

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF CARMEL

HAMILTON COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
05/22/2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Finding:	
Finding 2013-001 - Internal Controls Over Reporting of Expenditures of Federal Awards	6-7
Corrective Action Plan	8
Audit Results and Comments:	
Annual Financial Report.....	9
Payroll Disbursements	9-10
Accounting for the Financial Transactions of the Carmel Redevelopment Commission Funds.....	10-11
Energy Center - Unpaid Balances	11-12
Official Response.....	13
Exit Conference	14
Redevelopment Commission:	
Audit Results and Comments:	
Accounting for the Financial Transactions of the Carmel Redevelopment Commission Funds.....	16-17
Energy Center - Unpaid Balances	17-18
Collection of Amounts Due	18
Property Taxes.....	19
Exit Conference	20
City Court:	
Audit Result and Comment:	
Bank Account Reconciliations.....	22
Official Response.....	23
Exit Conference	24
Common Council:	
Audit Result and Comment:	
Ambulance Fees	26
Exit Conference	27

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Diana L. Cordray	01-01-12 to 12-31-15
Mayor	James Brainard	01-01-12 to 12-31-15
President Pro Tempore of the Common Council	Rick Sharp W. Eric Seidenstricker Rick Sharp	01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-15
Utilities Director	John Duffy	01-01-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513
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TO: THE OFFICIALS OF THE CITY OF CARMEL, HAMILTON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Carmel (City), for the period from January 1, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Finding, identified in the above referenced audit report, is included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Finding and Official Responses to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

April 28, 2015

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CLERK-TREASURER
CITY OF CARMEL

CLERK-TREASURER
CITY OF CARMEL
FEDERAL FINDING

***FINDING 2013-001 - INTERNAL CONTROLS OVER REPORTING
OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: (a) total federal expenditures were incorrectly reported with \$712,850 in expenditures being omitted from the schedule; (b) amounts reported for three of five grant awards were incorrect; and (c) information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were omitted for some grant awards.

We believe the deficiencies discussed above constitute material weaknesses. The errors and omissions on the SEFA were partially caused by a lack of sufficient internal controls over the preparation of the SEFA and due to insufficient familiarity with some of the required elements of the SEFA. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

CLERK-TREASURER
CITY OF CARMEL
FEDERAL FINDING
(Continued)

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

**CITY OF CARMEL
1 CIVIC SQUARE
CARMEL, IN 46032**

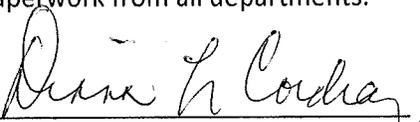
Corrective Action Plans

FEDERAL FINDING 2013-001 - INTERNAL CONTROLS OVER REPORTING OF EXPENDITURES OF FEDERAL AWARDS

Auditee Contact Person: Diana L. Cordray
Title of Contact Person: Clerk-Treasurer
Phone Number: 317-571-2414
Expected Completion Date: 9-8-2014

Corrective Action:

As it regards to internal controls of the City of Carmel, we plan to increase oversight of our day-to-day operations and verify the information reported by the departments with regards to grant monies spent and received against grant paperwork. Also, the Clerk-Treasurer's Office shall request copies of all grant paperwork from all departments.



Diana L. Cordray, Clerk-Treasurer

CLERK-TREASURER
CITY OF CARMEL
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The Annual Financial Report for 2013 contained errors and did not reflect all of the financial activity of the City. Beginning balances for the departmental financial activity for the City Court and Carmel Redevelopment Commission were overstated by \$337,199. Additionally, three funds were omitted from the Annual Financial Report which resulted in the beginning balance, receipts, disbursements, and ending balance being cumulatively understated by \$596, \$39,030, \$16,706, and \$22,920, respectively. Adjustments were proposed, approved by management, and made to the financial statement contained in the City's Financial Statement and Federal Single Audit Report.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

PAYROLL DISBURSEMENTS

Payroll claims were not prepared for the 2013 payrolls. Payroll disbursements are commonly approved by either signing the payroll claim or the Accounts Payable Voucher Register. In the absence of a prepared payroll claim, we found no evidence indicating payroll disbursements were approved by the Clerk-Treasurer and City Council as required. The Payroll Schedule and Voucher, General Form No. 99, or an approved alternate should be used to account for all payroll disbursements. Procedures were changed beginning July 21, 2014, to institute payroll claim approval by the Common Council and Clerk-Treasurer.

