

**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, 2016 to December 31, 2016



**FILED**  
12/13/2018

*Reissued to include the  
official response from the  
Sanitary District.*



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	3
Transmittal Letter .....	4
City Controller:	
Federal Findings:	
Finding 2016-001	
Preparation of the Schedule of Expenditures of Federal Awards .....	6-8
Finding 2016-002	
Financial Transactions and Reporting of Redevelopment Commission .....	8-10
Corrective Action Plan .....	11-12
Audit Results and Comments:	
Appropriations .....	13
Overdrawn Cash Balances .....	13
Annual Financial Report.....	13-14
Capital Assets .....	14
Employee Compensation .....	15
Credit Cards .....	15
Official Response.....	16
Exit Conference .....	17
Community Development:	
Federal Findings:	
Finding 2016-007	
CDBG - Entitlement Grants Cluster - Internal Controls.....	20-22
Finding 2016-008	
CDBG - Entitlement Grants Cluster - Suspension and Debarment.....	22-23
Corrective Action Plan .....	24-25
Exit Conference .....	26

TABLE OF CONTENTS  
(Continued)

<u>Description</u>	<u>Page</u>
Redevelopment Commission:	
Federal Findings:	
Finding 2016-003	
Economic Development Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles .....	28-29
Finding 2016-004	
Economic Development Cluster - Reporting .....	30-31
Finding 2016-005	
Economic Development Cluster - Special Tests and Provisions - Loan Requirements .....	31-33
Finding 2016-006	
Economic Development Cluster - Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization .....	33-34
Corrective Action Plan .....	35-37
Audit Results and Comments:	
Accounting for Tax Increment Financing (TIF) Allocation Proceeds .....	38
TIF Allocation Disbursements .....	38-40
Supporting Documentation .....	40
Penalties, Interest, and Other Charges.....	41
Official Response.....	42-44
Exit Conference .....	45
Sanitary District:	
Audit Results and Comments:	
Credit Cards .....	48-49
Excessive or Unreasonable Costs .....	49
Official Response.....	50-51
Exit Conference .....	52

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Audrey Jones Clares Burke (interim) Kevin Nemyer	01-01-16 to 06-09-17 06-10-17 to 07-30-17 07-31-17 to 12-31-18
Mayor	Dennis Tyler	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	John Quirk	01-01-16 to 12-31-18
President of the Common Council	Jerry Dishman Douglas Marshall	01-01-16 to 12-31-16 01-01-17 to 12-31-18
President of the Sanitary Board	Bill Smith	01-01-16 to 12-31-18



**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, 2016 to December 31, 2016. 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/](http://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

November 5, 2018

CITY CONTROLLER  
CITY OF MUNCIE

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Finding: Significant Deficiency, Noncompliance

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-001.

*Condition*

The City did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA. One employee prepared the grant information for the federal awards without a system of oversight or review to detect and correct the errors before submission.

*Context*

Due to the lack of controls, the SEFA presented for audit contained the following errors:

1. Several grants were understated by either using the wrong amounts or omitting grant expenditures. The net understatement totaled \$232,201.
2. A reimbursement that was funded by a state match of \$84,121 was incorrectly included on the SEFA.
3. Amounts provided to subrecipients were understated by \$131,776.
4. Information such as grantor agency, program title, 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*

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.

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

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 Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- Accurate and timely recording of transactions. . . ."

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. . . ."

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."

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*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.

*Views of Responsible Officials*

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

**FINDING 2016-002**

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-003.

*Condition*

The Muncie Redevelopment Commission funds, which included the Economic Adjustment Assistance (revolving loan funds/RLF), were not properly recorded within the City's ledger by the City Controller. For all fund activity except for the Redevelopment Commission funds, receipts and disbursements were individually entered into the City's ledger. For the Redevelopment Commission funds, each related bank statement activity was posted as one receipt for the total month's deposits and one disbursement for the month's debit activity. Deposits in transit, outstanding checks, and other potential reconciling items were not accounted for under this method.

Supporting documentation for the individual disbursements of the Redevelopment Commission were also not included in the City's ledger as was required for all other departments. Additionally, the City Controller was not the signatory for all accounts related to the Muncie Redevelopment Commission. The City had not established an internal control system to ensure that the Redevelopment Commission activity was properly accounted for within the City's ledger in the same manner as all other departments of the City.

*Context*

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

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- Accurate and timely recording of transactions. . . ."

