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December 23, 2020

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, PA, Certified Public Accountants, for the period October 1, 2018 to September 30, 2019. 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, 2019, 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 finding. Management's responses and planned corrective actions may be found on pages 54-63.

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, 2019

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

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September 30, 2019

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

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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, 2019, 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, 2019, 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 December 15, 2020, 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

December 15, 2020

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2019

Management's Discussion and Analysis

This section of the Housing Authority of the City of South Bend, Indiana's (the "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, 2019. 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, 2019. 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, 2019

Financial Highlights

- Total assets were approximately \$7.8 million at September 30, 2019, a decrease of \$0.5 million from the September 30, 2018 balance of \$8.3 million. The decrease primarily related to the net change in capital assets of \$0.3 million and the decrease in the accounts receivable from HUD from the capital grants of \$0.2 million.
- Net capital assets were approximately \$6.1 million at September 30, 2019, representing a \$0.3 million decrease from the September 30, 2018, balance of \$6.4 million. The decrease is due to the current year depreciation expense exceeding the current year fixed asset additions.
- Net position at September 30, 2019, totaled approximately \$5.6 million and represented a decrease in net position of \$0.4 million from the year ending September 30, 2018. The decrease was primarily due to the change net capital assets of \$0.3 million.
- Total liabilities decreased from approximately \$2.3 million at September 30, 2018 to \$2.1 million at September 30, 2019. The decrease of \$0.2 million was primarily due to the vendor payments related to the grant funds received by HUD. Capital grant funds are considered reimbursable grants, whereby once HUD funds are received the vendors are paid within 3 days.
- Revenues decreased by approximately \$1.4 million from \$21.2 million during fiscal year 2018 to approximately \$19.8 million in fiscal year 2019. The decrease was primarily due to the decrease in Section 8 Housing Assistance Payments (HAP) received from HUD. HUD implemented a cash management policy whereby the Authority receives HAP funds based on the amount of HAP payments as reported monthly in the Voucher Management System (VMS).
- Operating expenses, excluding depreciation, decreased by approximately \$1.2 million, to \$19.0 million for fiscal year 2019, from approximately \$20.2 million for fiscal year 2018. The decrease was primarily related to a decrease in Housing Assistance Payment expense of approximately \$.8 million and a decrease in public housing routine maintenance expenses.

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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial situation of the Authority is improving or deteriorating, or otherwise changing in a dramatic manner.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2019

The *Statement of Revenues, Expenses, and Changes in Net Position* presents 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 related to actual cash flows in prior or future fiscal periods (e.g., depreciation and earned but unused vacation leave).

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 Public and Indian Housing program, the Section 8 Housing Choice Vouchers program and the Lead Based Paint Hazard Control in Privately-Owned Housing program 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.

Public and Indian Housing Program - Under the Public and Indian Housing Program, the Authority rents units it owns to low-income families who meet HUD eligibility guidelines. The Public and Indian 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.

Public Housing Capital Fund Program (CFP) - The Public Housing Capital Fund Program is the primary funding source for physical improvements to the Authority's public housing properties. CFP funding is based on a formula allocation that takes into consideration the size and age of the Authority's housing stock. HUD awards this grant funding on an annual basis, and gives the Authority up to four years to fully drawdown and spend each grant.

Section 8 Housing Choice Vouchers Program - The Section 8 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 3rd party 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.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2019

Lead-Based Paint Hazard Control in Privately-Owned Housing 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.

Financial Analysis of the Authority

Net Position

Net position represents the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources. As shown in the table below, the Authority's total net position at September 30, 2019, was approximately \$5.6 million, a 6.0 percent decrease from the September 30, 2018, balance of \$6.0 million.

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percent Change</u>
Current Assets	1,644	1,914	(270)	-14.1%
Capital Assets	<u>6,134</u>	<u>6,428</u>	<u>(294)</u>	-4.6%
Total Assets	<u>7,778</u>	<u>8,342</u>	<u>(564)</u>	-6.8%
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	0.0%
Current Liabilities	1,043	1,251	(208)	-16.6%
Noncurrent Liabilities	<u>1,097</u>	<u>1,096</u>	<u>1</u>	-.1%
Total Liabilities	<u>2,140</u>	<u>2,347</u>	<u>(207)</u>	-8.8%
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	0.0%
Net Investment in Capital Assets	6,134	6,428	(294)	-4.6%
Restricted	1,182	1,245	(63)	-5.1%
Unrestricted	<u>(1,678)</u>	<u>(1,678)</u>	<u>0</u>	-0%
Total Net Position	<u>5,638</u>	<u>5,995</u>	<u>(357)</u>	-6.0%

Current assets decreased primarily due to a decrease in accounts receivable from HUD. Capital grant funds received from HUD are utilized to pay associated vendor payment which accounts for the decrease in current liabilities. Non-current or capital assets decreased due to current year depreciation expense exceeding current year fixed asset additions.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2019

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 be restricted or an investment in capital assets. Those amounts fluctuate based upon the results of operations from year to year.

Capital Assets

Capital assets decreased by approximately \$294,000 from \$6.4 million to \$6.1 million, as shown in the table below:

Housing Authority of the City of South Bend				
Capital Asset Analysis				
	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>Change</u>	Percent Change
Land and Improvements	1,325,275	1,325,275	-	0.0%
Buildings and Improvements	65,934,901	65,101,389	833,512	1.3%
Furniture and Equipment	2,261,736	2,249,609	12,127	0.5%
Less Accumulated Depreciation	<u>(63,387,461)</u>	<u>(62,247,958)</u>	<u>(1,139,503)</u>	1.8%
Total Capital Assets	<u>6,134,451</u>	<u>6,428,315</u>	<u>(293,864)</u>	-4.6%

Depreciation expense was \$1,139,502 for fiscal year 2019. Fixed asset additions totaled \$845,639 for fiscal year 2019. There were no fixed asset disposals in fiscal year 2019. 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, 2019, except for amounts payable back to HUD (see Note 9).

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2019

Changes in Net Position

Overall net position decreased by approximately \$0.4 million from September 30, 2018 to September 30, 2019 as indicated below:

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>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues	<u>19,011</u>	<u>20,499</u>	<u>-1,488</u>	-7.3%
Operating Expenses	19,047	20,212	-1,165	-5.8%
Depreciation	<u>1,140</u>	<u>1,152</u>	<u>-12</u>	-1.1%
Total Expenses	<u>20,187</u>	<u>21,364</u>	<u>-1,177</u>	-5.5%
Net Operating Loss	<u>(1,176)</u>	<u>(865)</u>	<u>-311</u>	-36.0%
Nonoperating Revenues	11	2	9	450.0%
Contributions – Capital Grants	<u>808</u>	<u>749</u>	<u>59</u>	7.9%
Change in Net Position	<u>(357)</u>	<u>(114)</u>	<u>-243</u>	-213.2%
Beginning Net Position	5,995	5,679	316	5.6%
Prior Period Adjustments	<u>0</u>	<u>430</u>	<u>-430</u>	-100%
Ending Net Position	<u><u>5,638</u></u>	<u><u>5,995</u></u>	<u><u>-357</u></u>	-6.0%

Operating revenue decrease of \$1.5 million is primarily due to a decrease in the Section 8 Housing Assistance Payment grant revenue provided by HUD. Operating expense decreases are due to a decrease in HAP payments to landlords of \$0.8 million and a decrease in the public housing routine maintenance expenses.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2019

Changes in expenses and their percentage change are shown below:

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percent Change</u>
Administrative	2,369	2,219	150	6.7%
Tenant Services	36	5	31	620.0%
Utilities	540	521	19	3.6%
Ordinary Maintenance	2,245	2,966	(721)	-24.3%
Protective Services	245	226	19	8.4%
General	867	679	188	27.7%
Casualty Loss	0	0	0	0.0%
Housing Assistance Payments	12,745	13,596	(851)	-6.3%
Depreciation	<u>1,140</u>	<u>1,152</u>	<u>(12)</u>	-1.0%
Total Operating Expenses	<u>20,187</u>	<u>21,364</u>	<u>(1,177)</u>	-5.5%

Total operating expenses decreased by approximately \$1.2 million primarily due to a decrease in routine maintenance in the Public Housing Program and a decrease in the Section 8 Housing Assistance Payments expense due to decreased in voucher utilization.

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 fund budgets for the Authority's CFP grants are adopted through detailed Five-year capital plans and then updated through annual capital plans.

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.

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

Management's Discussion and Analysis

Fiscal Year Ending September 30, 2019

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 Tia Cauley, Interim 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, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets:	
Cash and cash equivalents	\$ 90,309
Cash and cash equivalents - restricted	1,320,201
Accounts receivable - HUD	28,205
Accounts receivable - other, net of allowance of \$52,071	118,638
Prepaid expenses	86,210
Total current assets	1,643,563
Noncurrent Assets:	
Capital Assets	
Nondepreciable capital assets	1,325,275
Depreciable capital assets, net	4,809,176
Total noncurrent assets	6,134,451
Total assets	7,778,014
Deferred Outflows of Resources	
Total assets and deferred outflows of resources	\$ 7,778,014
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
Current Liabilities:	
Accounts payable other and accrued liabilities	\$ 556,890
Accounts payable - HUD (current)	206,943
Accrued compensated absences	66,731
Tenant security deposits	184,374
Unearned revenue	28,155
Total current liabilities	1,043,093
Noncurrent Liabilities:	
Accounts payable - HUD (long term)	978,815
Other noncurrent liabilities	118,243
Total noncurrent liabilities	1,097,058
Total liabilities	2,140,151
Deferred Inflows of Resources	
Total liabilities, deferred inflows of resources, and net position	-
Net Position:	
Net investment in capital assets	6,134,451
Restricted net position	1,182,007
Unrestricted net position	(1,678,595)
Total net position	5,637,863
Total liabilities, deferred inflows of resources, and net position	\$ 7,778,014

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, 2019

Operating revenues:	
Tenant rental revenue	\$ 1,975,585
HUD operating grants	16,265,029
Other revenue	770,435
Total operating revenues	<u>19,011,049</u>
Operating expenses:	
Administration	2,368,471
Tenant services	36,298
Utilities	540,474
Ordinary maintenance	2,245,386
Protective services	244,998
General expenses	867,345
Housing assistance payments	12,744,878
Depreciation	1,139,502
Total operating expenses	<u>20,187,352</u>
Net operating loss	<u>(1,176,303)</u>
Nonoperating revenue and expense:	
Interest income	10,543
Nonoperating revenue	<u>10,543</u>
Net loss before capital fund grant	(1,165,760)
Capital fund grants	<u>808,093</u>
Decrease in net position	(357,667)
Net position, beginning of year	<u>5,995,530</u>
Net position, end of year	<u><u>\$ 5,637,863</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, 2019

