

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF SOUTH BEND

ST. JOSEPH COUNTY, INDIANA

January 1, 2019 to December 31, 2019



**FILED**  
09/24/2020



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Daniel T. Parker	01-01-19 to 12-31-20
Mayor	Pete Buttigieg James Mueller	01-01-19 to 12-31-19 01-01-20 to 12-31-20
City Clerk	Kareemah Fowler (Vacant) Dawn M. Jones	01-01-19 to 08-01-19 08-02-19 to 08-14-19 08-15-19 to 12-31-20
President of the Board of Public Works	Gary A. Gilot	01-01-19 to 12-31-20
President of the Common Council	Tim Scott Karen L. White (acting) Karen L. White	01-01-19 to 06-15-20 06-16-20 to 07-26-20 07-27-20 to 12-31-20



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, the discretely presented component unit, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 5, 2020. Our report includes a reference to other auditors who audited the financial statements of the South Bend Public Transportation Corporation, as described in our report on City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

***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 City'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


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

***Compliance and Other Matters***

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

***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

August 5, 2020, except for the Schedule of Expenditures  
of Federal Awards, for which the date is August 13, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 the 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 its major federal program for the year ended December 31, 2019. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The City's basic financial statements include the operations of the South Bend Public Transportation Corporation (Corporation) which expended federal awards which are not included in the City's Schedule of Expenditures of Federal Awards for the year ended December 31, 2019. Our audit, described below, did not include the operations of the Corporation because the Corporation received a separate audit.

***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 the City's major federal program 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

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

***Opinion on the Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

**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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001, that we consider to be material weaknesses.

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated August 5, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

August 13, 2020

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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, 2019

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				
Industrial Revolving Fund, Loans Outstanding		11.307	06-19-01251	\$ -	\$ 7,278,426
Total Economic Development Cluster				-	7,278,426
Total - Department of Commerce				-	7,278,426
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct	14.218			
Neighborhood Stabilization Grant 2011 Program Income			B11-MN-18-0011	70,693	70,693
Block Grant 2014			B14-MC-18-0011	24,984	24,984
Block Grant 2016			B16-MC-18-0011	67,420	67,420
Block Grant 2017			B17-MC-18-0011	481,475	481,475
Block Grant 2018			B18-MC-18-0011	473,737	594,438
Block Grant 2018 Program Income			B18-MC-18-0011	356	356
Block Grant 2019			B19-MC-18-0011	58,645	495,645
Block Grant 2019 Program Income			B19-MC-18-0011	339,794	339,794
Total - Community Development Block Grants/Entitlement Grants				1,517,104	2,074,804
Total - CDBG - Entitlement Grants Cluster				1,517,104	2,074,804
Emergency Solutions Grant Program	Direct	14.231			
Hearth Emergency Shelter Grant			E17-MC-18-0011	12,460	12,460
Hearth Emergency Shelter Grant			E18-MC-18-0011	51,306	51,306
Hearth Emergency Shelter Grant			E19-MC-18-0011	138,676	138,676
Total - Emergency Solutions Grant Program				202,441	202,441
Fair Housing Assistance Program State and Local	Direct	14.401	FF205K175014	-	87,503
Total - Department of Housing and Urban Development				1,719,545	2,364,749
<u>Department of Justice</u>					
Project Safe Neighborhoods	Indiana Criminal Justice Institution	16.609			
Project Safe Neighborhoods			6722	40,143	70,903
Edward Byrne Memorial Justice Assistance Grant Program	Indiana Criminal Justice Institution	16.738			
South Bend Police Communication Initiative			6923	49,299	49,299
Equitable Sharing Program	Direct	16.922	CY 2019	-	43,499
Total - Department of Justice				89,441	163,701

CITY OF SOUTH BEND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2019

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 Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205	A249-15-320123A	-	47,523
			A249-15-320127A	-	39,289
			A249-16-L160016	-	40,438
			A249-16-L160015	-	768
			A249-16-L160021	-	38,150
			A249-16-L160022	-	48,669
			A249-16-L160023	-	5,634
				-	220,471
Total - Highway Planning and Construction				-	220,471
Total - Highway Planning and Construction Cluster				-	220,471
Total - Department of Transportation				-	220,471
<u>Equal Employment Opportunity Commission</u>					
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	Direct	30.002	EEC45310019C0051	-	103,334
Total - Equal Employment Opportunity Commission				-	103,334
<u>Department of Health and Human Services</u>					
Maternal and Child Health Services Block Grant to the States	Indiana Department of Health	93.994	#40093994TITLV18	-	10,000
2018 Maternal and Child Health (Title V)				-	10,000
Total - Department of Health and Human Services				-	10,000
<u>Corporation For National And Community Service</u>					
AmeriCorps	Indiana Department of Workforce Development	94.006	18AFHIN001	-	126,362
Total - Corporation For National And Community Service				-	126,362
<u>Department of Homeland Security</u>					
Staffing for Adequate Fire and Emergency Response (SAFER)	Direct	97.083	#EMW-2016-FH-00623	-	160,641
Total - Department of Homeland Security				-	160,641
Total federal awards expended				\$ 1,808,986	\$ 10,427,684

The accompanying notes are an integral part of the Schedule of Expenditures of 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, 2019. 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.

