunity for errors or misstatements in financial reporting.

Anticipated Completion Date: Completion of the entire project will be done by April, 2020, but many of the improvements in process will be complete by the end of 2019.


(Signature)

City Controller
(Title)

June 24, 2019
(Date)

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CITY OF SOUTH BEND PETE BUTTIGIEG, MAYOR

DEPARTMENT OF ADMINISTRATION AND FINANCE

FINDING 2018-002

Contact Person Responsible for Corrective Action: Daniel Parker
Contact Phone Number: (574) 235-9822

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

Description of Corrective Action Plan: The City has already taken steps to reduce the likelihood of future errors by ensuring that grants are tracked electronically throughout the year. A new tracking template and methodology has been devised and will continue to be refined over the upcoming months. Additionally, process changes will be made to ensure that the City's Grants Administrator is notified of any department that is awarded a Federal Grant so that the Grants Administrator can communicate the correct policies for tracking the spending of these grants. Finally, new staff members will be trained (or re-trained) on the importance of continuously tracking spending of federal grants.

Anticipated Completion Date: October, 2019.

A handwritten signature in blue ink, appearing to read "Daniel Parker", is written over a horizontal line.

(Signature)

City Controller
(Title)

June 24, 2019
(Date)

OTHER REPORTS

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