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<u>Cash flows from operating activities:</u>	
Cash received from tenants and others	\$ 2,845,851
Cash paid for housing assistance payments	(12,758,476)
Cash paid for goods and services	(4,627,863)
Cash paid to employees for services	(1,963,410)
HUD PHA grants received	16,445,312
Net cash used by operating activities	<u>(58,586)</u>
<u>Cash flows from capital and related financing activities:</u>	
Proceeds from capital grants	799,404
Acquisition of capital assets	(845,638)
Net cash used by capital and related financing activities	<u>(46,234)</u>
<u>Cash flows from investing activities:</u>	
Interest on investments	10,543
Cash flows provided by investing activities	<u>10,543</u>
Net decrease in cash and cash equivalents	(94,277)
Cash and cash equivalents, beginning of year	<u>1,504,787</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,410,510</u></u>
<u>Reconciliation of operating loss to net cash used by operating activities:</u>	
Net operating loss:	\$ (1,176,303)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation	1,139,502
Decrease in tenants, accounts receivable - government and other	259,121
Increase in prepaid expenses	(74,047)
Decrease in accrued compensated absences	(21,412)
Decrease in accounts payable, accrued liabilities and security deposits	(159,377)
Decrease in other current liabilities	(13,598)
Decrease in unearned revenue	(29,212)
Increase in other liabilities	16,740
Total adjustments	<u>1,117,717</u>
Net cash used by operating activities	<u><u>\$ (58,586)</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

Notes to Financial Statements

September 30, 2019

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.

Effective September 2018, the board approved a resolution to dissolve the Foundation and transfer its assets to the Authority. The Foundation's total cash and investment balance as of September 30, 2019 was \$847.

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

Notes to Financial Statements

September 30, 2019

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 and Indian Housing - 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 Public and Indian Housing 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 Choice Vouchers 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 Choice Vouchers 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, 2019, the Authority administered 2,124 tenant-based vouchers authorized by Section 8.

Public Housing 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, 2019

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 Public and Indian Housing Program, Section 8 Housing Choice Vouchers Program, Public Housing Capital Fund Program, Resident Opportunity and Supporting Services – Service Coordinators 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, 2019

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 Public and Indian Housing Program and the Section 8 Housing Choice Vouchers 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, 2019, 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 or other grant amounts earned but not yet received.

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

Notes to Financial Statements

September 30, 2019

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. There was no inventory recorded as of September 30, 2019.

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, 2019

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 Vouchers program for Housing Assistance Payments.

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, 2019

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 \$1,410,510.

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, 2019

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	\$1,390,847	\$ 1,598,374	\$1,598,374	\$ -
Money market funds and savings	18,816	18,816	18,816	-
<u>Foundation:</u>				
Money market funds and savings	847	847	847	-
Total	<u>\$1,410,510</u>	<u>\$ 1,618,037</u>	<u>\$1,618,037</u>	<u>\$ -</u>

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

Cash and cash equivalents	\$ 90,309
Cash and cash equivalents - restricted	1,320,201
Total cash and cash equivalents	<u>\$1,410,510</u>

Restricted cash and investments as of September 30, 2019, consisted of the following:

Tenant security deposits	\$ 184,374
Section 8 HAP restricted cash	1,011,359
Section 8 FSS restricted cash	118,244
Section 8 Accounts Payable - HUD	6,224
Total	<u>\$1,320,201</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, 2019

NOTE 4: Inter-program Amounts

At September 30, 2019, inter-program receivables and payables consisted of the following:

	<u>Due from</u>	<u>Due to</u>
Program:		
COCC	\$ 1,145,187	\$ 67,679
Public Housing low rent program	2,014,473	1,910,981
ROSS/FSS program	0	9,405
Section 8 – Housing Choice Voucher	58,573	1,212,423
Component Unit	0	17,745
	<u>\$ 3,218,233</u>	<u>\$ 3,218,233</u>

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 <u>Public Housing</u>	Section 8 <u>HCV</u>	<u>COCC</u>	<u>Total</u>
Tenant receivables	\$ 67,087	\$ 41,268	\$ 0	\$ 108,355
Less allowance for doubtful accounts	(41,754)	(10,317)	0	(52,071)
HCV Port-in receivables	0	43,096	0	43,096
Miscellaneous	5,246	0	14,012	19,258
	<u>\$ 30,579</u>	<u>\$ 74,047</u>	<u>\$ 14,012</u>	<u>\$ 118,638</u>

NOTE 6: Accounts Receivable - HUD

Amounts due from the U.S. Department of Housing and Urban Development as of September 30, 2019 are composed of the following:

Amounts due for the Capital Fund Program	\$ 17,919
Amounts due for FSS/Ross Program	10,286
	<u>\$ 28,205</u>

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

Notes to Financial Statements

September 30, 2019

NOTE 7: Capital Assets

The capital assets (at cost) of the Housing Authority of the City of South Bend at September 30, 2019 consisted of the following:

	Balance at September 30, 2018	Additions	Deletions	Transfers/ Reclassifications	Balance at September 30, 2019
Nondepreciable capital assets:					
Land	\$ 1,325,275	\$ -	\$ -	\$ -	\$ 1,325,275
	<u>1,325,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,325,275</u>
Depreciable capital assets:					
Buildings and improvements	65,101,389	833,512	-	-	65,934,901
Furniture, equipment, vehicles	2,249,609	12,127	-	-	2,261,736
	<u>67,350,998</u>	<u>845,639</u>	<u>-</u>	<u>-</u>	<u>68,196,637</u>
Accumulated Depreciation:					
Buildings and improvements	(60,176,952)	(1,089,780)	-	-	(61,266,732)
Furniture, equipment, vehicles	(2,071,006)	(49,722)	(1)	-	(2,120,729)
	<u>(62,247,958)</u>	<u>(1,139,502)</u>	<u>(1)</u>	<u>-</u>	<u>(63,387,461)</u>
Total Capital Assets, net	<u>\$ 6,428,315</u>	<u>\$ (293,863)</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 6,134,451</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, 2019.

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

Notes to Financial Statements

September 30, 2019

NOTE 9: Noncurrent Liabilities

For the year ended September 30, 2019, the change in noncurrent liabilities is as follows:

	September 30, 2018		Additions	Payments / Adjustments	September 30, 2019	
	Long-Term Portion	Current Portion			Long-Term Portion	Current Portion
Accrued compensated absences	\$ 0	88,143	\$ 87,369	\$ (108,781)	\$ -	\$ 66,731
Accounts Payable HUD	994,415	152,435	67,508	(28,600)	978,815	206,943
Other liabilities	101,503	-	16,740	-	118,243	-
	<u>\$ 1,095,918</u>	<u>\$ 240,578</u>	<u>\$ 171,617</u>	<u>\$ (137,381)</u>	<u>\$ 1,097,058</u>	<u>\$ 273,674</u>

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, during the year ended September 30, 2016 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.

Also, during the current fiscal year ended September 30, 2019 the Authority drew down funds of \$67,508 for capital fund grant ("CFP") costs that were not eligible for reimbursement because the invoices were already reimbursed on a prior draw or the backup documentation for the cost was not properly supported.

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

Notes to Financial Statements

September 30, 2019

NOTE 9: Noncurrent Liabilities (Continued)

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

<u>Due to Hud For</u>	<u>Due at Sept 30, 2018</u>	<u>Plus Current Amounts</u>	<u>Less Current Payments</u>	<u>Due at Sept 30, 2019</u>	<u>Current Portion</u>	<u>Long Term Portion</u>	<u>Begin Date</u>	<u>Payment Terms</u>
NRA	\$ 495,861	\$ -	\$ (13,000)	\$ 482,861	\$ 12,000	\$ 470,861	5/1/2017	\$1,000 per month until paid off 01/01/2060
Unsupported payments	411,382	-	-	411,382	-	411,382	1/1/2060	\$1,000 per month until paid off (34 years)
Ineligible payments	79,884	-	-	79,884	-	79,884	5/1/2094	\$500 per month until paid off
FSS	21,688	-	(2,600)	19,088	2,400	16,688	10/01/17	\$200 per month until paid off
	<u>1,008,815</u>	<u>-</u>	<u>(15,600)</u>	<u>993,215</u>	<u>14,400</u>	<u>978,815</u>		
<u>Other Amounts</u>								
Interest	6,224	-	-	6,224	6,224	-		
CFP ineligible costs	<u>131,811</u>	<u>67,508</u>	<u>(13,000)</u>	<u>186,319</u>	<u>186,319</u>	<u>-</u>		
	<u>\$ 1,146,850</u>	<u>\$ 67,508</u>	<u>\$ (28,600)</u>	<u>\$ 1,185,758</u>	<u>\$ 206,943</u>	<u>\$ 978,815</u>		

On March 18, 2020, the HUD Quality Assurance Division (“QAD”) issued a Financial Management Review (“review”). Amongst other things (see Note 14 Subsequent Events), the report mentioned the March 10, 2014 QAD report (discussed above) requiring the repayment of \$512,861. The March 18, 2020 report asserts the process of approving the repayment agreement did not properly follow HUD protocols and as such, the agreement is null and void. The Authority was to receive and did receive a demand letter repayment.

NOTE 10: Schedule of Changes in Net Position:

	<u>Net Investment in Capital Assets</u>	<u>Restricted Net Position</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance, beginning of year	\$ 6,428,315	\$ 1,245,160	\$ (1,677,945)	\$ 5,995,530
Decrease in net position	-	-	(357,667)	(357,667)
Changes in net investment in capital assets	(293,864)	-	293,864	-
Changes in restricted net position	-	(63,153)	63,153	-
Balance, end of year	<u>\$ 6,134,451</u>	<u>\$ 1,182,007</u>	<u>\$ (1,678,595)</u>	<u>\$ 5,637,863</u>

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, 2019

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.

Investigation – On July 31, 2019, the Federal Bureau of Investigation (“FBI”) conducted an operation at the offices of the Authority. The Authority received notice of a federal grand jury investigation led by the US Attorney's Office for the Northern District of Indiana, in conjunction with the FBI, Department of Housing and Urban Development, and Internal Revenue Service. The Authority has produced internal records requested by the grand jury and is cooperating with the investigation, which remains ongoing. As the results of the investigation are not yet known, possible resulting actions are undeterminable and no amounts are recorded in the financial statements for this possible contingency.

