

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MUNCIE

DELAWARE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
02/02/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Audrey Jones	01-01-14 to 12-31-16
Mayor	Dennis Tyler	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	John Quirk	01-01-14 to 12-31-16
President of the Common Council	Julius Anderson Mary Jo Barton Jerry Dishman	01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16
Sanitary Board President	Bill Smith	01-01-14 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF MUNCIE, DELAWARE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Muncie (City), for the period from January 1, 2014 to December 31, 2014. 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 Findings, identified in the above referenced audit report, are 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 Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 19, 2016

CONTROLLER
CITY OF MUNCIE

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CITY OF MUNCIE
FEDERAL FINDINGS

FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

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).

During the audit of the SEFA, there were the following errors:

1. The Economic Adjustment Assistance grant expenditures totaling \$2,181,612 were omitted.
2. Several grants were overstated by either using the wrong amounts or including grant expenditures more than once. The net overstatement totaled \$457,184.
3. Information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were either incorrectly reported or omitted for some grants.

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

Criteria

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. . . ."

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.

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CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

- (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 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."

Cause

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

Effect

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

Views of Responsible Officials

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

FINDING 2014-002 - INTERNAL CONTROLS OVER PAYROLL DISBURSEMENTS

Condition

During the audit period, the payroll time records of department heads were not reviewed for accuracy before being paid. There were no other controls in place to ensure the payroll of department heads were correct and accurate.

Criteria

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.

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CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

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)

Cause

Management of the City had not established a proper system of internal control related to all payroll transactions.

Effect

The failure to establish an internal control system resulted in controls either not designed properly or operating effectively to provide assurance of the prevention, or detection and correction of misstatements in a timely manner.

Views of Responsible Officials

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



City of MUNCIE
MUNCIE, INDIANA

CORRECTIVE ACTION PLAN

FINDING 2014-001

Audrey Jones

765-747-4828

View of Responsible Official:

1. I did not add the revolving loan to the SEFA because I did not have the information for the revolving loan fund. It was housed in the Muncie Redevelopment department.
2. There were some clerical errors on the grants that were overstated because a grant was drawn down by the Economic Development thinking it was an advance grant and it was a reimbursable grant. When that happened we sent money back to them so it made the expenses look higher than what they were, which was reported as a reimbursable grant (the expenses are used reporting purposes on reimbursable grants.) Some of the other errors were that I reported the grants as reimbursable grants and they were advance grants.
3. Some of the documentation that is provided from the other departments does not have all the information or correct information so the descriptions may be incorrect.

Description of Corrective Action Plan:

1. We are in the process of merging all the Muncie Redevelopment Commission's finances to the City. All information on finances will now be housed in the Controller's Office. The Controller's office will be doing all the financial reporting for the Muncie Redevelopment Commission start January 2017.
2. I am requiring that all grant writers provide the documentation of their grants and what type of grant that it is.
3. I am requiring that all descriptions of the grants are provided by each department/grant writer that obtains the grants.

This will be in place January 2017.

Audrey Jones
12/19/16



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-002

Audrey Jones

765-747-4828

FINDING 2014-003

Views of Responsible Official:

When I took the position I used the prior department heads time sheets to reference on how things were to be handled. The time sheets that I used for reference did not have a mayor's signature for approval. I was unaware until this audit that the mayor was supposed to sign each department head's time sheet.

Description of Corrective Action Plan:

We have created a folder in the mayor's office for each department head to submit their time sheet to the mayor to review for accuracy and to sign off on.

This will be in place January 2017.

12/19/16

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AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
Local Road and Street	\$ 115,666
Cemetery Operating	3,428
Prairie Creek - City Hall - Other Bond	20,264

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CERTIFIED REPORT FILED AFTER DUE DATE

The City did not timely file a Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R) with the Indiana State Board of Accounts for 2014. The report was filed on February 2, 2015, which was two days past the due date.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts. . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

The City paid penalties, interest, and other charges to a City-owned credit card in the amount of \$160 because payments were not remitted timely.

