

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

FEDERAL SINGLE AUDIT REPORT
OF
CITY OF CARMEL
HAMILTON COUNTY, INDIANA
January 1, 2017 to December 31, 2017



FILED
09/17/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	3-4
Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	5-7
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards	10
Notes to Schedule of Expenditures of Federal Awards	11
Schedule of Findings and Questioned Costs	12-19
Auditee-Prepared Document:	
Corrective Action Plan	22-25
Other Reports	26

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	James Brainard	01-01-16 to 12-31-19
Clerk-Treasurer	Christine Pauley	01-01-16 to 12-31-19
President of the Common Council	Sue Finkam Kevin Rider	01-01-17 to 12-31-17 01-01-18 to 12-31-18
President of the Board of Public Works and Safety	James Brainard	01-01-16 to 12-31-19
President of the Redevelopment Authority	Robert Bush Bill Hammer	01-01-17 to 12-31-17 01-01-18 to 12-31-18
Utilities Director	John Duffy	01-01-17 to 12-31-18



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
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE CITY OF CARMEL, HAMILTON COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carmel (City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-002, and 2017-003, that we consider to be material weaknesses.

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

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-002, and 2017-003.

City of Carmel's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

July 25, 2018



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
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE CITY OF CARMEL, HAMILTON COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the City of Carmel's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2017. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-004. Our opinion on the major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-004, that we consider to be a material weakness.


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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 25, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.


Paul D. Joyce, CPA
State Examiner

July 25, 2018

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the City. The schedule and notes are presented as intended by the City.

CITY OF CARMEL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants / Entitlement Grants	Hamilton County	14.218	HCCDBG-15-15	-	404,070
Total CDBG - Entitlement Grants Cluster				-	404,070
Total Department of Housing and Urban Development				-	404,070
<u>Department of Justice</u>					
Bulletproof Vest Partnership Program	Direct Grant	16.607	K41859125	-	7,200
Edward Byrne Memorial Justice Assistance Grant Program	Indiana Criminal Justice Institute	16.738	2016-DJ-BX-042	-	25,991
Total Department of Justice				-	33,191
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
106th Street Path			1006027	-	114,125
111th & Penn Intersection			1297165	-	60,966
116th Street & Hazel Dell RAB			1297561	-	50,006
Main Street Improvement			1400673	-	194,587
Carmel Dr & Old Meridian RAB			15004444	-	82,642
Total - Highway Planning and Construction				-	502,326
Total - Highway Planning and Construction Cluster				-	502,326
Highway Safety Cluster					
Alcohol Impaired Driving Countermeasures Incentive Grants I	Hamilton County	20.601			
DUI Enforcement			D3-17-11169	-	5,003
DUI OPO Seatbelt Enforcement Blitz 88			D3-17-11079	-	5,377
DUI OPO Seatbelt Enforcement Blitz 89			D3-17-11079	-	4,969
DUI OPO Seatbelt Enforcement Blitz 90			D3-17-11079	-	5,652
DUI OPO Seatbelt Enforcement Blitz 91			D3-17-11079	-	7,193
Total - Alcohol Impaired Driving Countermeasures Incentive Grants I				-	28,194
Total - Highway Safety Cluster				-	28,194
Total - Department of Transportation				-	530,520
<u>Department of Homeland Security</u>					
Assistance to Firefighters Grant	Direct Grant	97.044	EMW-2016-FO-03952	-	25,800
Total - Department of Homeland Security				-	25,800
Total federal awards expended				\$ -	\$ 993,581

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF CARMEL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. *Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2017. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

Note 2. *Summary of Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF CARMEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

CFDA Number	Name of Federal Program or Cluster	Opinion Issued
20.205	Highway Planning and Construction	Unmodified

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

Auditee qualified as low-risk auditee?	no
----------------------------------------	----

Section II - Financial Statement Findings

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were several deficiencies in the internal control system of the City related to financial transactions and reporting. The City maintained records on the cash basis of accounting and contracted with a CPA firm to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America. Although there was evidence of a control over the preparation of the financial statements to ensure accurate reporting, there were numerous errors discovered in the presented financial statements and notes which indicated the control was not effective.