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

Notes to Financial Statements

September 30, 2019

NOTE 14: Subsequent Events

Management for the Authority has evaluated subsequent events after September 30, 2019, and through December 15, 2020, 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, except as follows:

- In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. The pandemic impacts the Authority's operations. These impacts include disruptions or restrictions on employees' ability to work or the tenant's ability to pay the required monthly rent. Operating functions impacted include intake, recertifications and maintenance. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of tenants to continue making rental payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.
- In November 2020, the Rabbi Shulman Plaza Apartments experienced a natural gas leak and all the residents of the complex were evacuated. It was subsequently determined to close the facility. The financial statements have not been adjusted for any potential effects of this occurrence.
- On March 18, 2020, the HUD Quality Assurance Division ("QAD") issued a Financial Management Review ("review") primarily of the Housing Choice Voucher Program ("HCV"). The review revealed significant concerns about the HACSB's financial recording and reporting. Specifically, the Authority has not reconciled its HCV HAP bank account since March 2019 and the HCV admin bank account has not been reconciled since December 2018. There are no audit trails for accounting transaction adjustments, in 2018 the HACSB went for 8 months without recording any financial transactions at all; records were subsequently "recreated" without valid audit trails and could not verify the availability of cash and investments to support the restricted net position (RNP) and unrestricted net position (UNP) of the HCV program. QAD recommended that a full and completed forensic audit be performed to determine the proper source and recording of entity wide funds as well as to determine if additional funds are owed to or from the HCV program. QAD determined that the Authority owes \$1,302,363 to undetermined programs and also has concerns regarding the Authority's repayment agreement (see Note 9) and the source of the repayments. Other comments and findings from the QAD review are enumerated below:
 - Finding No 2020-01: The HACSB's financial records were not maintained in a manner that would permit a speedy and effective audit and the Authority's financial and internal controls need improvement.
 - Finding No. 2020-02: HCV administrative costs were paid from comingled funds, resulting in other programmatic funds being used to pay for HCV expenses and the Authority's HCV program is insolvent.

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

Notes to Financial Statements

September 30, 2019

NOTE 14: Subsequent Events (Continued)

- Finding No. 2020-03: HCV Program funds were inappropriately spent.
- Finding No. 2020-04: The Authority owes \$109,721 to the FSS Escrow Account and needs to reconcile its FSS accounts.
- Finding No. 2020-05: The Authority had not returned all the interest earned on the investment of restricted HAP funds to the U.S. Department of Treasury.
- Finding No. 2020-06: The RNP and UNP balances were incorrectly calculated and incorrectly reported in the VMS.

No amounts are recorded in the financial statements for this contingency.

- On April 30, 2020, the HUD Indianapolis Field Office ("F.O.") conducted a financial review of the Housing Authority of South Bend on December 10-12, 2019 which covered the time period of December 2016 through April 30, 2020. The objectives of the review were to determine the origin of the Authority's COCC revenue; determine the cost allocation of the Authority's administrative staff between its Public Housing and HCV programs; review the Authority's bank accounts and transactions therein; and to perform a limited review of the Authority's Capital Fund compliance and activities. The comments and findings from the F.O. review are enumerated below:

- Finding No 1: Between December 2016 and December 2019, the Authority transferred and spent a total of \$1,597,752 in restricted HAP funds on non-HAP purposes. The F.O. asserts the Authority violated numerous HUD regulations as well as the terms of its Annual Contributions Contract and is at risk of a declaration of substantial default and that the Authority has misused its restricted HAP funds to support its HCV administrative expenses as well as Public Housing expenses and unknown other uses in its General Fund account. This misappropriation of funds is the proximate cause of its continuing monthly HAP shortfalls. As the Authority's current RNP cash position has been effectively reduced to \$0 as a result of its past misappropriations, it now cannot pay its monthly HAP obligations in full and must prioritize landlord payments until it can apply for and receive an HHR disbursement to make up the difference. As Notice PIH 2013-12 states, "HUD may take action, including suspension and debarment, against a PHA or any party that has used HAP funds and/or the HAP NRA account for non- HAP purposes." Notice PIH 2013-12 further holds that "If a PHA has not adequately administered its HCV Program, HUD may prohibit use of funds in the UNA account and may direct the PHA to use funds in that account to improve administration of the program, for HCV HAP expenses, or to reimburse ineligible expenses in accordance with the regulation at 24 CFR 982.155(b) (3)." The Authority is violating the terms of its Annual Contributions Contract as well as the statutory restrictions which govern the eligible uses of its HCV and Public Housing program funds. The Authority is paying the expenses of both its HCV and Public Housing programs out of its General Fund while it cannot ensure that the funds used to pay each expense can be traced back to its program of origin. HASB cannot begin to recover its financial position without a substantial change to its banking and accounting practices.

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

Notes to Financial Statements

September 30, 2019

NOTE 14: Subsequent Events (Continued)

- Finding No. 2: The Authority pays all HCV and COCC administrative expenses as well as LIPH operating and capital expenses out of its General Fund account, but does not maintain accurate records of the programmatic sources of funds used to pay those expenses.
- Concern No. 1: The Authority is not keeping its Capital Fund Five Year Action Plan up to date in EPIC.
- Concern No. 2: It could not be determined if the Authority's properties have either been tested for the presence of lead-based paint (LBP) or are exempt from LBP testing.

No amounts are recorded in the financial statements for this contingency.

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, 2019.

Condensed Statement of Net Position

Assets	
Current assets	\$ 847
Total assets	<u>\$ 847</u>
Liabilities	
Current liabilities	\$ 17,745
Total liabilities	<u>17,745</u>
Net position	
Unrestricted	<u>(16,898)</u>
Total net position	<u>(16,898)</u>
Total liabilities and net position	<u>\$ 847</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Operating revenues and (expenses):	
Operating revenues	\$ 0
Depreciation	0
Operating expenses	<u>(25,273)</u>
Net operating income	<u>(25,273)</u>
Nonoperating revenues and (expenses)	
Interest income	<u>0</u>
Change in net position	<u>(25,273)</u>
Beginning net position	8,375
Equity transfer	-
Ending net position	<u>\$ (16,898)</u>

Condensed Statement of Cash Flows

Net cash provided by:	
Operating activities	\$ (25,272)
Net decrease in cash	<u>(25,272)</u>
Beginning cash	26,119
Ending cash	<u>\$ 847</u>

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

Statement of Capital Fund Program Costs - Uncompleted

September 30, 2019

Annual Contributions Contract C977

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

	<u>P015501-17</u>	<u>R015502-18</u>	<u>R015502-19</u>	<u>Total</u>
Funds approved	\$ 1,275,711	\$ 1,981,715	\$ 2,073,517	\$ 5,330,943
Funds expended	<u>1,268,534</u>	<u>1,403,902</u>	<u>618,953</u>	<u>3,291,389</u>
 Funds remaining	 <u>\$ 7,177</u>	 <u>\$ 577,813</u>	 <u>\$ 1,454,564</u>	 <u>\$ 2,039,554</u>
 Funds advanced	 \$ 1,268,534	 \$ 1,385,983	 \$ 618,953	 \$ 3,273,470
Funds expended	<u>1,268,534</u>	<u>1,403,902</u>	<u>618,953</u>	<u>3,291,389</u>
 Excess of funds advanced	 <u>\$ -</u>	 <u>\$ (17,919)</u>	 <u>\$ -</u>	 <u>\$ (17,919)</u>
 2. Costs incurred during the current audit period	 <u>\$ 25,909</u>	 <u>\$ 806,218</u>	 <u>\$ 618,953</u>	 <u>\$ 1,451,080</u>

See auditor's report.



**Barton,
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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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 15, 2020.

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 2019-001 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*.

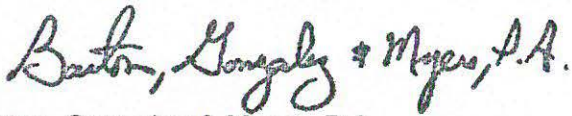
We noted certain other matters that we reported to management of the Authority in a separate letter dated December 15, 2020.

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.

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
December 15, 2020

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, 2019. 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 number 2019-002 for reporting, 2019-007 for eligibility, and 2019-008 and 2019-009 for special tests and provisions. 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, 2019.

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 2019-002 for reporting, 2019-003 for eligibility, 2019-004 for special tests and provisions, and 2019-005 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 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, 2019.

Basis for Qualified Opinion on Public Housing Capital Fund 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 14.872 Public Housing Capital Fund Program as described in finding numbers 2019-002 for reporting, 2019-010 for allowable costs/cost principles, and 2019-011 for special tests and provisions. 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 Public Housing Capital Fund 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 Housing Capital Fund Program for the year ended September 30, 2019.

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 2019-006. 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 2019-002, 2019-003, 2019-004, 2019-005, 2019-007, 2019-008, 2019-009, 2019-010, and 2011-011 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 2019-006 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
December 15, 2020

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

Schedule of Findings and Questioned Costs

September 30, 2019

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
14.872	Public Housing Capital Fund Program	Qualified

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

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

Schedule of Findings and Questioned Costs

September 30, 2019

Section II - Financial Statement Findings:

The findings related to this area for the year ended September 30, 2019 are as follows.

2019-001 Inadequate Controls Over Financial Reporting

Material Weakness in Internal Control

This is a repeat finding of 2018-001 from September 30, 2018 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: The internal controls of the Authority are deficient and/or are not being adhered to 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. The following was noted:

- Journal entry testing – we noted 18 out of 25 journal entries tested where there was no support for the journal entry reviewed. Although the journal entries appeared reasonable and necessary, we recommend all journal entries are supported by adequate documentation and are reviewed by a person other than the preparer prior to posting.
- Disbursements testing – we selected 30 disbursements at random to determine if the disbursements were supported by approved invoices, were mathematically accurate and were charged to the correct general ledger account and fund. We noted the following:
 - The Authority could not locate 3 of the invoices we selected (the Authority asserts these were removed from the premises during the FBI investigation);
 - The Authority could not locate 2 other disbursements selected (no reason provided);
 - The Authority was only able to provide \$943.10 of invoices for a check disbursement of \$1,040.10 (a difference of \$97);
 - The Authority was only able to provide an unapproved invoice of \$1,685.08 for a check disbursement of \$2,323.28 (a difference of \$638.20).
- We noted a non-federal bank account balance that had not changed from the prior year and had not been reconciled prior to the year-end close. This account required an adjustment of \$25,272 (shown as \$26,119 in the general ledger but the actual cash balance was \$847) of which \$25,000 of the change related to a bank withdrawal on November 15, 2018.
- The Authority did not reconcile the receivable amount for VASH Port-ins and appears not to be reconciled in some time.
- We noted immaterial tenant fraud receivable balances that were the same balances from the prior year and did not seem to be reconciled.
- We noted that accounting costs paid to the fee accountant of approximately \$47,679 were charged to programs and should have been all charged to the COCC (as the COCC charges a bookkeeping fee to the programs).