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.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

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)

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AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

The City's financial statement included the following funds with overdrawn cash balances at December 31, 2014:

<u>Fund</u>	<u>Amount Overdrawn</u>
Bond Revenue/ Tuhey Pool	\$ 110,844
City Bond General Sinking	29,623

A similar comment appeared in the prior report B44395.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds 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)

CREDIT CARDS

The City paid credit card payments based on a credit card slip only and without the necessary supporting documentation. The following credit card purchases lacked the necessary supporting documentation:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
01-25-14	Local pizza restaurant	\$ 178
01-30-14	Local pizza restaurant	195
05-15-14	HOPK Institute	125
06-05-14	Parking	4
06-30-14	Marina	15
Total		<u>\$ 517</u>

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



State Board of Accounts Response

Appropriations:

Local Road and Street is used for Federal Aid projects. I was unaware that an additional appropriation needed to be done for this program. 2017 going forward additional appropriations will be requested to keep the appropriations in order. There was enough cash to support the spending there just wasn't an appropriation to support it.

Cemetery Fund went into the negative on the last payroll of the year. I was unable to do an additional appropriation. There was enough cash balance to support the spending. Going forward I will try my hardest to estimate in November for an additional appropriation.

Prairie Creek had the cash to fund it. It did not go into the negative until December 2014. An additional appropriation would not have been able to be done in that time frame and we had to pay payroll. I will try to estimate so that an additional appropriation will be able to be done.

Credit Card:

Penalties and interest were paid because we did not receive the receipts from the department heads in a timely matter. Starting 2016 we started making employees pay within two weeks of the missing receipt back to the city.

Overdrawn Cash Balances:

It took me from 2012 until 2015 to get the Tuhey Pool Bond to have enough cash balance. In 2011 the budgets were not passed and so it was not receiving the proper tax revenue. I worked with the DLGF to figure out the best way to get the cash to where it needed to be. From 2015 on the cash is out of the negative.

The sinking fund was the same way because the budgets weren't approved in 2011 the tax revenue wasn't enough to cover the bond payments. I worked with the DLGF to find the best way to get this fund out of the negative. We no longer have use of this fund and by 2015 the error is fixed.

Credit Cards:

There were missing receipts from various departments. We have a system in place now that if receipts are submitted in a timely manner they have to repay it to the city either through making a direct payment or taking it from their paycheck.

Thank You,

Audrey Jones

City Controller

A handwritten signature in black ink, appearing to read "Audrey Jones", written over the printed name.

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EXIT CONFERENCE

The contents of this report were discussed on December 19, 2016, with Audrey Jones, Controller; Dennis Tyler, Mayor; and Douglas Marshall, Common Council member.

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REDEVELOPMENT COMMISSION
CITY OF MUNCIE

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS

FINDING 2014-003 - ACCOUNTING FOR MUNCIE REDEVELOPMENT COMMISSION FUNDS

Condition

During the audit period, the Muncie Redevelopment Commission funds, which includes the Economic Adjustment Assistance (revolving loan funds/RLF), were not recorded within the City's ledger by the City Controller. There was no other ledger to account for the monies of these funds. The only information available were bank statements and spread sheets prepared by the Director of the Redevelopment Commission. The City had not established an internal control system to ensure that all monies of the City were accounted for within the City's ledger.

Criteria

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)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

13 CFR section 307.13(b)(1) states: "Maintain adequate accounting records and source documentation to substantiate the amount and percent of RLF Income expended for eligible RLF administrative costs."

Cause

Management of the City had not established a proper system of internal control to ensure that all funds of the City were maintained within the City's records.

Effect

The failure to establish an internal control system resulted in monies of the City not being accounted for within the City's records.