CITY OF CARMEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The City had multiple funds whose cash was held in Trust. These funds included the Redevelopment Commission Fund, 2016 Prop. Tax Bond - Const. 1 to 2016 Prop Tax Bond - Const. 13 funds, and the Storm Water fund. No financial records to support these funds were presented for audit. However, sufficient information was presented to establish beginning balances, receipts, disbursements, ending balances, and to verify the accuracy and correctness of the transactions for all of the above mentioned funds. Since these funds financial records were not a part of the Clerk-Treasurer's records, the bank reconciliation performed by the City omitted these funds. The total omitted from the bank reconciliation was \$35,633,139.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

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. . . ."

The cash balance of a particular fund shall be determinable from comparison of the entries in the Ledger of Receipts, Disbursements and Balances which shall be balanced and reconciled with bank balances monthly.

The subtraction of total disbursements of a fund from the sum of total receipts and the cash balance at the beginning of a particular period should produce the cash balance of that fund. This calculation shall be made monthly and the cash balance of each fund at the close of the month shall be entered and reconciled with bank account balances. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

Cause

Management had not established a complete and proper system of internal control over financial transactions and reporting related to the matter discussed in the *Condition*.

CITY OF CARMEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

The failure to establish controls related to the matter discussed in the *Condition* enabled misstatements to remain undetected.

Recommendation

We recommended that the City's management establish a system of internal controls over financial transactions and reporting related to the matter discussed 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 2017-002

Subject: Capital Assets and Construction in Progress
Audit Findings: Material Weakness, Noncompliance

Condition

Although there was evidence of a control over the recording of capital assets to ensure accurate reporting, there were numerous errors discovered in the presented capital assets and construction in progress records which indicated the control was not effective. Additionally, the City had not properly maintained a complete inventory of capital assets. During the audit of the capital asset and construction in progress records, the following discrepancies were noted:

- The amount reported for additions to construction in progress within governmental activities was comprised of total expected expenditures for the life of each project instead of the actual expenditures to date, thus overstating the amount reported for capital assets within governmental activities.
- Several projects completed during the year were not entirely removed from construction in progress and, therefore, not included in the Capital Asset Ledger for governmental activities, thus overstating the amount reported for construction in progress and understating capital assets within governmental activities.
- Supporting documentation was not presented for audit in regards to multiple items included in the sample selected for the test of capital assets reported within governmental activities.
- Supporting documentation was not retained for audit in regards to two items included in the sample selected for the test of capital assets reported within business-type activities.

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

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

CITY OF CARMEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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. . . ."

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Cause

Management had not established a complete and proper system of internal controls to ensure Capital Assets and Construction in Progress were correctly reported in the financial statements.

Effect

The failure to establish controls related to the matter described in the *Condition* enabled misstatements to remain undetected.

Recommendation

We recommended that the City's management establish a system of internal controls related to the matter discussed 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.

CITY OF CARMEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2017-003

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

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).

Context

The SEFA presented for audit contained the following errors:

- Two grants funded entirely by the state were included which resulted in an overstatement of \$1,010,000.
- The Community Development Block Grants / Entitlement Grants expenditures were mistakenly classified as part of the Highway Planning and Construction Cluster expenditures.
- Two pass-through entities were incorrectly identified.

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

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. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 financial statements. . . ."

CITY OF CARMEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

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 *Context*.

Recommendation

We recommended that the City's management establish controls related to the preparation of the SEFA.

CITY OF CARMEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2017-004

Subject: Highway Planning and Construction Cluster - Procurement and Suspension and Debarment
Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): 1400673
Pass-Through Entity: Indiana Department of Transportation
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

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 Procurement and Suspension and Debarment compliance requirement.