13 CFR 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."

Indiana Code 36-4-10-2(c) states in part: "The city controller appointed under [IC 36-4-9-6](#) is the fiscal officer of each second class city . . ."

Indiana Code 36-4-10-5(b) states in part:

". . . The fiscal officer shall do the following:

- (1) Prescribe the form of reports and accounts to be submitted to the department.
- (2) Sign and issue all warrants on the city treasury.
- (3) Audit and revise all accounts and trusts in which the city is concerned.
- (4) Keep separate accounts for each item of appropriation made for each city department . . .
- (9) Manage the finances and accounts of the city . . ."

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

Indiana Code 36-7-14-8(b) states in part:

"The fiscal officer of the unit establishing a redevelopment commission is the treasurer of the redevelopment commission. . . . the treasurer has charge over and is responsible for the administration, investment, and disbursement of all funds and accounts of the redevelopment commission in accordance with the requirements of state laws that apply to other funds and accounts administered by the fiscal officer. . . ."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

*Cause*

Management of the City had not established a proper system of internal control over the financial transactions and reporting of the Redevelopment Commission funds.

*Effect*

The failure to establish controls could have enabled misstatements or irregularities to remain undetected regarding the Redevelopment Commission funds.

*Recommendation*

We recommended that the City establish a system of internal controls related to financial transactions and reporting of the Redevelopment Commission funds.

*Views of Responsible Officials*

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



**CORRECTIVE ACTION PLAN**  
**Findings 2016-001 and 2016-002**

***FINDING 2016-001***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a system of oversight and internal control in place to prevent errors and/or misstatements, and several errors were, in fact, discovered and corrected.

**Description of Corrective Action Plan:**

An internal control procedure for the Schedule of Expenditures of Federal Awards will be put into place and will include oversight by the Controller, or his designee, who will review and check the SEFA for errors, omissions, and misstatements prior to its submission.

**Anticipated Completion Date:**

The above internal control procedure will be implemented immediately.

***FINDING 2016-002***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a proper system of internal controls in place to ensure Muncie Redevelopment activity was correctly accounted for in the City's ledger.

**Description of Corrective Action Plan:**

The funds of the Muncie Redevelopment Commission will be recorded within the City's ledger in the same manner as other departments, with all individual disbursements being correctly recorded, with supporting documentation.

**Anticipated Completion Date:**

The above procedure will be implemented as soon as feasible.

Kevin Neuge  
(Signature)

Controller  
(Title)

Oct 25 2018  
(Date)

CITY CONTROLLER  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

A similar comment also appeared in prior Reports B47643 and B47710, entitled *APPROPRIATIONS*.

The Local Road and Street fund and the Bond Revenue/Tuhey Pool fund appropriations were overspent by \$440,778 and \$2,549, respectively, as of December 31, 2016.

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 . . ."

**OVERDRAWN CASH BALANCES**

A similar comment also appeared in the prior Reports B47643 and B47710, entitled *OVERDRAWN CASH BALANCES*.

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2016. Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants required the City to expend funds and, subsequently, request reimbursement. The City funds with overdrawn cash balances at December 31, 2016, which were not due to the timing of reimbursements are listed below:

Fund	Amount Overdrawn
Gateway Park Project Grant	\$ 333,969
Economic Dev Income Tax Revenue Bond 2013 Sinking	44,314
Parks and Recreation #3	41,577
Payroll	339

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

**ANNUAL FINANCIAL REPORT**

The following errors were identified during our testing of the Annual Financial Report (AFR) and the financial statement presented for audit, which was prepared using the online Indiana Gateway for Government Units financial reporting system:

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

1. The beginning Cash and Investment balances were understated by \$2,185 in comparison to the December 31, 2015 Cash and Investment balances in the prior report, due to the omission of cash on hand.
2. The ending Cash and Investments balances were understated by \$265,067, due to the omission of investments on hand as of December 31, 2016.
3. The ending Cash and Investments balances were overstated by \$2,443,341 for the Industrial Development Revolving Loan Funds as of December 31, 2016, due to the inclusion of loan receivables.
4. The Supplemental Schedule of Leases and Debt - Ending Principal Balance was overstated by \$25,798,763 and Principal and Interest Due Within One Year was overstated by \$4,791,694.

For the above items, audit adjustments were proposed, accepted by the City, and made to the financial statement and Supplemental Schedule of Leases and Debt.