Views of Responsible Officials

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

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

FINDING 2014-007 - INTERNAL CONTROL OVER ACTIVITIES ALLOWED OR UNALLOWED AND SPECIAL TESTS AND PROVISIONS - INCREASES TO REVOLVING LOAN FUND CAPITAL BASE AND CAPITAL UTILIZATION

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number and Year (or Other Identifying Number): 06-19-01414

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and Activities Allowed or Unallowed and Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization. The Director of the Redevelopment Commission is the sole person responsible for the determination of allowable activities and the increases to the revolving loan fund (rlf) capital base and capital utilization. There was no oversight, review, approval, or other process in place to ensure federal monies were used for only allowable activities or that the necessary calculations were performed.

Context

The lack of controls was a systemic problem during the period audited and affected all of the compliance requirements listed above.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

Cause

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Activities Allowed or Unallowed and Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirements.

Effect

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

Questioned Costs

There were no questioned costs identified.

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and Activities Allowed or Unallowed and Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirements.

Views of Responsible Officials

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

FINDING 2014-008 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

Federal Award Number and Year (or Other Identifying Number): 06-19-01414

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

The City had an interlocal agreement to pay an unspecified portion of the Director of the Redevelopment Commission's salary from the Economic Adjustment Assistance revolving loan grant. There is no supporting documentation of the time allocated to the management of grant funds.

Context

The lack of controls and noncompliance was a systemic problem during the period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

OMB Circular A-87, attachment B, section 8(h)(4) states in part:

"Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. . . ."

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

Cause

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Allowable Cost/Cost Principles compliance requirements of the program. The City did not have controls in place to ensure that documentation was maintained for salaries paid with federal monies.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, and comply with the grant agreement and Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

FINDING 2014-009 - REPORTING

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

Federal Award Number and Year (or Other Identifying Number): 06-19-01414

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirements. No supporting records were maintained for the ED-209, Semi-Annual Report for EDA-Funded RLF Grants report, and the SF-425, Federal Financial Report was not prepared or submitted.

Context

The lack of controls and noncompliance was a systemic problem during the period audited.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

13 CFR 307.6 states in part:

"In addition to the post-approval requirements set forth in § 302.18 of this chapter:

- (a) Strategy Grants shall comply with the applicable provisions of part 303 of this chapter;
- (b) Implementation Grants involving construction shall comply with the provisions of subpart B of part 305 of this chapter;
- (c) Implementation Grants not involving construction shall comply with the applicable provisions of subpart A of part 306 of this chapter; and
- (d) RLF Grants shall comply with the requirements set forth in this part and in the following publications:
 - (1) EDA's RLF Standard Terms and Conditions; and
 - (2) The compliance supplement to OMB Circular A-133 (the '*Compliance Supplement*')."

15 CFR 24.42 states in part:

"(a) *Applicability.*

- (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:
 - (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or
 - (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement.
- (2) This section does not apply to records maintained by contractors or subcontractors. For a requirement to place a provision concerning records in certain kinds of contracts, see § 24.36(i)(10).

(b) *Length of retention period.*

- (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . ."

Cause

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Reporting compliance requirement of the program. The City did not have controls in place to ensure that all required reports were submitted or that supporting documentation was maintained for submitted reports.

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, and comply with the grant agreement and Reporting compliance requirements.

Views of Responsible Officials

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

FINDING 2014-010 - SUBRECIPIENT MONITORING

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

Federal Award Number and Year (or Other Identifying Number): 06-19-01414

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and Subrecipient Monitoring compliance requirement. The City did not notify or provide their subrecipients with any federal award information nor did the City monitor the activities of their subrecipients. The only communication between the City and their subrecipients were through loan payments. In addition, the City waived interest for the first six months.

Context

The lack of controls and noncompliance was a systemic problem during the period audited.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart D, Section 400(d) states in part:

"A pass-through entity shall perform the following for the Federal awards it makes:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goal are achieved. . . ."