Each claim should be certified to by the department head and the Clerk-Treasurer in the appropriate sections provided thereon. The Clerk-Treasurer may elect to certify on the Accounts Payable Voucher Register, General Form No. 364, in lieu of certifying each Payroll Schedule and Voucher. Payroll claims should be numbered along with other claims.

Approval signatures by a majority of the board are required in the appropriate section unless the Accounts Payable Voucher Register, General Form No. 364, is signed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 5)

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;

CLERK-TREASURER
CITY OF CARMEL
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

**ACCOUNTING FOR THE FINANCIAL TRANSACTIONS OF THE
CARMEL REDEVELOPMENT COMMISSION FUNDS**

The City of Carmel Clerk-Treasurer is the Fiscal Officer for the Carmel Redevelopment Commission (CRC). Prior to January 1, 2013, the CRC funds were not accounted for as part of the City's financial records. In 2013, the CRC funds were accounted for as one fund within the City's financial records. The City receipts Tax Increment Financing (TIF) tax collections for 28 individual allocation areas on a semiannual basis into the Redevelopment Commission fund. Additionally, other revenue sources are receipted to this fund. Other revenue sources primarily include: rents, energy consumption payments, Carmel City Center Community Development Corporation (4CDC) grants, and interest. Because all funds are not spent each year, residual cash balances accumulate. TIF tax collections must be spent in accordance with Indiana statutes, various debt covenants, or other agreements. Other revenue sources have different restrictions or provisions guiding their use; some other revenue sources have no restrictions.

By not establishing a subsidiary ledger accounting for each CRC fund that would be part of the City's financial records, the Clerk-Treasurer as Fiscal Officer for the Carmel Redevelopment Commission did not properly maintain a record of financial activity by TIF District. A separate accounting of amounts derived from other revenue sources was also not maintained. Because all receipts and disbursements were recorded in the Redevelopment Commission fund and thus comingled into this single fund with no subsidiary ledger to separate the activity and accumulated balances, it was not possible to determine the portion of the total balance that is attributable to each allocation area and the balance derived from other sources.

However, the CRC maintained ledgers for the Redevelopment Commission fund, including a subsidiary ledger for the individual allocation areas. Besides recording receipts for the TIF tax collections, other revenue sources were also receipted to the allocation area; therefore, the resulting balances contain comingled revenue sources. These ledgers maintained by the CRC are not part of the City's financial records maintained by the Clerk-Treasurer as the City's Fiscal Officer.

Indiana Code 36-7-14-39(b)(3) states in part:

"Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area . . . "

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
CITY OF CARMEL
AUDIT RESULTS AND COMMENTS
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ENERGY CENTER - UNPAID BALANCES

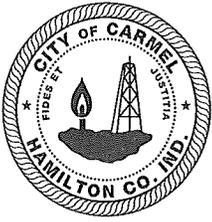
The City is responsible for charges related to its Energy Consumption Agreements (Agreements) for City Hall, the Police Station, the Fire Station, and the Palladium. The Agreements were entered into on November 1, 2010. Except for the Palladium, the billings and payments have not been made in accordance with the Agreements. It was reported that certain capital costs included in the Agreements were disputed by City officials and the Carmel Redevelopment Commission reduced the billings to remove the portion attributed to these capital costs. However, the initial Agreements have not been formally amended or revised. For 2013, the City was billed for the three buildings (City Hall, Police Station, and Fire Station) excluding the capital costs charges; the amounts were paid as billed in 2013.