5. The Supplemental Schedule of Payables and Receivables could not be determined to be materially consistent with the financial statement and, therefore, was not included in the issued report.
6. The Supplemental Schedule of Capital Assets had numerous material errors and, therefore, was not included in the issued report.
7. The Combining Schedule for the Local Road and Street fund reported grant distributions of \$462,507 as miscellaneous receipts instead of the correct category of intergovernmental receipts.

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

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

### **CAPITAL ASSETS**

Capital asset records were not presented for audit and a physical inventory was not conducted to verify all assets on hand were included in the accounting records. As noted in the Audit Result and Comment *ANNUAL FINANCIAL REPORT*, the Supplemental Schedule of Capital Assets had numerous errors and, therefore, was not included in the final audit report.

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)

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

**EMPLOYEE COMPENSATION**

During a test of employee compensation, one of ten employees tested was identified as having been paid more than the amount approved in the salary ordinance. The employee was indicated as having received a raise, but the City was unable to provide documentation of the approval of a raise. Therefore, the employee was paid \$236 more than the approved amount per the salary ordinance.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**CREDIT CARDS**

A similar comment also appeared in prior Reports B47643 and B47710, entitled *CREDIT CARDS*.

The City's credit card policy stated the use of credit cards was subject to the following procedure: "Credit cards are not to be used for personal items, but only for office supplies, equipment, parts, services, and items approved by the Department Heads."

We identified credit card purchases made for personal expenses at local grocery stores, department stores, department store websites, gas stations and restaurants and for memberships, travel, training, car washes, and cable television. Employees used their City credit cards to make personal purchases and reimbursed the City for the personal expenses at the end of the month.

We identified two charges which were paid based on a credit card slip only and one with an on-line statement without the necessary supporting documentation. The following credit card purchases lacked the necessary supporting documentation.

<u>Date</u>	<u>Payee</u>	<u>Amount</u>
06-10-16	Clancy's Car Wash	\$ 1,000
09-23-16	City of Muncie Parking	1
11-10-16	Downtown Farm Stand	<u>25</u>
	Total	<u>\$ 1,026</u>

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination 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 1)

- **Overdrawn Cash Balances – The Gateway Park Project and Parks and Recreation #3 funds were overdrawn at December 31, 2016:**

When this was discussed with the Mayor, Dennis Tyler he had stated that this project was going to be reimbursed for the expenses in the project. It is my understanding that if the project went over budget the EDIT fund would pay the overages based on the project manager over this project (Augusta Consulting).

- **Capital Assets – Capital Asset records were not presented for audit and a physical inventory was not conducted to verify all assets on hand are included in the accounting records 2016:**

During the last year of being Controller I did an overhaul on Asset recording. We entered all the old data into the computer system. I had an employee that presented all the information to each department and met with each department head to discuss assets. The lists were verified and discussed thoroughly to make sure that assets were reported in the system correctly. I was no longer the Controller when the assets were audited and I don't know why they weren't presented or verified during the audit process.

- **Credit Cards-Credit Card purchases for personal use 2016**

While I was the Controller I did not know that individuals were making personal purchases with their city credit card. The controller's office would receive the credit card bill and each department would submit their receipts for their purchases. There were times where there were credit card purchases made and the receipts weren't presented to the controller's office. If a receipt was not presented to the controller's office the individual would have to reimburse the city. There were a few times where purchases were questioned and returned to the department for reimbursement, further documentation or an explanation of why something had to be purchased. There were several times that I exhausted all avenues and tried calling various places where the credit cards were used to get copies of the receipts for individuals. If I was not able to obtain a receipt the individual was required to pay back the money. The policy did not give the Controller the ability to take the credit card away, which could prevent this type of thing from happening.

- **Credit Cards Paid without Supporting Documentation**

The controller's office would pay the credit fees without supporting documentation to avoid late fees. We would request supporting documentation from the cardholder/purchaser. If the supporting documentation was not received the Controller's office would request that the cardholder or the purchaser would reimburse the City. The policy does not have a consequence if the cardholder/purchaser does not pay the City back. So at times the money wasn't reimbursed because there wasn't anything in place that allowed for further consequence.

Sincerely,

Audrey Jones

CITY CONTROLLER  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; and Megan Quirk, City Attorney.

The contents of this report were discussed on November 14, 2018, via phone, with Audrey Jones, former City Controller.