Per the Grant Agreement, the General Terms and Conditions state in part:

"(13) Loans made from the Fund shall bear interest at a rate not less than the rate in effect for initial business loans made from the Fund."

Cause

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Subrecipient Monitoring compliance requirement of the program. The City did not have controls in place to ensure that all required information was provided to subrecipients or to ensure that subrecipients were monitored for compliance with federal requirements.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, and comply with the grant agreement and Subrecipient Monitoring compliance requirement.

Views of Responsible Officials

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

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

FINDING 2014-011 - SPECIAL TESTS AND PROVISIONS - LOAN REQUIREMENTS

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number and Year (or Other Identifying Number): 06-19-01414

Condition

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

The City did not gather required signed bank turn-down letters demonstrating that credit was not otherwise available before disbursing loans.

Context

The lack of controls and noncompliance was a systemic problem during the period audited.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

13 CFR section 307.15(b)(2) states:

"Prior to the disbursement of any EDA funds, the RLF Recipient shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the Grant and applicable State and local law. The standard loan documents must include, at a minimum, the following:

- (i) Loan application;
- (ii) Loan agreement;
- (iii) Board of directors' meeting minutes approving the RLF loan;
- (iv) Promissory note;
- (v) Security agreement(s);
- (vi) Deed of trust or mortgage (as applicable);
- (vii) Agreement of prior lien holder (as applicable); and

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

- (viii) Signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. EDA will permit the RLF Recipient to accept alternate documentation only if such documentation is allowed in the Recipient's EDA-approved RLF Plan."

Cause

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Special Test and Provisions - Loan Requirements compliance requirement. The City did not have controls in place to ensure that standard loan documentation included proper signed bank turn-down letters.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, and comply with the grant agreement and the Special Test and Provisions - Loan Requirements compliance requirement.

Views of Responsible Officials

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



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-003

Todd Donati

765-216-1214

Views of Responsible Official:

The system was carried over from what had been done by the previous director for many years. So, there was no knowledge of the need to provide this.

Description of Corrective Action Plan:

However, once alerted by the SBOA, it was mutually beneficial to run all these funds through the city controller's office so accountability and control measures will be development. All the finances will be on the City of Muncie's accounting and will be handled like all city fund processes.

This will be in place January 2017.

12/19/14



City of MUNCIE
MUNCIE, INDIANA

FINDIND 2014-007

Todd Donati

765-216-1214

Views of Responsible Official:

We did not realize that the requirements for the revolving loan fund were not being followed. The board did approve revolving loan funds and then the director would provide the loan to the applicants.

The board will continue to approve the loans and the process will be started with the director. The loan will be through the controller's office to approve the accurate information.

This will be in place January 2017.

12/19/16



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-008

Todd Donati

765-216-1214

Currently 40% of the Muncie Redevelopment Commission budget is paid by the revolving loan fund. 60% is paid from the EDIT funds by the City of Muncie.

The director will get another inter-local agreement and will provide documentation on the time spent on certain tasks including the revolving loan fund. The director will have to get the board and the mayor's department to sign off on the Muncie Redevelopment Commission funding.

This will be in place January 2017.

12/19/16



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-009

Todd Donati

765-216-1214

Views of Responsible Official:

This has never been done in the past and the director was unaware it was necessary to do.

Description of Corrective Action Plan

Now that the state board of accounts has made the Muncie Development Director aware that this is required. He will report it on a quarterly and annually basis.

This will be in place January 2017.

12/19/16



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-010

Todd Donati

765-216-1214

Views of the Responsible Official:

The director stated he monitors every month to make sure the are paying their loan back. The interest being waived was found to be practice in the past.

Description of Corrective Action Plan:

The director is creating a form of documentation to show if a recipient is delinquent he will provide that to the board for signature/verification of lack of compliance.

Waive of interest will be taken to the department of commerce for approval.

This will be in place January 2017.