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-001 Inadequate Controls Over Financial Reporting (Continued)

Material Weakness in Internal Control

- We noted that the FSS Escrow Liability account had not been reconciled and an adjustment of \$70,364 was necessary to correct.
- We noted contractor unit turnaround charges in the amount of \$185,099 were expensed to payroll and as such an adjustment was necessary to correct.
- As a result of the audit, accounts payable was adjusted by \$58,776.
- As noted in Finding 2019-010, an additional amount payable to HUD of \$67,508 was recorded due to a CFP invoice being billed twice and other CFP draws with insufficient support.
- HAP expense was increased by \$125,378 to correct a mis-posting.
- Various other expense account misclassifications and mis-postings (including between programs) were corrected.
- As discussed as a subsequent event in Note 14 to the financial statements, on March 18, 2020, the HUD Quality Assurance Division (“QAD”) issued a Financial Management Review (“review”) primarily of the Housing Choice Voucher Program (“HCV”). The review revealed significant concerns about the HACSB’s financial recording and reporting. Specifically, the Authority has not reconciled its HCV HAP bank account since March 2019 and the HCV admin bank account has not been reconciled since December 2018.

There are no audit trails for accounting transaction adjustments, in 2018 the HACSB went for 8 months without recording any financial transactions at all; records were subsequently “recreated” without valid audit trails and could not verify the availability of cash and investments to support the restricted net position (RNP) and unrestricted net position (UNP) of the HCV program. QAD recommended that a full and completed forensic audit be performed to determine the proper source and recording of entity wide funds as well as to determine if additional funds are owed to or from the HCV program. QAD determined that the Authority owes \$1,302,363 to undetermined programs and also has concerns regarding the Authority’s repayment agreement (see Note 9) and the source of the repayments. Other comments and findings from the QAD review are enumerated below:

- Finding No 2020-01: The HACSB’s financial records were not maintained in a manner that would permit a speedy and effective audit and the Authority’s financial and internal controls need improvement.
- Finding No. 2020-02: HCV administrative costs were paid from comingled funds, resulting in other programmatic funds being used to pay for HCV expenses and the Authority’s HCV program is insolvent.
- Finding No. 2020-03: HCV Program funds were inappropriately spent.

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-001 Inadequate Controls Over Financial Reporting (Continued)

Material Weakness in Internal Control

- Finding No. 2020-04: The Authority owes \$109,721 to the FSS Escrow Account and needs to reconcile its FSS accounts.
 - Finding No. 2020-05: The Authority had not returned all the interest earned on the investment of restricted HAP funds to the U.S. Department of Treasury.
 - Finding No. 2020-06: The RNP and UNP balances were incorrectly calculated and incorrectly reported in the VMS.
- As discussed as a subsequent event in Note 14 to the financial statements, on April 30, 2020, the HUD Indianapolis Field Office ("F.O.") conducted a financial review of the Housing Authority of South Bend on December 10-12, 2019 which covered the time period of December 2016 through April 30, 2020. The objectives of the review were to determine the origin of the Authority's COCC revenue; determine the cost allocation of the Authority's administrative staff between its Public Housing and HCV programs; review the Authority's bank accounts and transactions therein; and to perform a limited review of the Authority's Capital Fund compliance and activities. The comments and findings from the F.O. review are enumerated below:
 - Finding No 1: Between December 2016 and December 2019, the Authority transferred and spent a total of \$1,597,752 in restricted HAP funds on non-HAP purposes. The F.O. asserts the Authority violated numerous HUD regulations as well as the terms of its Annual Contributions Contract and is at risk of a declaration of substantial default and that the Authority has misused its restricted HAP funds to support its HCV administrative expenses as well as Public Housing expenses and unknown other uses in its General Fund account. This misappropriation of funds is the proximate cause of its continuing monthly HAP shortfalls.
As the Authority's current RNP cash position has been effectively reduced to \$0 as a result of its past misappropriations, it now cannot pay its monthly HAP obligations in full and must prioritize landlord payments until it can apply for and receive an HHR disbursement to make up the difference. As Notice PIH 2013-12 states, "HUD may take action, including suspension and debarment, against a PHA or any party that has used HAP funds and/or the HAP NRA account for non- HAP purposes." Notice PIH 2013-12 further holds that "If a PHA has not adequately administered its HCV Program, HUD may prohibit use of funds in the UNA account and may direct the PHA to use funds in that account to improve administration of the program, for HCV HAP expenses, or to reimburse ineligible expenses in accordance with the regulation at 24 CFR 982.155(b) (3)." The Authority is violating the terms of its Annual Contributions Contract as well as the statutory restrictions which govern the eligible uses of its HCV and Public Housing program funds. The Authority is paying the expenses of both its HCV and Public Housing programs out of its General Fund while it cannot ensure that the funds used to pay each expense can be traced back to its program of origin. HASB cannot begin to recover its financial position without a substantial change to its banking and accounting practices.

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-001 Inadequate Controls Over Financial Reporting (Continued)

Material Weakness in Internal Control

- Finding No. 2: The Authority pays all HCV and COCC administrative expenses as well as LIPH operating and capital expenses out of its General Fund account, but does not maintain accurate records of the programmatic sources of funds used to pay those expenses.

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

Questioned Cost: None

Effect: As a result of the audit, significant adjustments and reclassifications had to be posted. In addition, the Authority's internal control is insufficient in preventing, detecting, and correcting errors on a timely basis.

Cause: The Authority did not have the necessary controls over the financial reporting process to detect material misstatements and is not, in some cases, adhering to their written internal control procedures. The Authority experienced significant turnover and illness for those employees responsible for accounting and financial reporting.

Recommendation: The Authority should establish and adhere to internal controls to ensure that appropriate 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 continuing to evaluate and improve our control structure and processes. We have hired a new finance director and also engaged the services of a Fee Accountant (BDO).

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

Schedule of Findings and Questioned Costs

September 30, 2019

Section III - Federal Awards:

The findings related to this area for the year ended September 30, 2019 are as follows.

2019-002 Reporting – Inaccurate and Late FDS Submission

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 2018-002 from September 30, 2018 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: In addition to the items affecting Public Housing and HCV as noted in Finding 2019-001, the Authority's original unaudited FDS filing was materially misstated and was rejected by REAC which required the filing to be corrected and resubmitted. In addition, the unaudited FDS filings were not submitted within the timeframes specified by HUD. The Authority submitted the original unaudited FDS filing on January 16, 2020 (of which the extended due date was January 15, 2020). The Authority submitted the revised unaudited FDS filing on November 4, 2020 (and was required to be submitted by April 3, 2020).

Criteria: The Real Estate Assessment Center ("REAC") requires an accurate and timely submission of the unaudited FDS information.

Questioned Cost: None

Effect: The Authority did not submit a materially correct unaudited FDS within the time frames required by HUD, 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.

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

Views of Responsible Officials of the Auditee: We concur with the recommendation. Due to the significant turnover experienced within the accounting department we were not able to accurately close the books before the HUD specified unaudited FDS filing deadline. We are very focused on ensuring there is adequate staffing and sufficient processes in place in order to be able to close the books prior to submitting a materially accurate unaudited FDS submission for the following fiscal year.

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-003 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 2018-003 from September 30, 2018 (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:

- 3 tenant files where a signed lead base paint form was missing from the tenant file for units that were built before 1978.
- 1 tenant file where the child care income of \$7,203 was excluded from the tenant's household income. This caused the HAP rent to change from \$909 to \$729, which is a \$180 decrease

As part of our new admissions testing (10 tested out of 100 new admissions), we also noted the following:

- 1 tenant file where there is no support of a signed HAP contract.
- 2 tenant files where two dependents in the tenants' household were missing a signed 214 affidavit Form. However, the dependents were U.S. citizens per review of their birth certificates.
- 1 tenant file where the head of household did not check the box on the 214 affidavit form indicating that they were a U.S. citizen or a permanent resident. However, per review of the birth certificate, the tenant was a U.S. citizen.
- 3 tenant files where there was no support of a criminal background check being performed on the tenant upon their admission into the Section 8 program.

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.

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-003 Eligibility – Tenant Files (Continued)

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871
Material Weakness in Internal Control Material Noncompliance

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 providing training to insure that the applicable HUD regulations are being followed for tenant certification.

2019-004 Special Tests and Provisions – Housing Quality Standards Inspections

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871
Material Weakness in Internal Control Material Noncompliance

Condition: There is no support that quality control inspections were performed for the 2019 fiscal year. Per 24 CFR 982.405(b), the Authority is required to perform 29 quality control inspections for the 2019 fiscal year.

Criteria: The PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable regulations regarding quality control inspections and there is no assurance that inspectors are completing the inspections properly.

Cause: The Authority had turnover in staff and staff may need more training.

Recommendation: Quality control Inspectors should perform the required re-inspections throughout the year to assure that inspections are being properly performed.

Views of Responsible Officials of the Auditee: We concur with the recommendation and will provide additional training to assure the required re-inspections are performed and documented.

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-005 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

This is a repeat finding of 2018-004 from September 30, 2018 (initially occurred as Finding 2017-007 from September 30, 2017)

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 \$170,648. Total cash in the HCV program of \$1,135,827 is insufficient to cover the FSS escrow liability (\$118,244), HAP RNP (\$1,182,007) and accrued interest owed to HUD (\$6,224) totaling \$1,306,475.

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: \$170,648.

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

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 RNP once the cash becomes available.

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-006 Special Tests and Provisions - Housing Quality Standard (HQS) Failed Inspections

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

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

Condition: In testing 25 failed HQS inspections, the following instance of noncompliance was noted: We noted 1 failed inspection issue (out of 25 tested in a population of 600 failed inspections) where a unit did not pass inspection 118 days passed the original inspection date, and the HAP rent was not abated for the months of June, July, and August. There is no support that an abatement letter was sent to the landlord.

Criteria: HUD regulations require that units leased to a family are inspected at least annually to determine if the unit meets Housing Quality Standards (HQS). In addition, inspections must be documented on a unit inspection report. For units that fail inspections, any life threatening deficiencies must be corrected within 24 hours and all other deficiencies must be corrected within 30 calendar days or within a specified PHA-approved extension. If the deficiency is not corrected, the HAP payment must be abated no later than the first of the following month.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations.

Cause: Significant turnover and lack of proper oversight contributed to the errors noted. The Authority did not have adequate internal controls in place over failed inspections.