*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:

\$ 5,004,351	12-31-19 Revolving loan fund loans outstanding
76,300	12-31-19 Revolving loan fund land held for resale
2,078,333	12-31-19 Revolving loan fund cash and investments
<u>119,442</u>	12-31-19 Revolving loan fund administrative expenses
\$ 7,278,426	

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:

<u>Name of Opinion Unit</u>	<u>Opinion Issued</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Discretely Presented Component Unit	Unmodified
Each Major Fund	Unmodified
Aggregate Remaining Funds	Unmodified

Internal control over financial reporting:

Material weaknesses identified?	no
Significant deficiencies identified?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Significant deficiencies identified?	none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes

Identification of Major Program and type of auditor's report issued on compliance for it:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Economic Development Cluster	Unmodified

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

Auditee qualified as low-risk auditee? no

**Section II - Financial Statement Findings**

No matters are reportable.

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

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2019-001**

Subject: Economic Development Cluster - Internal Controls  
Federal Agency: Department of Commerce  
Federal Program: Economic Adjustment Assistance  
CFDA Number: 11.307  
Federal Award Number and Year (or Other Identifying Number): 06-19-01251  
Pass-Through Entity: Direct  
Compliance Requirement: Special Tests and Provisions - RLF Loan Requirements  
Audit Finding: Material Weakness

*Condition and Context*

An effective internal control system was in place at the City in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - RLF Loan Requirements compliance requirement; however, this control was not documented.

Application file folders are kept for approved loans. Within these folders, a checklist is kept outlining the documents needed before a loan can be funded. As required documents were received, the employee that prepared the checklist also marked off the received items. No documentable controls were in place to ensure the proper documents were received.

The lack of documented controls was a systemic issue, which occurred throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management had not properly developed a system of internal control to ensure compliance with the Special Tests and Provisions - RLF Loan Requirements compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirement listed above. A lack of segregation of duties within an internal control system could also have allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish a system of internal controls, including segregation of duties, related to the grant agreement and the Special Tests and Provisions - RLF Loan Requirements compliance requirement.

*Views of Responsible Officials*

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

*Auditor's Response*

It was the City's responsibility to ensure that internal controls were designed to ensure compliance with applicable laws and regulations. The City failed to provide documented controls to ensure proper documentation was provided by applicants prior to the loan being funded. A checklist prepared and reviewed by the same employee is not considered an effective internal control. The City was not able to provide documentation that credit files were subjected to a review process to ensure any noncompliance would be prevented, or detected and corrected, in a timely manner.

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#### AUDITEE-PREPARED DOCUMENTS

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



CITY OF SOUTH BEND, IN JAMES MUELLER, MAYOR  
**DEPARTMENT OF ADMINISTRATION AND FINANCE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FINDING 2018-001**

Fiscal year in which the finding initially occurred: 2017  
Contact Person Responsible for Corrective Action: Daniel Parker  
Contact Phone Number: (574) 235-9822

Status of Audit Finding:

This audit finding stated that 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), which amounted to material weakness in internal control. Over the past year, many changes were made to improve the internal control and financial processes, particularly in the context of the City's new ERP system, called "DFO":

- Policy framework: In addition to the specific improvements noted below, the Administration & Finance department spent much of 2019 (and the first part of 2020) designing, building, and implementing a new policy framework for all financial processes. This framework (which encompasses 10 overarching policies and over 65 "supplements", which define specific processes) prioritizes internal control and is easily accessible via a new, internal website to all City staff for training and reference purposes.
- General Accounting: The City has revised its chart of accounts to more closely mirror that recommended by the State Board of Accounts, has instituted an electronic workflow for review and approval of all manual journal entries, and has upgraded our accounting framework to account for all transactions (full accrual and modified accrual) directly within our system. In addition, the enhanced reporting functionality that exists in the new system will make tracking information and producing financial reports more streamlined and more consistent.
- Cash & Bank: The City has updated and modernized our cash reconciliation and handling procedures, including ongoing, semi-automatic reconciliation of our primary bank account, and monthly reconciliation of all other bank accounts. This updated reconciliation policy includes a summary sheet for all reconciliation procedures.
- Procurement & Accounts Payable: The City has instituted a robust workflow for electronic approval of all purchases, from simple supplies to multi-million dollar public works projects. These processes will ensure that all purchases are approved by the appropriate operators, boards, and fiscal officers. Also, we are in the process of implementing electronic document management to ensure easy access to and review of underlying documentation.
- Payroll: The City's new Kronos payroll system offers enhanced reporting and tracking, as well as more robust documentation of processes and assurance of proper segregation of duties.
- INPRS Data Review: The previous audited noted that there was no documented review of pension census data reports submitted to INPRS. The City has instituted a review process for demographic and other data submitted by the pension secretaries of the 1925 plan and 1937 plan. This data is placed in a shared drive and reviewed and confirmed by the City Controller prior to submission to INPRS.