12/19/14



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-11

Todd Donati

765-216-1214

Views of the Responsible Official:

It was concluded to issue a loan there has to be a turn down from another banking source and we have provide documentation. The director did not know you had to get physical copies the bank denial.

Description of Corrective Action Plan:

In the future we will follow the proper guidelines established by the Muncie Industrial Revolving Loan fund board.

This will be in place January 2017.

12/19/16

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
AUDIT RESULT AND COMMENT

SUPPORTING DOCUMENTATION

The following disbursements did not include supporting documentation to support the purchase.

<u>Date</u>	<u>Amount</u>	<u>Description</u>
02-26-14	\$ 200	Bond for Commission member
04-04-14	300	Intern Work
04-07-14	626	Legal Services - South Muncie TIF
04-08-14	175	Surety Bonds
05-15-14	<u>300</u>	Intern Work
Total	<u>\$ 1,601</u>	

Due to the lack of supporting information, we could not verify the purpose of the disbursement.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



City of MUNCIE

Muncie Redevelopment Commission

401 South High Street
P.O. Box 842
Muncie, Indiana 47308-0842
Phone: 765-751-9106
Fax: 765-751-9151

December 22, 2016

OFFICIAL'S RESPONSE

State Board of Accounts
302 W. Washington St., Room E 418
Indianapolis, IN 56204-2765

On behalf of the City of Muncie Redevelopment Commission, I am responding to the Exit Examination for the year 2014. There was a comment made on the lack of copies of invoices for a few hand written checks totaling less than \$1,700.00. I took over this position in January of 2013 and was not offered any support or training, as the person I replaced was in this same position for over twenty years and retired mid December 2012. I began to familiarize myself with the procedures and was able to work with the City Controller's office. There was an audit for the year 2012 and the year 2013. No issues reflected any missing invoices. In 2014 or 2015 there was no audit annually until this year. I have worked very well with the two SBOA representatives as respect to putting a plan in place to transition all business through the City of Muncie Controller's office. Not to make any excuses, but I am the only person in my department, other than my Board of Directors. Transitioning several processes to the City Controller's office will be a huge support and I am grateful that this was recommended. I believe this will allow for the elimination of missed invoices and will substantially correct this issue in the future.

I felt it was important to respond so that it is resonated clearly that this issue important and corrective action is important. I do take this seriously.

Respectfully,

Todd R. Donati
Executive Director

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2016, with Todd Donati, Executive Director; Dennis Tyler, Mayor; Audrey Jones, Controller; and Douglas Marshall, Common Council member.

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COMMUNITY DEVELOPMENT
CITY OF MUNCIE

COMMUNITY DEVELOPMENT
CITY OF MUNCIE
FEDERAL FINDING

FINDING 2014-004 - INTERNAL CONTROL OVER CDBG - ENTITLEMENT GRANTS CLUSTER

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-08-MN-18-0009, B-10-MC-18-00102,
B-11-MC-18-00102, B-12-MC-18-00102,
B-13-MC-18-00102, B-14-MC-18-00102

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting, Subrecipient Monitoring, and Special Tests and Provisions - Environmental Reviews and Rehabilitation.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The controls in place were ineffective to ensure that unallowable activities and costs did not occur. The controls in place did not identify that the wrong mileage rate was used resulting in an underpayment on two separate claims that were selected within our sample.

Reporting

The Assistant Director of Community Development was the sole person responsible for preparing, reviewing, and submitting the required reports for the Community Development Block Grants/Entitlement Grants. There was no oversight, review, approval, or other process in place to ensure the accuracy of the reports.

Subrecipient Monitoring

The Assistant Director of the Community Development was the sole person responsible for monitoring subrecipients which included onsite visits. There were no controls in place to ensure that monitoring of subrecipients or onsite visits were conducted.

Special Tests and Provisions - Environmental Reviews and Rehabilitation

The Environmental Reviews were the sole responsibility of a planner within the Department of Community Development. There were no controls in place to ensure that the Environmental Reviews were conducted. Rehabilitation work was properly completed by the planner in the Community Development Department; however, there were no oversight or review procedures in place.