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.

Views of Responsible Officials of the Auditee: We concur with the recommendation. We will implement procedures to assure that failed HQS inspections are properly documented on the inspection report, performed during the required time frame or initiate abatement procedures, and document the reason for the result of failed inspections and assure that repairs are completed timely.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
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Schedule of Findings and Questioned Costs

September 30, 2019

2019-007 Eligibility – Tenant Files

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

Condition: Out of 25 tenant files selected for testing (out of a population of approximately 800), we noted the following instances of noncompliance:

- 9 files having income calculation issues.
- 3 files missing asset support.
- 2 files missing support for medical and childcare cost.
- 2 files missing EIVs.
- 1 file having an incomplete personal declaration form.

Criteria: HUD regulations require that the Authority perform certain prescribed verification procedures and obtain the required documentation to assure that tenants qualify for low income housing and that amounts submitted to HUD for tenant assistance are calculated according to HUD rules.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations.

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 providing training 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, 2019

2019-008 Special Tests and Provisions – Waiting List and New Admissions

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

Condition: Out of 23 new admissions selected for testing (out of a population of 228), we stopped testing after 8 files and noted the following:

- 1 instance where a single person household was admitted into a three-bedroom unit.
- For the household above, the waiting list showed 4 points on admission. However, the correct preference points should have been 5 (so should have been admitted earlier).
- 1 instance where the application date and time didn't agree to the amount listed on the waiting list and would have changed the order of selection.
- 1 instance where the tenant applicant was assigned incorrect preference points. At the time of admission, the tenant wasn't working but received 3 preference points (for the working preference) and therefore was selected improperly from the waiting list. In addition, the tenant was selected from an August 2018 waiting list but wasn't housed until June of 2019.

In addition, 25 applicants were selected from the waiting list for testing (but stopped testing after testing 16 files) and the following was noted:

- 2 instances where applicants were assigned incorrect preference points on the waiting list.
- 1 instance where applicant showed an incorrect date on the waiting list.
- 1 instance where an applicant was missing from the waiting list.
- In addition, we noted an additional 13 applicants that were miss categorized in the system and were not included on the waiting list and would never have been selected for admission.

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

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.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
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Schedule of Findings and Questioned Costs

September 30, 2019

2019-008 Special Tests and Provisions – Waiting List and New Admissions (Continued)

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

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 will provide proper training to insure that the applicable HUD regulations are being followed for waiting lists and new admissions.

2019-009 Special Tests and Provisions - Utility Allowance Rates

Public and Indian Housing Program – CFDA Number 14.850

Material Weakness in Internal Control Material Noncompliance

Condition: A utility allowance study was conducted for the 2019 fiscal year. However, the utility allowance rates used by the Authority in its rent calculation for fiscal year 2019 were based on a study conducted in a previous year and the Authority did not implement the new rates that were based on the new study. Based on a comparison utility rate sheet the Authority should have used the updated rates for Water and Trash collection as the rates appeared to have changed by 10% or more.

Criteria: The PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type, since the last time the utility allowance schedule was revised.

Questioned Costs: None.

Effect: The Authority is not in compliance with HUD regulations regarding utility allowances and, as such, the tenant rents calculated may not be accurate.

Cause: The Authority did not have adequate internal controls in place over the determination of utility allowance schedule amounts and the rates from the recent study were not used.

Auditor's Recommendation: The Authority should increase training to employees to insure that the Authority is in compliance with HUD rules for utility allowance determination. In addition, the Authority should assure that the utility allowance schedule is modified if a rate change of 10% or more for utilities.

Views of Responsible Officials of the Auditee: The Authority concurs with the recommendation and are providing additional training to assure the correct utility rates are being used. This area will be monitored as a part of the ongoing quality control oversight in the departments.

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-010 Allowable Costs/Cost Principles – CFP Draws and Cost

Public Housing Capital Fund – CFDA Number 14.872

Material Weakness in Internal Control Material Noncompliance

Condition: The Authority was reimbursed \$33,377 for CFP invoices submitted by the Authority that had already been submitted and funded (for CFP 2018) – and therefore HUD funded the same invoices twice. We also noted another CFP draw (for CFP 2018) where the Authority could not provide all of the invoices supporting the draw of \$114,722 (only \$91,795 of invoices were able to be provided leaving \$22,927 unsupported). We also requested support for amounts billed by vendor KTR. We selected 3 invoices at random to determine if the vendor was billing the appropriate amount based on the contract. The Authority could not locate the support calculation for the amount billed for 1 of the 3 requested in the amount of \$11,204.

Criteria: The Authority should request CFP funding from HUD for those costs that have been incurred and not yet reimbursed. In addition, the Authority estimates cost for modernization of vacant units using Xactimate (which is a computer software system for estimating construction costs). Vendor KTR was selected through the procurement process to provide these services and to invoice the Authority using the Xactimate process. A negotiated cost per unit using Xactimate and a 10% mark-up profit was to be used for pricing for each unit.

Questioned Costs: \$67,508.

Effect: The Authority is not in compliance with HUD regulations regarding the CFP program and may need to return these funds to HUD. The Authority is also not able to support that a vendor billing for modernization of a vacant unit is reasonable.

Cause: The Authority did not have adequate internal controls in place over CFP draws. In addition, the Authority experienced turnover in this department.

Auditor's Recommendation: The Authority should increase training to employees to insure that the Authority is in compliance with HUD rules for the CFP program. In addition, the Authority should assure CFP draws are supported by invoices that are eligible to be reimbursed with CFP funding.

Views of Responsible Officials of the Auditee: The Authority concurs with the recommendation and are providing additional training to assure CFP draws are only for costs eligible for reimbursement.

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

Schedule of Findings and Questioned Costs

September 30, 2019

2019-011 Special Tests and Provisions - Wage Rate Requirements

Public Housing Capital Fund – CFDA Number 14.872

Material Weakness in Internal Control Material Noncompliance

Condition: We selected 3 contractor files funded by the Capital Fund Program. Of the 3 files requested, 1 file contained the required documentation and certified payrolls. However, 1 file did not contain the required certified payrolls and 1 file could not be located. Therefore, contractors were being paid without review of the certified payrolls.

Criteria: All laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project. Non-federal entities shall include in their construction contracts subject to the Wage Rate Requirements a provision that the contractor or subcontractor comply with those requirements. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance. The certified payrolls are then compared to employee interviews to assure employees are being paid not less than established area wages.

Questioned Costs: None.

Effect: The Authority is not in compliance with applicable HUD regulations.

Cause: The Authority did not have adequate internal controls in place over wage rate requirements including documentation of obtaining certified payrolls.

Auditor's Recommendation: We recommend the Authority obtain certified payrolls for all construction type contracts and assure that employees are being paid not less than the established wages in the area.

Views of Responsible Officials of the Auditee: The Authority recognizes its responsibility in administering contracts in accordance with HUD regulations, to include wage rate requirements and certified payrolls. The Authority will continue to monitor the implementation and outcomes of training to ensure that staff are correctly applying regulatory requirements.

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

Summary Schedule of Prior Year Findings

September 30, 2019

The prior audit report for the year ended September 30, 2018 contained the following findings:

2018-001 Inadequate Controls Over Financial Reporting

Material Weakness in Internal Control

This is a repeat finding of 2017-001 from September 30, 2017 (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, port-in receivables, accounts payable, 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.

Current Status: The finding was not corrected and will be repeated. See current year finding 2019-001.

2018-002 Reporting – Inaccurate FDS 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 2017-002 from September 30, 2017 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: In addition to the adjustments affecting Public Housing and HCV as noted in Finding 2018-001, the Authority's unaudited FDS filing was materially misstated when compared to the audited FDS filing. It should be noted that the unaudited FDS filing was submitted within the timeframe specified by HUD, which was not the case in the prior year.

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

Current Status: The finding was not corrected and will be repeated. See current year finding 2019-002.

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

Summary Schedule of Prior Year Findings

September 30, 2019

2018-003 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 2017-004 from September 30, 2017 (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:

- 1 file missing rent reasonableness
- 1 file missing EIV
- 2 files with income calculation errors
- 1 file missing a signed 9886 form

As part of our new admissions testing, we also noted the following:

- 1 instance where four HUD 214 Affidavit forms weren't fully completed documenting citizenship

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 2019-003.

HOUSING AUTHORITY OF THE CITY OF SOUTH BEND
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Summary Schedule of Prior Year Findings

September 30, 2019

2018-004 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

This is a repeat finding of 2017-007 from September 30, 2017

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 \$226,248. Total cash in the HCV program of \$1,126,639 is insufficient to cover the FSS escrow liability (\$101,503), HAP RNP (\$1,245,160) and accrued interest owed to HUD (\$6,224) totaling \$1,352,887.

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

Current Status: The finding was not corrected and will be repeated. See current year finding 2019-005.

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

Corrective Action Plan

September 30, 2019

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

Finding
No.

2019-001 Inadequate Controls Over Financial Reporting

Material Weakness in Internal Control

This is a repeat finding of 2018-001 from September 30, 2018 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: The internal controls of the Authority are deficient and/or are not being adhered to 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. The following was noted:

- Journal entry testing – we noted 18 out of 25 journal entries tested where there was no support for the journal entry reviewed. Although the journal entries appeared reasonable and necessary, we recommend all journal entries are supported by adequate documentation and are reviewed by a person other than the preparer prior to posting.
- Disbursements testing – we selected 30 disbursements at random to determine if the disbursements were supported by approved invoices, were mathematically accurate and were charged to the correct general ledger account and fund. We noted the following:
 - The Authority could not locate 3 of the invoices we selected (the Authority asserts these were removed from the premises during the FBI investigation);
 - The Authority could not locate 2 other disbursements selected (no reason provided);
 - The Authority was only able to provide \$943.10 of invoices for a check disbursement of \$1,040.10 (a difference of \$97);
 - The Authority was only able to provide an unapproved invoice of \$1,685.08 for a check disbursement of \$2,323.28 (a difference of \$638.20).
- We noted a non-federal bank account balance that had not changed from the prior year and had not been reconciled prior to the year-end close. This account required an adjustment of \$25,272 (shown as \$26,119 in the general ledger but the actual cash balance was \$847) of which \$25,000 of the change related to a bank withdrawal on November 15, 2018.
- The Authority did not reconcile the receivable amount for VASH Port-ins and appears not to be reconciled in some time.
- We noted immaterial tenant fraud receivable balances that were the same balances from the prior year and did not seem to be reconciled.
- We noted that accounting costs paid to the fee accountant of approximately \$47,679 were charged to programs and should have been all charged to the COCC (as the COCC charges a bookkeeping fee to the programs).