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COMMUNITY DEVELOPMENT  
CITY OF MUNCIE

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
FEDERAL FINDINGS

***FINDING 2016-007***

Subject: CDBG - Entitlement Grants Cluster - Internal Controls

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-10-MC-18-0102, B-11-MC-18-0102,  
B-12-MC-18-0102, B-13-MC-18-0102,  
B-14-MC-18-0010, B-15-MC-18-0010,  
B-16-MC-18-0010

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance, Reporting, Subrecipient Monitoring, Special Tests and Provisions - Environmental Reviews, Special Tests and Provisions - Rehabilitation

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-004.

*Condition*

An effective internal control system, which would include segregation of duties, was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the compliance requirements listed above.

*Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance*

For most of 2016, the Director of Community Development's (Director) time cards were not reviewed by another individual and there were no other controls to ensure the Director's payroll was allowable, accurate, and paid within the period of performance.

The review process established as a control for paying claims was not effective and failed to properly determine correct mileage rates for mileage reimbursement expenditures.

*Reporting*

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

*Subrecipient Monitoring*

The Assistant Director of 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.

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Special Tests and Provisions - Environmental Reviews*

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. In addition, documentation was not maintained for projects not requiring environmental reviews indicating that the project was an exempt activity (i.e. public service, administration).

*Special Tests and Provisions - Rehabilitation*

Rehabilitation policies and procedures to determine whether work was properly completed was performed by a planner within the Department of Community Development with no review or oversight process in place.

*Context*

The lack of controls was a systemic issue throughout the audit period.

*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). . . ."

*Cause*

Management had not developed a system of internal controls 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 the 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 the compliance requirements listed above.

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Views of Responsible Officials*

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

**FINDING 2016-008**

Subject: CDBG - Entitlement Grants Cluster - Suspension and Debarment

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-10-MC-18-0102, B-11-MC-18-0102,  
B-12-MC-18-0102, B-13-MC-18-0102,  
B-14-MC-18-0010, B-15-MC-18-0010,  
B-16-MC-18-0010

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 suspension and debarment requirements. The City did not have adequate policies or procedures in place to ensure that vendors were not suspended or debarred from participation in federal programs.

The City did not always comply with their policies and procedures established to ensure that contractors were not suspended or debarred. Contracts were signed before the Board of Works reviewed evidence that the City had performed procedures to verify compliance with the suspension and debarment requirements.

*Context*

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

*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). . . ."

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

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 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 not designed or implemented internal control procedures to ensure compliance with the suspension and debarment requirements.

*Effect*

The failure to establish effective internal controls enabled 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 to ensure compliance and comply 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.



**CORRECTIVE ACTION PLAN**  
**Findings 2016-007 and 2016-008**

***FINDING 2016-007***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a system of oversight and internal control in place within the Community Development department to prevent misuse and mismanagement of CDBG funds; to verify the accuracy of claims, including payroll; to ensure proper reporting was submitted; or to ensure monitoring subrecipients was conducted correctly.

**Description of Corrective Action Plan:**

A system of internal control will be designed and implemented within the Community Development department to ensure the proper use of the CDBG grant funds, to verify the accuracy of claims and of payroll, and to ensure compliance with reporting and monitoring requirements.

**Anticipated Completion Date:**

A system of internal control will be designed and implemented within the Community Development department as soon as feasible.

***FINDING 2016-008***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a proper system of internal controls in place to ensure the Community Development department was in compliance with the grant agreement, and with the Procurement and Suspension and Disbarment compliance requirement.

**Description of Corrective Action Plan:**

An internal control system in the Community Development department will be designed and implemented as soon as feasible, to ensure compliance with both the grant agreement, and with the Procurement and Suspension and Disbarment compliance requirement.

**Anticipated Completion Date:**

The system of internal control described above will be implemented as soon as feasible.

Kevin Nguyen  
(Signature)

Controller  
(Title)

Oct 25, 2018  
(Date)

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; Megan Quirk, City Attorney; and Terry Bailey, Community Development Director.

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS

***FINDING 2016-003***

Subject: Economic Development Cluster - Activities Allowed  
or Unallowed, 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  
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles  
Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat finding from the immediately prior audit regarding Allowable Costs/Cost Principles. The prior audit finding number was 2015-007.

*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 Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

The City paid four claims, which totaled \$5,621 to a vendor for the reimbursement of expenses associated with administering the federal program. However, no invoices were provided to substantiate these claims. It could not be determined whether these expenses were for activities allowed according to the requirements of the program. These claims paid without adequate supporting documentation were considered questioned costs.