COMMUNITY DEVELOPMENT
CITY OF MUNCIE
FEDERAL FINDING
(Continued)

Context

Controls over Activities Allowed or Unallowed and Allowable Costs/Cost Principles for claims were ineffective and allowed underpayment on claims to occur. There were no controls over Reporting, Subrecipient Monitoring, or Special Tests and Provisions - Environmental Reviews and Rehabilitation compliance requirements. These conditions were apparent throughout the audit period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

Cause

The review process established as a control for paying claims failed to properly determine correct mileage rates for mileage claims in regards to Activities Allowed or Unallowed and Allowable Costs/Cost Principles. Management of the City had not designed or implemented internal control procedures to ensure compliance with Reporting, Subrecipient Monitoring, or Special Tests and Provisions - Environmental Reviews and Rehabilitation compliance requirements.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

Views of Responsible Officials

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



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-004

Terry Whitt Bailey

765-747-4825

Views of Responsible Official:

The mileage documentation was incorrect on the wall.

Description of Corrective Action Plan:

The Controller's Office and Community Development office will communicate on a yearly basis to know what the current mileage reimbursement is.

This will be in place January 2017.

Terry Whitt Bailey
12/19/16

COMMUNITY DEVELOPMENT
CITY OF MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2016, with Terry Whitt Bailey, Community Development Director; Audrey Jones, Controller; Dennis Tyler, Mayor; and Douglas Marshall, Common Council member.

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COMMON COUNCIL
CITY OF MUNCIE

COMMON COUNCIL
CITY OF MUNCIE
FEDERAL FINDINGS

**FINDING 2014-005 - INTERNAL CONTROL OVER BROWNFIELDS
ASSESSMENT AND CLEANUP COOPERATIVE AGREEMENTS**

Federal Agency: Environmental Protection Agency
Federal Program: Brownfields Assessment and Cleanup Cooperative Agreements
CFDA Number: 66.818
Federal Award Number and Year (or Other Identifying Number): 00E01073

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting.

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability

The Director of Economic Development was the sole person responsible for reviewing the invoices submitted for payment. There was no oversight, review, approval, or other process in place to ensure the invoices were for allowable activities and costs and within the period of availability.

Cash Management

The contracted Grant Advisor was the sole person responsible for ensuring the drawdowns were used before requesting additional funds and to minimize the time between transfer of funds and disbursement. There was no oversight, review, approval, or other process in place to ensure the drawdowns were used before requesting additional funds and to minimize timing between transfer of funds and disbursement.

Reporting

The Director of Economic Development was the sole person responsible for uploading the financial report information. There was no oversight, review, approval, or other process in place to ensure the accuracy of the reports.

Context

The lack of controls was a systemic problem during the period audited and affected all of the compliance requirements listed above.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

COMMON COUNCIL
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

Cause

Management of the City had not designed or implemented internal control procedures to ensure compliance with the compliance requirements listed above.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2014-006 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: Environmental Protection Agency
Federal Program: Brownfields Assessment and Cleanup Cooperative Agreements
CFDA Number: 66.818
Federal Award Number and Year (or Other Identifying Number): 00E01073

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and Procurement and Suspension and Debarment compliance requirements. The City advertised and took bids but no documentation was maintained to support the bidding process. The City did not verify whether any of the bidding parties were suspended or debarred.

Context

The lack of controls and noncompliance was a systemic problem during the period audited and affected the compliance requirements listed above.

COMMON COUNCIL
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

40 CFR 31.42(b) states:

"Length of retention period:

- (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.
- (2) If any litigation, claim, negotiation, audit or other action involving the records has been started before the expiration of the 3-year period, the records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular 3-year period, whichever is later.
- (3) To avoid duplicate recordkeeping, awarding agencies may make special arrangements with grantees and subgrantees to retain any records which are continuously needed for joint use. The awarding agency will request transfer of records to its custody when it determines that the records possess long-term retention value. When the records are transferred to or maintained by the Federal agency, the 3- year retention requirement is not applicable to the grantee or subgrantee."