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Corrective Action Plan

September 30, 2019

2019-001 Inadequate Controls Over Financial Reporting (Continued)

Material Weakness in Internal Control

- We noted that the FSS Escrow Liability account had not been reconciled and an adjustment of \$70,364 was necessary to correct.
- We noted contractor unit turnaround charges in the amount of \$185,099 were expensed to payroll and as such an adjustment was necessary to correct.
- As a result of the audit, accounts payable was adjusted by \$58,776.
- As noted in Finding 2019-010, an additional amount payable to HUD of \$67,508 was recorded due to a CFP invoice being billed twice and other CFP draws with insufficient support.
- HAP expense was increased by \$125,378 to correct a mis-posting.
- Various other expense account misclassifications and mis-postings (including between programs) were corrected.
- As discussed as a subsequent event in Note 14 to the financial statements, on March 18, 2020, the HUD Quality Assurance Division (“QAD”) issued a Financial Management Review (“review”) primarily of the Housing Choice Voucher Program (“HCV”). The review revealed significant concerns about the HACSB’s financial recording and reporting. Specifically, the Authority has not reconciled its HCV HAP bank account since March 2019 and the HCV admin bank account has not been reconciled since December 2018.

There are no audit trails for accounting transaction adjustments, in 2018 the HACSB went for 8 months without recording any financial transactions at all; records were subsequently “recreated” without valid audit trails and could not verify the availability of cash and investments to support the restricted net position (RNP) and unrestricted net position (UNP) of the HCV program. QAD recommended that a full and completed forensic audit be performed to determine the proper source and recording of entity wide funds as well as to determine if additional funds are owed to or from the HCV program. QAD determined that the Authority owes \$1,302,363 to undetermined programs and also has concerns regarding the Authority’s repayment agreement (see Note 9) and the source of the repayments. Other comments and findings from the QAD review are enumerated below:

- Finding No 2020-01: The HACSB’s financial records were not maintained in a manner that would permit a speedy and effective audit and the Authority’s financial and internal controls need improvement.
- Finding No. 2020-02: HCV administrative costs were paid from comingled funds, resulting in other programmatic funds being used to pay for HCV expenses and the Authority’s HCV program is insolvent.
- Finding No. 2020-03: HCV Program funds were inappropriately spent.

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

Corrective Action Plan

September 30, 2019

2019-001 Inadequate Controls Over Financial Reporting (Continued)

Material Weakness in Internal Control

- Finding No. 2020-04: The Authority owes \$109,721 to the FSS Escrow Account and needs to reconcile its FSS accounts.
 - Finding No. 2020-05: The Authority had not returned all the interest earned on the investment of restricted HAP funds to the U.S. Department of Treasury.
 - Finding No. 2020-06: The RNP and UNP balances were incorrectly calculated and incorrectly reported in the VMS.
- As discussed as a subsequent event in Note 14 to the financial statements, on April 30, 2020, the HUD Indianapolis Field Office ("F.O.") conducted a financial review of the Housing Authority of South Bend on December 10-12, 2019 which covered the time period of December 2016 through April 30, 2020. The objectives of the review were to determine the origin of the Authority's COCC revenue; determine the cost allocation of the Authority's administrative staff between its Public Housing and HCV programs; review the Authority's bank accounts and transactions therein; and to perform a limited review of the Authority's Capital Fund compliance and activities. The comments and findings from the F.O. review are enumerated below:
 - Finding No 1: Between December 2016 and December 2019, the Authority transferred and spent a total of \$1,597,752 in restricted HAP funds on non-HAP purposes. The F.O. asserts the Authority violated numerous HUD regulations as well as the terms of its Annual Contributions Contract and is at risk of a declaration of substantial default and that the Authority has misused its restricted HAP funds to support its HCV administrative expenses as well as Public Housing expenses and unknown other uses in its General Fund account. This misappropriation of funds is the proximate cause of its continuing monthly HAP shortfalls.

As the Authority's current RNP cash position has been effectively reduced to \$0 as a result of its past misappropriations, it now cannot pay its monthly HAP obligations in full and must prioritize landlord payments until it can apply for and receive an HHR disbursement to make up the difference. As Notice PIH 2013-12 states, "HUD may take action, including suspension and debarment, against a PHA or any party that has used HAP funds and/or the HAP NRA account for non- HAP purposes." Notice PIH 2013-12 further holds that "If a PHA has not adequately administered its HCV Program, HUD may prohibit use of funds in the UNA account and may direct the PHA to use funds in that account to improve administration of the program, for HCV HAP expenses, or to reimburse ineligible expenses in accordance with the regulation at 24 CFR 982.155(b) (3)." The Authority is violating the terms of its Annual Contributions Contract as well as the statutory restrictions which govern the eligible uses of its HCV and Public Housing program funds. The Authority is paying the expenses of both its HCV and Public Housing programs out of its General Fund while it cannot ensure that the funds used to pay each expense can be traced back to its program of origin. HASB cannot begin to recover its financial position without a substantial change to its banking and accounting practices.

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

Corrective Action Plan

September 30, 2019

2019-001 Inadequate Controls Over Financial Reporting (Continued)

Material Weakness in Internal Control

- Finding No. 2: The Authority pays all HCV and COCC administrative expenses as well as LIPH operating and capital expenses out of its General Fund account, but does not maintain accurate records of the programmatic sources of funds used to pay those expenses.

Recommendation: The Authority should establish and adhere to internal controls to ensure that appropriate adjustments are recorded so that the financial statements are fairly presented.

Action Taken: We concur with the recommendation. We are continuing to evaluate and improve our control structure and processes. We have hired a new finance director and also engaged the services of a Fee Accountant (BDO).

2019-002 Reporting – Inaccurate and Late FDS Submission

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 2018-002 from September 30, 2018 (initially occurred as Finding 2012-10 from September 30, 2012)

Condition: In addition to the items affecting Public Housing and HCV as noted in Finding 2019-001, the Authority's original unaudited FDS filing was materially misstated and was rejected by REAC which required the filing to be corrected and resubmitted. In addition, the unaudited FDS filings were not submitted within the timeframes specified by HUD. The Authority submitted the original unaudited FDS filing on January 16, 2020 (of which the extended due date was January 15, 2020). The Authority submitted the revised unaudited FDS filing on November 4, 2020 (and was required to be submitted by April 3, 2020).

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

Action Taken: We concur with the recommendation. Due to the significant turnover experienced within the accounting department we were not able to accurately close the books before the HUD specified unaudited FDS filing deadline. We are very focused on ensuring there is adequate staffing and sufficient processes in place in order to be able to close the books prior to submitting a materially accurate unaudited FDS submission for the following fiscal year.

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

Corrective Action Plan

September 30, 2019

2019-003 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 2018-003 from September 30, 2018 (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:

- 3 tenant files where a signed lead base paint form was missing from the tenant file for units that were built before 1978.
- 1 tenant file where the child care income of \$7,203 was excluded from the tenant's household income. This caused the HAP rent to change from \$909 to \$729, which is a \$180 decrease

As part of our new admissions testing (10 tested out of 100 new admissions), we also noted the following:

- 1 tenant file where there is no support of a signed HAP contract.
- 2 tenant files where two dependents in the tenants' household were missing a signed 214 affidavit Form. However, the dependents were U.S. citizens per review of their birth certificates.
- 1 tenant file where the head of household did not check the box on the 214 affidavit form indicating that they were a U.S. citizen or a permanent resident. However, per review of the birth certificate, the tenant was a U.S. citizen.
- 3 tenant files where there was no support of a criminal background check being performed on the tenant upon their admission into the Section 8 program.

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 providing training to insure that the applicable HUD regulations are being followed for tenant certification.

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

Corrective Action Plan

September 30, 2019

2019-004 Special Tests and Provisions – Housing Quality Standards Inspections

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

Material Weakness in Internal Control Material Noncompliance

Condition: There is no support that quality control inspections were performed for the 2019 fiscal year. Per 24 CFR 982.405(b), the Authority is required to perform 29 quality control inspections for the 2019 fiscal year.

Recommendation: Quality control Inspectors should perform the required re-inspections throughout the year to assure that inspections are being properly performed.

Action Taken: We concur with the recommendation and will provide additional training to assure the required re-inspections are performed and documented.

2019-005 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

This is a repeat finding of 2018-004 from September 30, 2018 (initially occurred as Finding 2017-007 from September 30, 2017)

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 \$170,648. Total cash in the HCV program of \$1,135,827 is insufficient to cover the FSS escrow liability (\$118,244), HAP RNP (\$1,182,007) and accrued interest owed to HUD (\$6,224) totaling \$1,306,475.

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.

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

Corrective Action Plan

September 30, 2019

2019-006 Special Tests and Provisions - Housing Quality Standard (HQS) Failed Inspections

Section 8 Housing Choice Vouchers Program – CFDA Number 14.871

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

Condition: In testing 25 failed HQS inspections, the following instance of noncompliance was noted: We noted 1 failed inspection issue (out of 25 tested in a population of 600 failed inspections) where a unit did not pass inspection 118 days passed the original inspection date, and the HAP rent was not abated for the months of June, July, and August. There is no support that an abatement letter was sent to the landlord.

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.

Action Taken: We concur with the recommendation. We will implement procedures to assure that failed HQS inspections are properly documented on the inspection report, performed during the required time frame or initiate abatement procedures, and document the reason for the result of failed inspections and assure that repairs are completed timely.

2019-007 Eligibility – Tenant Files

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

Condition: Out of 25 tenant files selected for testing (out of a population of approximately 800), we noted the following instances of noncompliance:

- 9 files having income calculation issues.
- 3 files missing asset support.
- 2 files missing support for medical and childcare cost.
- 2 files missing EIVs.
- 1 file having an incomplete personal declaration form.

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 providing training to insure that the applicable HUD regulations are being followed for tenant certification.

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

Corrective Action Plan

September 30, 2019

2019-008 Special Tests and Provisions – Waiting List and New Admissions

Public and Indian Housing Program – CFDA 14.850

Material Weakness in Internal Control Material Noncompliance

Condition: Out of 23 new admissions selected for testing (out of a population of 228), we stopped testing after 8 files and noted the following:

- 1 instance where a single person household was admitted into a three-bedroom unit.
- For the household above, the waiting list showed 4 points on admission. However, the correct preference points should have been 5 (so should have been admitted earlier).
- 1 instance where the application date and time didn't agree to the amount listed on the waiting list and would have changed the order of selection.
- 1 instance where the tenant applicant was assigned incorrect preference points. At the time of admission, the tenant wasn't working but received 3 preference points (for the working preference) and therefore was selected improperly from the waiting list. In addition, the tenant was selected from an August 2018 waiting list but wasn't housed until June of 2019.