For 2012 and 2013, the City has not paid the amounts due from these Agreements. The following schedule indicates the unpaid obligation due to the reduced billings and payments:

<u>2013</u>	Energy Consumption Agreement Annual Amount	Reduced Billed/Paid Amount	Under Billed/Paid
City Hall	\$ 429,690	\$ 71,203	\$ (358,487)
Police Station	197,955	32,803	(165,152)
Fire Station	<u>157,211</u>	<u>26,051</u>	<u>(131,160)</u>
Totals - 2013	<u>\$ 784,856</u>	<u>\$ 130,057</u>	<u>\$ (654,799)</u>
 <u>Prior Year (2012)</u>			
City Hall	\$ 429,690	\$ 71,203	\$ (358,487)
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Two Year Totals	<u>\$ 1,569,712</u>	<u>\$ 260,114</u>	<u>\$ (1,309,598)</u>

CLERK-TREASURER
CITY OF CARMEL
AUDIT RESULTS AND COMMENTS
(Continued)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



City of Carmel

Office of the
Clerk-Treasurer

May 7, 2015

Paul Joyce
State Board of Accounts
302 W. Washington St. #E418
Indianapolis, IN 46204

RE: Audit of 2013

Dear State Auditors:

My office has always taken your suggestions. In the matter of payroll, we implemented many of the payroll suggestions including the actual amounts for payroll, bond payments, etc. These items are on the council agenda and I think it is a very good idea.

As for the CRC, I know nothing of what they do or what they think. We process their claims and question them when necessary. However, they operate much differently than the other departments. We have most of their records since the transmission to my office in January of 2013. I am quite sure, however, they we do not have all of their records.

Sincerely,


Diana L. Cordray
Carmel Clerk Treasurr

CLERK-TREASURER
CITY OF CARMEL
EXIT CONFERENCE

The contents of this report were discussed on April 28, 2015, with Diana L. Cordray, Clerk-Treasurer, and Rick Sharp, President Pro Tempore of the Common Council.

REDEVELOPMENT COMMISSION
CITY OF CARMEL

REDEVELOPMENT COMMISSION
CITY OF CARMEL
AUDIT RESULTS AND COMMENTS

**ACCOUNTING FOR THE FINANCIAL TRANSACTIONS OF THE
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A similar comment appeared in prior Report B42639.

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REDEVELOPMENT COMMISSION
CITY OF CARMEL
AUDIT RESULTS AND COMMENTS
(Continued)

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ENERGY CENTER - UNPAID BALANCES

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For 2012 and 2013, the City has not paid the amounts due from these Agreements. The following schedule indicates the unpaid obligation due to the reduced billings and payments:

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REDEVELOPMENT COMMISSION
CITY OF CARMEL
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE

The following amounts were due to the Carmel Redevelopment Commission (CRC) during the audit period:

1. The CRC had an Event Parking Agreement (EPA) with the Center for Performing Arts, Inc. (PAC) to receive a \$2.50 surcharge for each ticket sold for all events at the Palladium. During 2012, some ticket fees were not remitted to the CRC and an unpaid balance of \$29,464 remained due to the CRC at year end.

The EPA was originally entered into in 2010 as a lender's condition for the Carmel City Center Community Development (4CDC) to receive a bank loan. This established a \$2.50 ticket surcharge for event patron parking at the Pedcore Office Parking Facility which was payable to the CRC. In December 2012, the Carmel Redevelopment Authority issued approximately \$180 million in bonds; using a portion of the bond proceeds to retire the bank loan. In January 2013, there was an agreement between the CRC and the 4CDC to terminate the EPA and no further fees were collected. However, the balance due of \$29,464 from fees collected in prior years was not paid in 2013 and was still due to the CRC as of December 31, 2013. Subsequent to the audit period in February 2014, the CRC passed Resolution 2014-1 to forgive this amounts due from the 2012 parking surcharges.