The City had an interlocal agreement to pay an unspecified portion of the Director of Business Development's (Director) salary from the revolving loan fund grant. The City paid \$39,874 of the Director's salary from grant funds. No supporting documentation of the time allocated to the management of the grant was provided. The compensation paid without adequate supporting documentation was considered questioned costs.

The City also paid \$1,890 for an automobile lease for the Director from the grant. No supporting documentation outlining business versus personal use of the vehicle was provided. The lease payments made without adequate supporting documentation were considered questioned costs.

*Context*

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

*Criteria*

OMB Circular A-133, Subpart C(1), 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 307.13(b) states in part:

*"Administrative records.* RLF Recipients must at all times: . . .

- (2) Retain records of administrative expenses incurred for activities and equipment relating to the operation of the RLF for three years from the actual submission date of the last semi-annual report that covers the Reporting Period in which such costs were claimed. . . ."

OMB Circular A-87, Attachment A, section C(1) states in part:

"Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular. . . .
- j. Be adequately documented."

OMB Circular A-87, Attachment A, section C(3)(a) states: "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

*Cause*

Management of the City had not designed or implemented internal control procedures to ensure compliance with the compliance requirements listed above. The City did not have controls in place to ensure that adequate documentation was available for expenditures of grant funds.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds to the City.

*Questioned Costs*

Known questioned costs of \$47,385 were identified as detailed in the *Condition*.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and comply with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*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 2016-004***

Subject: Economic Development Cluster - 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  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-008.

*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 requirement. The City did not have controls in place to ensure that supporting documentation was maintained for reports that were submitted.

The City did not comply with the reporting requirements that supporting documents be maintained per the grant agreement and program regulations. No supporting records were maintained for the ED-209- Revolving Loan Fund Semi-Annual Financial Report and the ED-209I- Revolving Loan Fund Income and Expense Statement.

*Context*

The lack of internal controls and the noncompliance were systemic issues throughout the audit period.

*Criteria*

OMB Circular A-133, Subpart C(1), 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. . . ."

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

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

(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 requirements.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the reporting requirements 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 to ensure compliance and comply with the grant agreement and Reporting 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 2016-005**

Subject: Economic Development Cluster - 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

Compliance Requirement: Special Tests and Provisions - Loan Requirements

Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-010.

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*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 have controls in place to ensure that standard loan documentation included proper signed bank turn-down letters, Board of Directors meeting minutes, and loan applications.

The City did not comply with the loan requirements that certain documentation be maintained. The City did not gather the required signed bank turn-down letters demonstrating that credit was not otherwise available before distributing loans. The City also did not maintain loan applications and board meeting minutes showing approval of the loans in the loan files.

*Context*

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

*Criteria*

OMB Circular A-133, Subpart C(1), 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 in part:

"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; . . .
- (iii) Board of directors' meeting minutes approving the RLF loan; . . .
- (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 Tests and Provisions - Loan Requirements compliance requirement.

*Effect*

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

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and comply with the grant agreement and the Special Tests 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.

**FINDING 2016-006**

Subject: Economic Development Cluster - Special Tests and Provisions -  
Increases to RLF 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  
Compliance Requirement: Special Tests and Provisions - Increases to  
RLF Capital Base and Capital Utilization  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-006.

*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 - Increases to RLF Capital Base and Capital Utilization. The Director of Business Development was the sole person responsible for the determination of increases to the revolving loan fund capital base and capital utilization. There was no oversight, review, approval, or other process in place to ensure that the necessary calculations were performed.

*Context*

The lack of controls was a systemic issue throughout the audit period.

*Criteria*

OMB Circular A-133, Subpart C(1), 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)

*Cause*

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

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement 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 the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement.

*Views of Responsible Officials*

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



**CORRECTIVE ACTION PLAN**  
Findings 2016-003 to 2016-006

***FINDING 2016-003***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a proper system of internal controls nor requirement of supporting documentation for the expenditures of grant funds, putting these funds at risk.

**Description of Corrective Action Plan:**

Supporting documentation and invoices will be required before the expenditure of any grant funds, or reimbursements for expenses using grant funds. Documentation of the share of the Director's salary to be paid from grant funds, and documentation outlining business versus personal use of leased vehicles will be filed in the Controller's Office.

**Anticipated Completion Date:**

Internal control procedures to ensure compliance of the above will be implemented as soon as feasible; documentation concerning the Director's salary and proper use of leased vehicles will be compiled as soon as feasible.

