

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

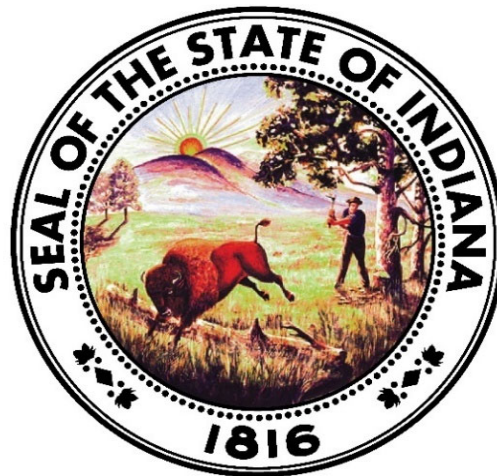
SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MUNCIE

DELAWARE COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED
09/21/2023

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|----------------------------|----------------------|
| City Controller | Craig Wright | 01-01-22 to 12-31-23 |
| Mayor | The Honorable Dan Ridenour | 01-01-22 to 12-31-23 |
| President of the Board of Public Works and Safety | Linda Gregory | 01-01-22 to 12-31-23 |
| President of the Common Council | Jeff Robinson | 01-01-22 to 12-31-23 |
| President of the Sanitary District Board | Stephen Brand | 01-01-22 to 12-31-23 |



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 the audit report of the City of Muncie (City), for the period from January 1, 2022 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with the Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

August 30, 2023

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CITY CONTROLLER
CITY OF MUNCIE

CITY CONTROLLER
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Reports B57618 and B60455, entitled *INTERNAL CONTROLS*.

Condition and Context

Receipts

The City had not designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, errors related to receipts.

The same individual entered numerous receipts into the accounting system and prepared the bank reconciliations. Additionally, no documentation was presented indicating the receipt postings were reviewed by another individual.

Financial Close and Reporting

The City had not designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, errors related to financial reporting.

The City's financial information was prepared and electronically submitted by the City Controller to the Indiana Gateway for Government Units financial reporting system, which was the source of the City's Annual Financial Report (AFR) and financial statement. An oversight or review process was documented, but did not prevent, or detect and correct, errors to ensure that the financial information recorded and reported was accurate and complete. Due to the lack of internal controls, the following errors occurred:

1. The Payroll fund receipts and disbursements were omitted, resulting in receipts, disbursements, and the ending cash and investments balance being understated by \$37,469,731, \$37,456,786, and \$12,945, respectively.
2. The City Court fund receipts and disbursements were omitted, resulting in receipts, disbursements, and the ending cash and investments balance being understated by \$947,261, \$922,464, and \$24,797, respectively.
3. The RDC TIF 2022 Bonds fund disbursements were understated by \$148,881, and ending cash and investments balance was overstated by \$148,881.

Audit adjustments were proposed, accepted by the City, and made to the financial statement for the errors listed above. There were other immaterial errors for which the financial statement was not adjusted.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

CITY CONTROLLER
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

"The state examiner shall require from every audited entity 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](#)."

APPROPRIATIONS

The same comment also appeared in prior Reports B53304, B56237, B57618, and B60455.

Condition and Context

Disbursements exceeded the amounts budgeted for the following funds:

| Fund | Year | Excess Amount Expended |
|----------------------------|------|------------------------------|
| General Fund | 2022 | \$ 1,351,103 |
| Parks and Recreation | 2022 | 274,400 |
| Bond Revenue/Tuhey Pool | 2022 | 750 |
| Cemetery Operating | 2022 | 228,775 |
| MVH & MVH Restricted funds | 2022 | 325,416 |
| Local Road and Street | 2022 | 873,908 |

Criteria

Indiana Code 36-4-8-2 states in part:

". . . Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted; . . ."

CITY CONTROLLER
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS
(Continued)

MONTHLY AND ANNUAL ENGAGEMENT UPLOADS

A similar comment also appeared in prior Report B60455.

Condition and Context

The City did not comply with the State Examiner Directive and failed to upload any of the annual files on the Indiana Gateway for Government Units financial reporting system for 2022 until subsequent to the beginning of the audit on May 24, 2023. In addition, the City uploaded several monthly files late.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, approved Common Council minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

The City did not upload monthly information timely as follows:

1. Bank statements were uploaded late for the following months: January through July, September through November.
2. Bank reconciliations were uploaded late for the following months: January through March, June, September through November.
3. Common Council minutes were uploaded late for the following months: January through November.
4. Funds ledgers were uploaded late for the following months: February and March, June, September through November.

Criteria

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . . Thereafter, annual files must be uploaded no later than March 1st . . . for the prior year end unless the SBOA establishes a different date. (Amended State Examiner Directive 2018-1)

CITY CONTROLLER
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT

A similar comment appeared in prior Report B60455, entitled *ANNUAL REPORT SCHEDULES*.

Condition and Context

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The City had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Financial Data

1. The Payroll fund receipts and disbursements were omitted, resulting in receipts, disbursements, and the ending cash and investments balance being understated by \$37,469,731, \$37,456,786, and \$12,945, respectively.
2. The City Court fund receipts and disbursements were omitted, resulting in receipts, disbursements, and the ending cash and investments balance being understated by \$947,261, \$922,464, and \$24,797, were omitted from the financial statement.
3. The RDC TIF 2022 Bonds fund disbursements were understated by \$148,881, and ending cash and investments balance was overstated by \$148,881.

Adjustments were proposed, accepted by the City, and made to the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statement Audit Report of the City.