The City did have procedures in place to verify if all vendors used during the audit period were suspended or debarred; however, verification procedures did not occur for one vendor.

Context

The lack of effective controls and noncompliance were an isolated incident.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

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.

CITY OF CARMEL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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."

Cause

Management had developed a system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement; however, as noted in the *Condition*, the control was not effective.

Effect

The failure to establish an effective internal control system placed the City in noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management update controls to ensure compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

(This page intentionally left blank.)

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



City of Carmel

Office of Christine S. Pauley
Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Christine S. Pauley, Clerk-Treasurer

Contact Phone Number: (317) 571-2430

Views of Responsible Official: I concur with the finding.

Description of the Corrective Action Plan:

The trustee accounts related to the City's bond issuances will be recorded in an Excel Spreadsheet in a manner consistent with the SBOA's recommendation. The accounts will also be incorporated into the City's monthly bank reconciliation. This process has already been initiated and is expected to be current, on a year-to-date basis, within 45 days.

The City will establish a process to ensure timely receipt of the Basic Financial Statements, Notes to the Basic Financial Statements and Required Supplementary Information from the Executive Branch Accounting Consultant beginning with fiscal year end 2018. Worksheets and any other related documentation should also be provided to the Clerk-Treasurer's Office in advance of the SBOA due date of March 31st to allow appropriate time for review and approval.


Signature


Title


Date



City of Carmel

Office of Christine S. Pauley
Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: Christine S. Pauley, Clerk-Treasurer

Contact Phone Number: (317) 571-2430

Views of Responsible Official: I concur with the finding.

Description of the Corrective Action Plan:

The City will strengthen its current internal control structure with regard to Capital Assets and Construction in Progress by taking several actions. The Clerk-Treasurer's Office will conduct follow-up meetings with the appropriate Executive Departments to discuss the audit findings and recommendations. Additionally, oversight of the Departmental documentation will be conducted throughout the year and not at year end. As it relates to the third party consultant who prepares the asset schedules and depreciation, oversight will be increased or the function may be taken over by the Clerk-Treasurer's Office depending on staff time. These processes will be initiated within 60 days.

The City will establish a process to ensure Capital Asset and Construction in Progress data is incorporated accurately into the Basic Financial Statements and Notes to the Basic Financial Statements by the Executive Branch Accounting Consultant beginning with fiscal year end 2018.


Signature


Title


Date



City of Carmel

Office of Christine S. Pauley
Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2017-003

Contact Person Responsible for Corrective Action: Christine S. Pauley, Clerk-Treasurer

Contact Phone Number: (317) 571-2430

Views of Responsible Official: I concur with the finding.

Description of the Corrective Action Plan:

The City will strengthen its current internal control structure with regard to SEFA preparation by taking several actions. The Clerk-Treasurer's Office will conduct follow-up meetings with the appropriate Executive Departments to discuss the audit findings and recommendations. Additionally, oversight and receipt of the grant documentation will be required throughout the year and not at fiscal year end. Prior to the data being entered into Gateway, the Clerk-Treasurer's Office will conduct an annual review of all grant documentation to verify departmental reporting is compliant with SEFA requirements. These processes will be initiated within 60 days.


Signature


Title


Date



City of Carmel

Office of Christine S. Pauley
Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2017-004

Contact Person Responsible for Corrective Action: Christine S. Pauley, Clerk-Treasurer

Contact Phone Number: (317) 571-2430

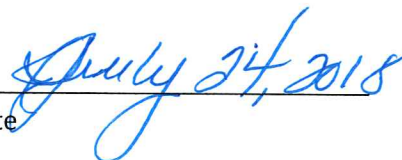
Views of Responsible Official: I concur with the finding.

Description of the Corrective Action Plan:

The Clerk-Treasurer's Office has advised the Law Department of the suspension and debarment audit finding. The appropriate language has been added to City of Carmel contracts and no further action is required at this time.


Signature


Title


Date

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.