***FINDING 2016-004***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not an internal control system in place to ensure compliance with the grant agreement and the grant reporting requirements, which could have resulted in the loss of federal funds to the City.

**Description of Corrective Action Plan:**

The Controller's Office will establish an internal control procedure of grant agreements review to ensure compliance, and of grant reporting reviews to ensure they comply with the requirements.

**Anticipated Completion Date:**

These internal control procedures will be implemented as soon as feasible.

***FINDING 2016-005***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. The City's lack of internal controls allowed noncompliance with the grant agreement and the loan requirements.

**Description of Corrective Action Plan:**

An internal control system will be established to ensure compliance with both the grant agreement, and with the Special Tests and Provisions for Loan Requirements compliance requirement.

**Anticipated Completion Date:**

An internal control system will be designed and implemented as soon as feasible.

**FINDING 2016-006**

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a proper system of internal controls to ensure compliance with the grant agreement and the compliance requirements.

**Description of Corrective Action Plan:**

An internal control system, including segregation of duties, will be established to ensure compliance with both the grant agreement, and with the Special Tests and Provisions for Increases to RLF Capital Base and Capital Utilization compliance requirement.

**Anticipated Completion Date:**

An internal control system and segregation of duties will be designed and implemented as soon as feasible.

Kevin Nemyer  
(Signature)  
Controller  
(Title)  
Oct 25, 2018  
(Date)

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS

**ACCOUNTING FOR TAX INCREMENT FINANCING (TIF) ALLOCATION PROCEEDS**

The Redevelopment Commission did not account for the proceeds from each TIF Allocation area in separate funds.

The Redevelopment Commission established two checking accounts. Proceeds from the parking garage collections were commingled with other TIF revenue and expenditures from these accounts were for expenses from multiple TIF areas.

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

" . . . property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following . . ."

**TIF ALLOCATION DISBURSEMENTS**

We identified disbursements which were not included in the redevelopment plan and resolution as part of the redevelopment project under Indiana Code 36-7-14-15 and Indiana Code 36-7-14-16.

We identified disbursements from Redevelopment Commission funds containing TIF allocation proceeds, which were determined to be operating and capital costs of the City or for items unrelated to the redevelopment plan or project, rather than expenses related to the duties and powers of the Redevelopment Commission as stated in Indiana Code 36-7-14-11 and Indiana Code 36-7-14-12.2.

Disbursements identified as operating and capital costs of the City or items not included within the redevelopment plan or project were as follows:

Description	Amount
Co: Lab Operating Expenses	\$ 40,745
Rebranding of the Co: Lab	24,957
Parking Garage Operating Expenses	26,113
City Hall Roof Replacement	137,741
Christmas Decorations	2,625
Lease of Police Cars	83,776
Police Video	77,076
Paving at Fire Station	25,310
City of Muncie Logo Apparel	561
Event Sponsorships	3,490

A Redevelopment Commission has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition development, and disposal of property in "areas needing redevelopment." The powers granted to a redevelopment commission in Indiana Code 36-7-14-12.2 allow the commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

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

The general operating costs of the City should be paid from the City's General fund as set forth in the Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 4:

"GAAFR defines the General Fund as the fund used to account for all financial resources except those required to be accounted for in another fund. The General Fund is the general operating fund of the municipality. Tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The general operating expenditures of the municipality are paid from the General Fund. To summarize, the General Fund shall be used for current general operations of the city or town."

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

". . . property tax proceeds . . . shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

(A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.

(B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.

(C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under [IC 36-1-10](#).

(I) For property taxes first due and payable before January 1, 2009, . . .

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

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

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

- (i) in the allocation area; and
- (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in [IC 36-9-41-1.5](#)) within the unit that established the redevelopment commission. . . .

(M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

The allocation fund may not be used for operating expenses of the commission."

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

**SUPPORTING DOCUMENTATION**

Supporting documentation was not presented for audit for Redevelopment Commission disbursements totaling \$34,854. Due to the lack of supporting documentation, the validity of the disbursements could not be determined.

Indiana Code 36-7-14-29(a) states: "All payments from any of the funds established by this chapter shall be made by warrants drawn by the proper officers of the unit upon vouchers of the redevelopment commission signed by the president or vice-president and the secretary or executive secretary."

Indiana Code 36-7-14-8(b) states in part:

"The fiscal officer of the unit establishing a redevelopment commission is the treasurer of the redevelopment commission. . . . the treasurer has charge over and is responsible for the administration, investment, and disbursement of all funds and accounts of the redevelopment commission in accordance with the requirements of state laws that apply to other funds and accounts administered by the fiscal officer. . . ."