Overall, the specific and general improvements described above (and others) will have and have had the effect of revolutionizing the way the City does business, and are enormous steps forward toward ensuring proper approvals are obtained, segregation of duties is upheld, and the financial statements are free from material errors.

Daniel T. Parker  
City Controller  
June 3, 2020



CITY OF SOUTH BEND, IN JAMES MUELLER, MAYOR  
**DEPARTMENT OF ADMINISTRATION AND FINANCE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

***FINDING 2018-002***

Fiscal year in which the finding initially occurred: 2017

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: N/A

Contact Person Responsible for Corrective Action: Daniel Parker

Contact Phone Number: (574) 235-9822

Status of Audit Finding:

This audit finding stated that the City did not have a proper system of internal control in place to prevent, detect, or correct material errors on the Schedule of Expenditures of Federal Awards, which amounted to material weakness in internal control. Over the past year, many changes were made to improve the internal control and review process for the SEFA:

- We relocated responsibility for tracking and monitoring Federal Grants from the Grants Administrator position, and instead placed this task directly on departmental Fiscal Officers. As the individuals that are directly responsible for each department's financial operations, these individuals are much better suited to identify federal awards and ensure they are appropriately accounted for.
- We instituted a robust review process to identify federal awards, including combing through all receipts from the State of Indiana and the U.S. Treasury. Although this review is not perfect (as it requires that the original grant was placed into the correct revenue account), it does provide an additional layer of scrutiny to supplement the Fiscal Officers' identification of Federal awards.
- For each Federal Award that was identified, individual fiscal officers prepared robust documentation to support the amounts reported on the SEFA. This documentation, including grant agreements, was sent to and reviewed by the City Controller.
- The City Controller performed an independent recalculation of each grant amount reported on the SEFA, based on the underlying documentation, and compared the results of the recalculation to the amounts calculated by Fiscal Officers.

In addition to the above steps, we have made accurate reporting on the SEFA a priority in the setup of the City's new financial system, DFO. Not only will we make use of customer tracking functionality to ensure that we are able to easily review all distributions received from the State of Indiana or the Federal Government, but we will also make use of a "Projects and Grants" module in the system. This module has functionality that allows us to apply different funding sources (grants) to various expenditures. By instituting a process whereby every federal grant will be set up as a funding source in this projects & grants module, the City will very easily see which expenditures are paid for by each grant. There are controls in place to ensure that new grants are approved, as are draw-downs of grants in the system.

Daniel T. Parker  
City Controller  
April 27, 2020



CITY OF SOUTH BEND, IN JAMES MUELLER, MAYOR  
**DEPARTMENT OF ADMINISTRATION AND FINANCE**

**CORRECTIVE ACTION PLAN**

**FINDING 2019-001**

**Contact Person Responsible for Corrective Action:** Angelina Billo  
**Contact Phone Number:** 574-235-5838

***Views of Responsible Official:***

The City of South Bend (the "City") continuously strives to monitor and improve upon its system of internal control in all areas, including in the operation of the Industrial Revolving Fund. For that reason, the City shares the desire of the State Board of Accounts to ensure that all controls are appropriately documented and has undertaken the corrective action plan noted below.

However, the City disagrees with the opinion of the State Board of Accounts that the lack of a second signature on the loan documentation closing checklist indicates a material weakness or a significant deficiency in internal control, and therefore disagrees with this finding. There are two principal reasons for the City's position: first, the checklist itself (with or without a second signature) is an effective, documented internal control to provide reasonable assurance of the receipt of all appropriate documentation. While a second signature strengthens the documentation even further, the City believes this control is effective and adequately documented with or without an additional signature.

This belief is especially compelling when considering the second reason for the City's position; namely, that the checklist is only one part of a larger system of internal controls. This system contains compensating controls designed to further identify whether any required loan documentation is missing. One example of a compensating control is that both the loan officer and the IRF attorney are physically present at each loan closing to ensure that hard copies of all required loan documentation are present before the loan is closed. After closing, the loan officer creates a credit file with all loan documentation which is inspected and reviewed by the Director of Business Development.

For these reasons, the City believes that its current system of internal control is effective, and, although minor improvements can and should always be made, believes that its system is adequately documented.

***Description of Corrective Action Plan:***

Out of a desire to continuously strengthen internal control documentation, each loan documentation closing checklist is now reviewed and signed off on by the Director of Business Development prior to closing. The checklist continues to be prepared by the loan officer.

***Anticipated Completion Date:***

This change has already been implemented.

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
City Controller  
(Title)

\_\_\_\_\_  
(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/>.