Cause

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Procurement and Suspension and Debarment compliance requirements of the program. The City did not have controls in place to ensure that documentation was maintained for the bidding process or to verify that the bidders were not suspended or debarred.

COMMON COUNCIL
CITY OF MUNCIE
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system, related to Suspension and Debarment, enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City. Additionally, the failure to maintain supporting documentation of internal control procedures, related to the bidding process, prevented the ability to verify if the City was in compliance with the requirements for Procurement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, and comply with the grant agreement and compliance requirements listed above.

Views of Responsible Officials

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



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-005

Arron Kidder

765-747-4853

(Formerly Augusta Consulting Brad Bookout)

765-818-1484

Views of Responsible Official:

The former economic development person handled this grant.

Description of Corrective Action Plan:

The current economic development person will review the documents and have the mayor to review for accuracy.

This will be in place January 2017.

Arron Kidder

12/19/16



City of MUNCIE
MUNCIE, INDIANA

FINDING 2014-006

Arron Kidder

765-747-4853

(Formerly Augusta Consulting Brad Bookout)

765-818-1484

Views of Responsible Official:

I cannot speak for the former process of the grant.

Description of Corrective Action Plan:

The current Economic Director will present these documents to board of works for approval and the secretary will keep documentation of the required bids.

This will be in place January 2017.

Arron Kidder

12/19/16

COMMON COUNCIL
CITY OF MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2016, with Audrey Jones, Controller; Dennis Tyler, Mayor; and Douglas Marshall, Common Council member.

CITY CLERK
CITY OF MUNCIE

CITY CLERK
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS

CLERK'S TRUST ITEMS OVER FIVE YEARS OLD

Our audit of trust items on hand revealed that some items had been on hand for a period of five years or longer. The City Clerk has not implemented policies and procedures for reporting unclaimed property and remitting that property to the Attorney General after the five year holding period. The amount of unclaimed funds in the Trust account held in excess of five years totaled \$7,166.

Indiana Code 32-34-1-20(c) states in part:

"Property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if the owner or apparent owner has not communicated in writing with the holder concerning the property or has not otherwise given an indication of interest in the property during the following times: . . .

- (6) For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under IC 32-34-3. . . ."

Indiana Code 32-34-1-26(a) states: "A holder of property that is presumed abandoned and that is subject to custody as unclaimed property under this chapter shall report in writing to the attorney general concerning the property. Items of value of less than fifty dollars (\$50) may be reported by the holder in the aggregate."

Indiana Code 32-34-1-27(a) states:

"Except as provided in subsections (b) and (c), on the date a report is filed under section 26 of this chapter, the holder shall pay or deliver to the attorney general the property that is described in the report as unclaimed."

GASOLINE SURCHARGE

A gasoline surcharge of \$6 was assessed for violations of any provision of Title VII, Traffic Code, of the City's Code of Ordinances, relating to the operation or use of a motor vehicle while in motion. Ordinance 68-09 stated the purpose of imposing the surcharge was to assist the police department in offsetting costs associated with the enforcement of traffic laws and for officer retention. However, a fee for such a purpose has not been authorized by state statute. Subsequent to the audit period, the City stopped assessing and collecting the gasoline surcharge in September 2016.

Indiana Code 5-7-2-1 states: "It shall be unlawful for any officer in this state, under color of his office, to tax, or permit to be taxed in his office, any fee or sum of money that is not legally allowable under the statute or statutes of this state."

CITY CLERK
CITY OF MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2016, with Melissa Peckinpugh, Clerk; Audrey Jones, Controller; Dennis Tyler, Mayor; and Douglas Marshall, Common Council member.