Indiana Code 5-11-10-1.6(c) states in part:

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

- (1) there is a fully itemized invoice or bill for the claim; . . ."

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

***PENALTIES, INTEREST, AND OTHER CHARGES***

The Redevelopment Commission paid late fees of \$268, fees for exceeding credit limits on a credit card of \$105, interest on late payment of credit cards of \$43, and sales tax of \$12. The total penalties, interest, and other charges was \$428.

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 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 unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Michael,

I hope all is well. During our review process on November 5, 2018, there were some findings that I was concerned about that were not investigated through my office. Things that could have been cleared up and would not be on the Finding Report. The following is the response and the explanation or attachment to verify as to why these may not need to be an issue in the Finding Report.

Thank you for your consideration:

**Finding 2016-003**

In one area, it was stated that there were claims paid that your team could not find invoices for. These were regarding the RLF. In July, Cole Woelfle asked for those invoices. I sent them over to him within a few days of the request. All was good. Cole stated that they were what he was looking for. A few weeks later I am told that Cole has left and George Dennitson would be taking over the review of the RLF moving forward. In September, George asked me for the same invoices. I told him that I gave them to Cole and he stated that he doesn't have everything that Cole checked out. I went to their office and found them on the shelf next to his desk. He was satisfied. Then he left.

In another area, it was stated that there are no internal controls over the Federal award. There is a Board of Directors that makes the decisions for the money per the requirement of the Federal Grant. This Grant was established in 1977. This board not only has to approve all claims to be paid, they also have to review and approve all loans that are to be paid out. In fact, the Chairperson of the board has to be at all closings to sign and be notarized at that signing. Once all the documents are verified and signed, the loan proceeds are issued. Outside of filing documentation with the Department of Commerce twice a year, my board of 7 members has to approve the financial reports and the expenditure of any funds. To say there are NO internal controls is confusing.

**Finding 2016-004**

It is stated that there were no supporting documentation maintained for the ED-209 RLF Semi-Annual report when in fact, there was a complete notebook provided to the investigator that verified every invoice, payment of loans and receivables for the loan payments in detail and dated when issued or received. This could have been an issue because of changing investigators in a 3 month period, and was overlooked.

**Finding 2016-005**

Our Loan Requirements, (see attached) approved by the Department of Commerce, as they are submitted every 5 years for review, do not require loan turn-down documentation. In fact, it states clearly that the board MAY consider turndown letters as a part of the request. There were minutes for every meeting for all of 2016, (see attached). All of these were submitted to the investigators. Plus, we have loan applications for every approved loan. When asked, those were also submitted.

**Finding 2016-006**

Every ED209 submitted shows the amount of the Capital Base and the Capital Utilization. And, these are regulated by the Department of Commerce. We are not the sole decision maker in these levels. That is a standard requirement of the Department of Commerce.

These remarks were repeated in Finding 2017-003, 2017-004, 2017-005 and 2017-006

**Redevelopment Commission:**

Under the 2016 report, the team states that we did not maintain TIF accounts in separate funds. That is not accurate. Each TIF fund was assigned an account in New World.

The two checking accounts were NOT part of the TIF accounts, therefore, these funds did not come in with garage funds. The TIF account was set up in the Cardinal TIF fund and did not begin receiving TIF until 2016. The Garage Fund Checking account was set up to receive revenue to assist in paying the expenses of operating the garage. That was in 2014. In 2017, four of the TIF areas were consolidated into one TIF call the Consolidated Muncie TIF. I have a copy of the ledger kept by my office on the 2016 TIF, checking and other accounts. I also included the 2017 fiscal year. They were kept separate in 2017, although they were consolidated. In 2018 is when we combined accounts.

The checking accounts referred to in the report are not TIF accounts. One, account #310-0961-1, was set up specifically to receive funds from the parking gates for credit cards and deposits from the other parking revenue. This account pays for the expenses to operate the parking garage per the lease established by resolution. This is NOT a TIF fund.

The other checking account is #1726382 was set up prior to me coming to work in this position. This is a general fund account for all other revenue that is not related to TIF. There is never any TIF funds deposited into this account.

All TIF accounts go through the city from the Delaware County Treasurer. I do not receive any TIF draws.