In addition, 25 applicants were selected from the waiting list for testing (but stopped testing after testing 16 files) and the following was noted:

- 2 instances where applicants were assigned incorrect preference points on the waiting list.
- 1 instance where applicant showed an incorrect date on the waiting list.
- 1 instance where an applicant was missing from the waiting list.
- In addition, we noted an additional 13 applicants that were miss categorized in the system and were not included on the waiting list and would never have been selected for admission.

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.

Action Taken: We concur with the recommendation. We are implementing review procedures and will provide proper training to insure that the applicable HUD regulations are being followed for waiting lists and new admissions.

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

Corrective Action Plan

September 30, 2019

2019-009 Special Tests and Provisions - Utility Allowance Rates

Public and Indian Housing Program – CFDA Number 14.850

Material Weakness in Internal Control Material Noncompliance

Condition: A utility allowance study was conducted for the 2019 fiscal year. However, the utility allowance rates used by the Authority in its rent calculation for fiscal year 2019 were based on a study conducted in a previous year and the Authority did not implement the new rates that were based on the new study. Based on a comparison utility rate sheet the Authority should have used the updated rates for Water and Trash collection as the rates appeared to have changed by 10% or more.

Auditor's Recommendation: The Authority should increase training to employees to insure that the Authority is in compliance with HUD rules for utility allowance determination. In addition, the Authority should assure that the utility allowance schedule is modified if a rate change of 10% or more for utilities.

Action Taken: The Authority concurs with the recommendation and are providing additional training to assure the correct utility rates are being used. This area will be monitored as a part of the ongoing quality control oversight in the departments.

2019-010 Allowable Costs/Cost Principles – CFP Draws and Cost

Public Housing Capital Fund – CFDA Number 14.872

Material Weakness in Internal Control Material Noncompliance

Condition: The Authority was reimbursed \$33,377 for CFP invoices submitted by the Authority that had already been submitted and funded (for CFP 2018) – and therefore HUD funded the same invoices twice. We also noted another CFP draw (for CFP 2018) where the Authority could not provide all of the invoices supporting the draw of \$114,722 (only \$91,795 of invoices were able to be provided leaving \$22,927 unsupported). We also requested support for amounts billed by vendor KTR. We selected 3 invoices at random to determine if the vendor was billing the appropriate amount based on the contract. The Authority could not locate the support calculation for the amount billed for 1 of the 3 requested in the amount of \$11,204.

Auditor's Recommendation: The Authority should increase training to employees to insure that the Authority is in compliance with HUD rules for the CFP program. In addition, the Authority should assure CFP draws are supported by invoices that are eligible to be reimbursed with CFP funding.

Action Taken: The Authority concurs with the recommendation and are providing additional training to assure CFP draws are only for costs eligible for reimbursement.

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

Corrective Action Plan

September 30, 2019

2019-011 Special Tests and Provisions - Wage Rate Requirements

Public Housing Capital Fund – CFDA Number 14.872

Material Weakness in Internal Control Material Noncompliance

Condition: We selected 3 contractor files funded by the Capital Fund Program. Of the 3 files requested, 1 file contained the required documentation and certified payrolls. However, 1 file did not contain the required certified payrolls and 1 file could not be located. Therefore, contractors were being paid without review of the certified payrolls.

Auditor's Recommendation: We recommend the Authority obtain certified payrolls for all construction type contracts and assure that employees are being paid not less than the established wages in the area.

Action Taken: The Authority recognizes its responsibility in administering contracts in accordance with HUD regulations, to include wage rate requirements and certified payrolls. The Authority will continue to monitor the implementation and outcomes of training to ensure that staff are correctly applying regulatory requirements.

Effective Date: December 15, 2020

Tia Cauley, Interim 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, 2019

<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	\$ 2,424,624	\$ 2,424,624
Public Housing Capital Fund Program	* + 14.872	5,330,943	1,451,080
Resident Opportunity and Supportive Services - Service Coordinators	** 14.870	38,736	34,513
<u>Housing Voucher Cluster:</u>			
Section 8 Housing Choice Vouchers	* + 14.871	13,162,905	13,162,905
TOTAL		<u>\$ 20,957,208</u>	<u>\$ 17,073,122</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.



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December 15, 2020

Ms. Tia Cauley, Interim Executive Director
and Board of Commissioners
Housing Authority of South Bend
501 Alonzo Watson Drive
South Bend, IN 46601

Dear Ms. Cauley 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, 2019, 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 December 15, 2020, 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 comment is summarized as follows:

HCV SEMAP:

The Section Eight Management Assessment Program (SEMAP) measures the performance of the public housing agencies (PHAs) that administer the Housing Choice Voucher program in 14 key areas. SEMAP helps HUD target monitoring and assistance to PHA programs that need the most improvement. One of the criteria is quality control inspections (see Finding 2019-004). There was no support for the quality control inspections, which is indicator 5 on the SEMAP report (5 points taken on the SEMAP). There was no support for the HQS enforcements, which is indicator 6 on the SEMAP report (10 points taken on the SEMAP). The Authority reported 145 out of 145 points on the SEMAP. Our testing revealed that the Authority qualified for 130 out of 145 points. The Authority is still a high performer with 130 out of 145 points. However, care should be taken to properly complete the SEMAP report.

We wish to thank the Interim 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: 09/30/2019

	Project Total	6.2 Component Unit - Blended	14.871 Housing Choice Vouchers	14.870 Resident Opportunity and Supportive Services	14.900 Lead-Based Paint Hazard Control in Privately-Owned Housing	COCC	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$65,026	\$847			\$24,436		\$90,309		\$90,309
112 Cash - Restricted - Modernization and Development									
113 Cash - Other Restricted			\$1,135,827				\$1,135,827		\$1,135,827
114 Cash - Tenant Security Deposits	\$184,374						\$184,374		\$184,374
115 Cash - Restricted for Payment of Current Liabilities									
100 Total Cash	\$249,400	\$847	\$1,135,827	\$0	\$24,436	\$0	\$1,410,510	\$0	\$1,410,510
121 Accounts Receivable - PHA Projects			\$43,096				\$43,096		\$43,096
122 Accounts Receivable - HUD Other Projects	\$17,919			\$10,286			\$28,205		\$28,205
124 Accounts Receivable - Other Government									
125 Accounts Receivable - Miscellaneous	\$2,564					\$14,012	\$16,576		\$16,576
126 Accounts Receivable - Tenants	\$39,176						\$39,176		\$39,176
126.1 Allowance for Doubtful Accounts - Tenants	-\$11,280						-\$11,280		-\$11,280
126.2 Allowance for Doubtful Accounts - Other	-\$2,564		\$0	\$0		\$0	-\$2,564		-\$2,564
127 Notes, Loans, & Mortgages Receivable - Current	\$2,683						\$2,683		\$2,683
128 Fraud Recovery	\$27,910		\$41,268				\$69,178		\$69,178
128.1 Allowance for Doubtful Accounts - Fraud	-\$27,910		-\$10,317				-\$38,227		-\$38,227
129 Accrued Interest Receivable									
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$48,498	\$0	\$74,047	\$10,286	\$0	\$14,012	\$146,843	\$0	\$146,843
131 Investments - Unrestricted									
132 Investments - Restricted									
135 Investments - Restricted for Payment of Current Liability									
142 Prepaid Expenses and Other Assets	\$44,827		\$25,081			\$16,302	\$86,210		\$86,210
143 Inventories									
143.1 Allowance for Obsolete Inventories									
144 Inter Program Due From	\$2,014,473		\$58,573			\$1,145,187	\$3,218,233	-\$3,218,233	\$0
145 Assets Held for Sale									
150 Total Current Assets	\$2,357,198	\$847	\$1,293,528	\$10,286	\$24,436	\$1,175,501	\$4,861,796	-\$3,218,233	\$1,643,563
161 Land	\$1,325,275						\$1,325,275		\$1,325,275
162 Buildings	\$65,310,914					\$623,987	\$65,934,901		\$65,934,901
163 Furniture, Equipment & Machinery - Dwellings	\$641,020						\$641,020		\$641,020
164 Furniture, Equipment & Machinery - Administration	\$1,127,403		\$301,566			\$191,747	\$1,620,716		\$1,620,716
165 Leasehold Improvements									
166 Accumulated Depreciation	-\$62,357,116		-\$279,876			-\$750,469	-\$63,387,461		-\$63,387,461
167 Construction in Progress									
168 Infrastructure									
160 Total Capital Assets, Net of Accumulated Depreciation	\$6,047,496	\$0	\$21,690	\$0	\$0	\$65,265	\$6,134,451	\$0	\$6,134,451
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	\$6,047,496	\$0	\$21,690	\$0	\$0	\$65,265	\$6,134,451	\$0	\$6,134,451
200 Deferred Outflow of Resources									
290 Total Assets and Deferred Outflow of Resources	\$8,404,694	\$847	\$1,315,218	\$10,286	\$24,436	\$1,240,766	\$10,995,247	-\$3,218,233	\$7,778,014
311 Bank Overdraft									
312 Accounts Payable <= 90 Days	\$400,439		\$53,325			\$45,288	\$499,052		\$499,052
313 Accounts Payable >90 Days Past Due									
321 Accrued Wage/Payroll Taxes Payable	\$26,330		\$10,169	\$881	\$470	\$19,988	\$57,838		\$57,838
322 Accrued Compensated Absences - Current Portion	\$36,719		\$10,474		\$1,701	\$17,837	\$66,731		\$66,731
324 Accrued Contingency Liability									
325 Accrued Interest Payable									
331 Accounts Payable - HUD PHA Programs	\$186,319		\$6,224			\$14,400	\$206,943		\$206,943
332 Account Payable - PHA Projects									
333 Accounts Payable - Other Government									
341 Tenant Security Deposits	\$184,374						\$184,374		\$184,374
342 Unearned Revenue	\$28,155						\$28,155		\$28,155
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue									
344 Current Portion of Long-term Debt - Operating Borrowings									
345 Other Current Liabilities									
346 Accrued Liabilities - Other									
347 Inter Program - Due To	\$1,910,981	\$17,745	\$1,212,423	\$9,405		\$67,679	\$3,218,233	-\$3,218,233	\$0
348 Loan Liability - Current									
310 Total Current Liabilities	\$2,773,317	\$17,745	\$1,292,615	\$10,286	\$2,171	\$165,192	\$4,261,326	-\$3,218,233	\$1,043,093
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue									