Grants

1. The Cooperative Forestry Assistance was omitted, which understated expenditures by \$22,178.
2. The Crime Victim Compensation was omitted, which understated expenditures by \$2,163.
3. The Highway Planning and Construction was omitted, which understated expenditures by \$329,667.
4. The COVID-19 - Coronavirus State and Local Fiscal Recovery Fund was omitted, which understated expenditures by \$12,268,841.
5. The Violence Against Women Formula Grants expenditures were understated by \$23,341.
6. The State and Community Highway Safety expenditures were understated by \$53,538.
7. The National Priority Safety Programs expenditures were overstated by \$53,541.
8. The Economic Adjustment Assistance expenditures were overstated by \$324,551.

Adjustments were proposed, accepted by the City, and made to the Schedule of Expenditures of Federal Awards presented in the Federal Compliance Audit Report of the City.

CITY CONTROLLER
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS
(Continued)

Leases and Debt

The debt information presented in Gateway contained the following errors:

1. There were 12 leases that were omitted, causing lease payments to be understated by \$973,898.
2. There were 5 debt issues that were omitted, causing debt to be understated by \$26,650,570, and principal due with one year to be understated by \$828,805.
3. The reported debt ending balances were understated by \$308,699, and reported principal due with one year was understated by \$27,180.

Adjustments were proposed, accepted by the City, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report of the City.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

"The state examiner shall require from every audited entity 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](#)."

CITY CONTROLLER
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS
(Continued)

COMMUNITY CROSSING GRANT DISTRIBUTIONS INCORRECTLY POSTED

A similar comment appeared in a Management Letter addressed to the City Controller for the audit period ending December 31, 2021.

Condition and Context

During 2022, Community Crossing Grant Distributions totaling \$1,300,083 were incorrectly posted to the MVH Restricted fund. These distributions should have been posted to a separate fund established for the grant.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

A similar comment also appeared in prior Report B60455, entitled *MVH RESTRICTED FUND EXPENDITURES*.

Condition and Context

The City used the incorrect fund numbers for the Motor Vehicle Highway (MVH) (220) and MVH Restricted (218) funds.

The City failed to post at least 50 percent of funds received from the State Motor Vehicle Highway account to the Motor Vehicle Highway (MVH) Restricted Fund as required for the year 2022. The September, November, and December distributions, totaling \$695,369, were posted 100 percent to the Motor Vehicle Highway fund causing the MVH Restricted fund to be underfunded by \$347,684.

MVH Restricted fund disbursements were made for employee expenses related to signal electricians and sign crews, paint and sign materials, signal equipment, tree removal expenses, striping and road marking expenses, health insurance, employee uniforms, and equipment, rather than for construction, reconstruction, and preservation of the City's highways.

Criteria

The purpose of this Directive is to authorize and require counties, cities, and towns that receive distributions from the State Motor Vehicle Highway account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and prevention purposes.

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows:

...

CITY CONTROLLER
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS
(Continued)

Cities and Towns

| | |
|----------|----------------------|
| Fund 201 | MVH |
| Fund 203 | MVH Restricted . . . |

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. . . .

Qualified expenditures will then be entered accordingly to MVH and MVH Restricted: . . .

MVH Restricted: Effective July 1, 2018, Indiana Code 8-14-1-4(b) and Indiana Code 8-14-1-5(c) requires at least 50% of the MVH distributions to be used for construction, reconstruction and preservation of the unit's highways. (Maintenance expenditures no longer count toward the 50% requirement.)

(State Examiner Directive 2018-2)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

CITY CONTROLLER
CITY OF MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2023, with Craig Wright, City Controller; The Honorable Dan Ridenour, Mayor; Aaron Clark, Common Council member; Stephen Brand, President of the Sanitary District Board; John Barlow, Sanitary District Administrator; Matt Wagley, Deputy City Controller; and Clares Burke, Investment Clerk.

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MAYOR
CITY OF MUNCIE

MAYOR
CITY OF MUNCIE
AUDIT RESULT AND COMMENT

RECORD OF HOURS WORKED

The same comment also appeared in prior Report B60455.

Condition and Context

In 2021, the Mayor contracted with a full-time City employee to "provide general administration, management of Prairie Creek Reservoir, grant writing, aid in park development, oversee the Mayor's initiatives, and other consulting services to the City and all departments of the City as needed and directed by the Mayor of Muncie." The contract specified the City will provide office space, internet, and telephone access as needed Monday through Friday from 8 a.m. until 4 p.m., plus an email account, and access to a computer and copy machine. The contract specified the individual is a contract consultant of the City who is not entitled to any City employee benefits, specified a monthly payment of \$2,000 per month, and specified for the period of January 1, 2021 through December 31, 2023, with any modifications to be made in writing and signed by all parties.

The contract included language regarding duties already being performed as a City employee, did not include a provision for a record of hours worked to be provided, and did not specify the work to be performed outside of the employee's normal work hours which are 8 a.m. to 4 p.m. Monday through Friday. The employee's timecard shows 8 hours per day worked for the City, but not the actual time hours and no record of hours worked was provided for the consulting work. As a result, there was insufficient documentation to determine when the individual worked for the City and as a consultant. This individual was paid \$49,355 as a full-time City employee plus \$24,000 as a consultant.

In 2022, the consultant payment increased to \$2,500 a month with no written amendment provided, and this individual has been paid a minimum of \$1,851 per pay plus overtime as a full-time City employee.

Criteria

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees: . . .

(2) employed by more than one (1) public agency or in more than one (1) position by the same public agency . . ."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MAYOR
CITY OF MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2023, with Craig Wright, City Controller; The Honorable Dan Ridenour, Mayor; Aaron Clark, Common Council member; Stephen Brand, President of the Sanitary District Board; John Barlow, Sanitary District Administrator; Matt Wagley, Deputy City Controller; and Clares Burke, Investment Clerk.