2. In June 2010, the CRC entered into a lease rental agreement with BJS, LLC (D.B.A. Shapiro's) for \$1,000 per month. Not all the rental payments due were paid by BJS, LLC and an unpaid rent amount of \$18,000 was due to the CRC at January 1, 2013. During the audit period, rent for the months of January through May 2013 totaled \$5,000 and rent collected totaled \$14,000, leaving a balance due under the original lease agreement of \$9,000 at May 31, 2013. On June 5, 2013, an amendment to the original lease agreement was executed which contained a termination provision that forgave any prior rent due.

A similar comment appeared in prior Report B42639.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

REDEVELOPMENT COMMISSION
CITY OF CARMEL
AUDIT RESULTS AND COMMENTS
(Continued)

PROPERTY TAXES

In 2013, the Redevelopment Commission paid property taxes in the amount of \$12,878 on a building located at 457 3rd Ave SW that was purchased in February 2011. The Redevelopment Commission failed to apply for tax exempt status with the Hamilton County Auditor for the building until late in 2013. As a result, the City paid one additional year's real estate taxes than should have been paid following the purchase of the property.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

REDEVELOPMENT COMMISSION
CITY OF CARMEL
EXIT CONFERENCE

The contents of this report were discussed on April 28, 2015, with Diana L. Cordray, Clerk-Treasurer, and Rick Sharp, President Pro Tempore of the Common Council.

CITY COURT
CITY OF CARMEL

CITY COURT
CITY OF CARMEL
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS

The City Court did not present depository reconciliations of the record balance to the bank account balance for any of the 12 months during the audit period. Procedures performed by the Court Clerk within the software system were not preserved and information was insufficient to perform bank account reconciliations. At December 31, 2013, the record balance was \$173,931 and the bank account balance was \$166,160 leaving an amount needed to reconcile of \$7,771. Reconciling items were unidentified.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."



City of Carmel

Carmel City Court

BRIAN G. POINDEXTER, JUDGE

4 May 2015

Indiana State Board of Accounts
302 West Washington Street
Room 418
Indianapolis, Indiana 46204-2765

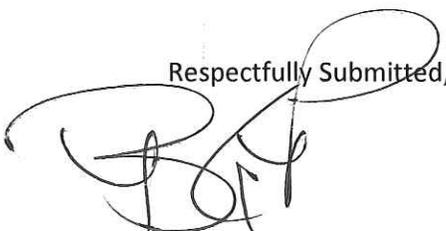
Re: Official Response – Carmel City Court

To Whom It May Concern:

The most recent audit voiced certain concerns with regard to account reconciliation. The Court uses software and accounting system supplied through State Court Administration. The most recent audit has identified a need for additional training to eliminate any gaps in procedural knowledge and the proper use of the software and accounting systems.

A specific request for additional training has been made and the initial date for supplemental training has been arranged.

Respectfully Submitted,


Brian G Poindexter
Judge, Carmel City Court

CITY COURT
CITY OF CARMEL
EXIT CONFERENCE

The contents of this report were discussed on April 28, 2015, with Brian Poindexter, Judge, and Reta Klingerman, Court Clerk.

COMMON COUNCIL
CITY OF CARMEL

COMMON COUNCIL
CITY OF CARMEL
AUDIT RESULT AND COMMENT

AMBULANCE FEES

The emergency medical fees charged during 2013 by the City of Carmel Emergency Medical Service were not approved by ordinance or resolution of the governing body. The fees were increased in 2011 without passing an ordinance or resolution establishing the revised fee schedule.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMMON COUNCIL
CITY OF CARMEL
EXIT CONFERENCE

The contents of this report were discussed on April 28, 2015, with Rick Sharp, President Pro Tempore of Common Council.