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

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2019

	Project Total	6.2 Component Unit - Blended	14,871 Housing Choice Vouchers	14,870 Resident Opportunity and Supportive Services	14,900 Lead-Based Paint Hazard Control in Privately-Owned Housing	COCC	Subtotal	ELIM	Total
352 Long-term Debt, Net of Current - Operating Borrowings									
353 Non-current Liabilities - Other			\$118,243			\$978,815	\$1,097,058		\$1,097,058
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	\$0	\$0	\$118,243	\$0	\$0	\$978,815	\$1,097,058	\$0	\$1,097,058
300 Total Liabilities	\$2,773,317	\$17,745	\$1,410,858	\$10,286	\$2,171	\$1,144,007	\$5,358,384	-\$3,218,233	\$2,140,151
400 Deferred Inflow of Resources									
508.4 Net Investment in Capital Assets	\$6,047,496		\$21,690			\$65,265	\$6,134,451		\$6,134,451
511.4 Restricted Net Position			\$1,182,007				\$1,182,007		\$1,182,007
512.4 Unrestricted Net Position	-\$416,119	-\$16,898	-\$1,299,337	\$0	\$22,265	\$31,494	-\$1,678,595		-\$1,678,595
513 Total Equity - Net Assets / Position	\$5,631,377	-\$16,898	-\$95,640	\$0	\$22,265	\$96,759	\$5,637,863	\$0	\$5,637,863
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$8,404,694	\$847	\$1,315,218	\$10,286	\$24,436	\$1,240,766	\$10,996,247	-\$3,218,233	\$7,778,014

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

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2019

	Project Total	6.2 Component Unit - Blended	14.871 Housing Choice Vouchers	14.870 Resident Opportunity and Supportive Services	14.900 Lead-Based Paint Hazard Control in Privately-Owned Housing	COCC	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	\$1,848,232						\$1,848,232		\$1,848,232
70400 Tenant Revenue - Other	\$127,353						\$127,353		\$127,353
70500 Total Tenant Revenue	\$1,975,585	\$0	\$0	\$0	\$0	\$0	\$1,975,585	\$0	\$1,975,585
70600 HUD PHA Operating Grants	\$3,067,611		\$13,162,905	\$34,513			\$16,265,029		\$16,265,029
70610 Capital Grants	\$808,093						\$808,093		\$808,093
70710 Management Fee						\$1,051,664	\$1,051,664	-\$1,051,664	\$0
70720 Asset Management Fee						\$237,187	\$237,187	-\$237,187	\$0
70730 Book Keeping Fee									
70740 Front Line Service Fee									
70750 Other Fees									
70700 Total Fee Revenue						\$1,288,851	\$1,288,851	-\$1,288,851	\$0
70800 Other Government Grants									
71100 Investment Income - Unrestricted			\$10,543				\$10,543		\$10,543
71200 Mortgage Interest Income									
71300 Proceeds from Disposition of Assets Held for Sale									
71310 Cost of Sale of Assets									
71400 Fraud Recovery									
71500 Other Revenue	\$66,172		\$672,156		\$1,200	\$30,907	\$770,435		\$770,435
71600 Gain or Loss on Sale of Capital Assets									
72000 Investment Income - Restricted									
70000 Total Revenue	\$5,917,461	\$0	\$13,845,604	\$34,513	\$1,200	\$1,319,758	\$21,118,536	-\$1,288,851	\$19,829,685
91100 Administrative Salaries	\$449,201		\$382,370		\$17,610	\$455,195	\$1,304,376		\$1,304,376
91200 Auditing Fees	\$12,644		\$14,150			\$6,735	\$33,529		\$33,529
91300 Management Fee	\$782,924		\$268,740				\$1,051,664	-\$1,051,664	\$0
91310 Book-keeping Fee	\$69,225		\$167,962				\$237,187	-\$237,187	\$0
91400 Advertising and Marketing						\$202	\$202		\$202
91500 Employee Benefit contributions - Administrative	\$113,481		\$86,136		\$2,317	\$107,135	\$309,069		\$309,069
91600 Office Expenses	\$215,091		\$59,395		\$831	\$138,262	\$413,579		\$413,579
91700 Legal Expense	\$57,002		\$37,773			\$11,206	\$105,981		\$105,981
91800 Travel	\$56		\$698			\$2,796	\$3,550		\$3,550
91810 Allocated Overhead									
91900 Other	\$52,708		\$16,047		\$4	\$129,426	\$198,185		\$198,185
91000 Total Operating - Administrative	\$1,752,332	\$0	\$1,033,271	\$0	\$20,762	\$850,957	\$3,657,322	-\$1,288,851	\$2,368,471
92000 Asset Management Fee									
92100 Tenant Services - Salaries				\$31,683			\$31,683		\$31,683
92200 Relocation Costs									
92300 Employee Benefit Contributions - Tenant Services				\$2,830			\$2,830		\$2,830
92400 Tenant Services - Other	\$1,785						\$1,785		\$1,785
92500 Total Tenant Services	\$1,785	\$0	\$0	\$34,513	\$0	\$0	\$36,298	\$0	\$36,298
93100 Water	\$199,319					\$1,079	\$200,398		\$200,398
93200 Electricity	\$250,610					\$4,444	\$255,054		\$255,054
93300 Gas	\$84,886						\$84,886		\$84,886
93400 Fuel	\$136						\$136		\$136
93500 Labor									
93600 Sewer									
93700 Employee Benefit Contributions - Utilities									
93800 Other Utilities Expense									
93000 Total Utilities	\$534,951	\$0	\$0	\$0	\$0	\$5,523	\$540,474	\$0	\$540,474
94100 Ordinary Maintenance and Operations - Labor	\$419,215						\$419,215		\$419,215
94200 Ordinary Maintenance and Operations - Materials and Other	\$328,320		\$5,306			\$116	\$333,742		\$333,742
94300 Ordinary Maintenance and Operations Contracts	\$1,392,258		\$956			\$11,140	\$1,404,354		\$1,404,354
94500 Employee Benefit Contributions - Ordinary Maintenance	\$88,075						\$88,075		\$88,075
94000 Total Maintenance	\$2,227,868	\$0	\$6,262	\$0	\$0	\$11,256	\$2,245,386	\$0	\$2,245,386
95100 Protective Services - Labor	\$99,354						\$99,354		\$99,354
95200 Protective Services - Other Contract Costs	\$133,126						\$133,126		\$133,126
95300 Protective Services - Other	\$3,022						\$3,022		\$3,022
95500 Employee Benefit Contributions - Protective Services	\$9,496						\$9,496		\$9,496
95000 Total Protective Services	\$244,998	\$0	\$0	\$0	\$0	\$0	\$244,998	\$0	\$244,998
96110 Property Insurance	\$139,291						\$139,291		\$139,291
96120 Liability Insurance	\$133,477		\$107,307			\$66,314	\$307,098		\$307,098
96130 Workmen's Compensation	\$33,599		\$16,140			\$8,590	\$58,329		\$58,329
96140 All Other Insurance	\$11,032		\$3,030			\$162	\$14,224		\$14,224
96100 Total Insurance Premiums	\$317,399	\$0	\$126,477	\$0	\$0	\$75,066	\$518,942	\$0	\$518,942

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

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2019

	Project Total	6.2 Component Unit - Blended	14.871 Housing Choice Vouchers	14.870 Resident Opportunity and Supportive Services	14.900 Lead-Based Paint Hazard Control in Privately-Owned Housing	COCC	Subtotal	ELIM	Total
96200 Other General Expenses	\$73,257	\$25,273	\$9,971		\$3,858	\$0	\$112,359		\$112,359
96210 Compensated Absences	\$41,444		\$16,570		\$297	\$27,058	\$87,369		\$87,369
96300 Payments in Lieu of Taxes									
96400 Bad debt - Tenant Rents	\$146,111						\$146,111		\$146,111
96500 Bad debt - Mortgages									
96600 Bad debt - Other	\$2,564						\$2,564		\$2,564
96800 Severance Expense									
96900 Total Other General Expenses	\$263,376	\$25,273	\$28,541	\$0	\$4,155	\$27,058	\$348,403	\$0	\$348,403
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	\$0
96900 Total Operating Expenses	\$5,342,709	\$25,273	\$1,194,551	\$34,513	\$24,917	\$969,860	\$7,591,823	-\$1,288,851	\$6,302,972
97000 Excess of Operating Revenue over Operating Expenses	\$574,752	-\$25,273	\$12,651,053	\$0	-\$23,717	\$349,898	\$13,526,713	\$0	\$13,526,713
97100 Extraordinary Maintenance									
97200 Casualty Losses - Non-capitalized									
97300 Housing Assistance Payments			\$12,216,352				\$12,216,352		\$12,216,352
97350 HAP Portability-In			\$528,526				\$528,526		\$528,526
97400 Depreciation Expense	\$1,120,775		\$8,465			\$10,262	\$1,139,502		\$1,139,502
97500 Fraud Losses									
97600 Capital Outlays - Governmental Funds									
97700 Debt Principal Payment - Governmental Funds									
97800 Dwelling Units Rent Expense									
90000 Total Expenses	\$6,463,484	\$25,273	\$13,947,894	\$34,513	\$24,917	\$980,122	\$21,476,203	-\$1,288,851	\$20,187,352
10010 Operating Transfer In	\$436,669						\$436,669	-\$436,669	\$0
10020 Operating transfer Out	-\$436,669						-\$436,669	\$436,669	\$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									
10094 Transfers between Project and Program - Out									
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-\$546,023	-\$25,273	-\$102,290	\$0	-\$23,717	\$339,636	-\$357,667	\$0	-\$357,667
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0
11030 Beginning Equity	\$5,051,180	\$8,375	\$6,450	\$0	-\$534,377	\$1,463,902	\$5,995,530		\$5,995,530
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$1,126,220		\$200		\$580,359	-\$1,706,779	\$0		\$0
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			-\$1,277,647				-\$1,277,647		-\$1,277,647
11180 Housing Assistance Payments Equity			\$1,182,007				\$1,182,007		\$1,182,007
11190 Unit Months Available	9399		25488	0	0		34887		34887
11210 Number of Unit Months Leased	9229		22395	0	0		31624		31624
11270 Excess Cash	-\$888,976						-\$888,976		-\$888,976
11610 Land Purchases	\$0					\$0	\$0		\$0
11620 Building Purchases	\$797,481					\$0	\$797,481		\$797,481
11630 Furniture & Equipment - Dwelling Purchases	\$0					\$0	\$0		\$0
11640 Furniture & Equipment - Administrative Purchases	\$10,612					\$0	\$10,612		\$10,612
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