

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF SOUTH BEND

ST. JOSEPH COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
07/17/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Department of Administration and Finance:	
Federal Findings:	
Finding 2018-001	
Cash and Investments, Financial Account Balances and Reporting.....	6-7
Finding 2018-002	
Preparation of the Schedule of Expenditures of Federal Awards	7-9
Corrective Action Plan	10-11
Exit Conference	12

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

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

This report is supplemental to our audit report of the City of South Bend (City), for the period from January 1, 2018 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the City. It should be read in conjunction with the Comprehensive Annual Financial Report and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. These reports may be found at www.in.gov/sboa.

The Federal Findings, identified in the above referenced Federal Single Audit Report, are included in this report.

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

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

June 24, 2019

(This page intentionally left blank.)

DEPARTMENT OF ADMINISTRATION AND FINANCE
CITY OF SOUTH BEND

DEPARTMENT OF ADMINISTRATION AND FINANCE
CITY OF SOUTH BEND
FEDERAL 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).

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. . . .

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

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.

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.

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

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:

"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:

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

- (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.
- (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.

1200N COUNTY-CITY BUILDING
227 W. JEFFERSON BLVD.
SOUTH BEND, INDIANA 46601-1830



PHONE 574.235.9216
FAX 574.235.9928

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)

1200N COUNTY-CITY BUILDING
227 W. JEFFERSON BLVD.
SOUTH BEND, INDIANA 46601-1830



PHONE 574.235.9216
FAX 574.235.9928

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.



(Signature)

City Controller
(Title)

June 24, 2019
(Date)

DEPARTMENT OF ADMINISTRATION AND FINANCE
CITY OF SOUTH BEND
EXIT CONFERENCE

The contents of this report were discussed on June 24, 2019, with Daniel T. Parker, Controller; Benjamin Dougherty, Deputy Controller; Gary A. Gilot, President of the Board of Public Works; Tim Scott, President of the Common Council; Laura O'Sullivan, Board of Public Works member; Elizabeth A. Maradik, Board of Public Works member; Rahman Johnson, Director of Treasury; Maricela Juarez, Senior Budget Analyst; and Lisa Horton, Administration Assistant.