As for the comments regarding the payment from TIF for police cars and or other equipment. I am attaching the resolutions that amended the TIF plans to add these to the TIF options. As for the expense paid from the TIF for the City Hall Roof. I am also attaching the resolution approved that amended the TIF to allow this to be part of the infrastructure paid from the TIF. There was a bond approved, (Series 2014, documents attached) that allowed for what we called the Multi-TIF Bond, that was set up to invest in infrastructure improvements in all four of the TIF areas known as the Cardinal TIF, the Central City TIF, the Muncie Mall TIF and the South Muncie TIF. These areas were assigned a specific amount. The payback for the bond was divided from the specific TIF areas based on the amount utilized in each TIF area. We kept a different account for this through the City Controller New World system. Everything was controlled through the city controller.

These are all items that we were written up on that have fair and confirming explanation that was justified and controlled. With the exception of the checking accounts not being in New World, everything else was controlled. We are in the process of fixing the checking accounts and have set up the accounts and deposited funds into these accounts for any future payments.

We are also working on the RLF fund account.

I would hope that you can take these items under consideration and look to remove the comments related to these items that we have clarified.

Please feel free to contact me with any questions.

Thank you

Todd

**TODD DONATI**

EXECUTIVE DIRECTOR

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REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; Megan Quirk, City Attorney; and Todd Donati, Redevelopment Commission Director.

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SANITARY DISTRICT  
CITY OF MUNCIE

SANITARY DISTRICT  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS

**CREDIT CARDS**

The Sanitary District Personnel Policies Handbook stated "District employees may request the use of a District credit card for travel related expenses associated with attending conferences, workshops, business meetings or other work related expenses." The Handbook did not state any other approved uses.

We identified credit cards were used for board lunches, administrative lunches, supplies, car washes, software, memberships, sponsorship/tickets to a professional football team, Children's Museum sponsorships, and refreshments for the snow plow safety meeting.

A hotel stay for \$622 was paid from the hotel reservation estimate instead of a paid receipt.

A Sanitary Board member who lived outside of the City paid for a hotel room in Muncie in the amount of \$142. The Sanitary District's travel policy stated: "Cost of lodging must be pre-approved, and destination must be more than 50 miles from Muncie."

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance/resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of that officer or employee.

SANITARY DISTRICT  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS  
(Continued)

8. If authorized, an annual fee may be paid.

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

**EXCESSIVE OR UNREASONABLE COSTS**

The Sanitary District purchased the following sponsorships for 2016 totaling \$80,510 from the Recycling fund for which a business purpose could not be determined:

Date	Check Number	Vendor	Amount	Description
01-08-16	199967	Muncie Downtown Development Partnership	\$ 10,000	Partnership Promotion as Premier Partner
01-22-16	200322	The Arc of Indiana	250	Brick Sponsors for the ARC, Muncie, IN
04-01-16	201629	Indianapolis Colts	7,294	Sponsorship/Partnership
04-01-16	201629	Children's Museum	2,100	Exhibit Partnership
04-01-16	201629	Indianapolis Colts	1,980	Sponsorship/Partnership
04-01-16	201603	Muncie Park Department	20,000	2016 Park Events Sponsorship
04-19-16	202143	Hearts and Hands United of Del. Co., Inc.	1,100	Sponsorship
04-29-16	202218	Indiana Pacers	8,596	Indiana Pacers Season Tickets
05-13-16	202438	Indiana Black Expo - Muncie Chapter	1,000	2016 Sponsorship
05-13-16	202354	Cancer Services of East Central Indiana	100	2016 Little Red Lunch Sponsorship
06-10-16	203007	Muncie Exchange Club	500	Justice Sponsorship for 2016 Flags of Honor
06-10-16	203005	Millennium Productions	1,000	Underwriting for Del. Co. Sheriff Show
07-22-16	204007	Muncie Park Department	10,000	Sponsorship for events in the Muncie Parks
08-19-16	204521	Muncie Bike Fest	500	Muncie Bike Fest Sponsorship 2016
09-16-16	205168	Millennium Productions	1,000	Underwriting the Community Focus Public Access Show
09-30-16	205347	Altrusa International	90	2016 Muncie Altrusa Style Show Luncheon
10-14-16	205778	Muncie Park Department	10,000	City Parks Summer Activities
10-14-16	205768	Meridian Services	4,000	Duck Derby Race Against Child Abuse
12-09-16	206892	Southside Middle School Panther Pantry	1,000	Christmas Break Backpack Basket
Total			<u>\$ 80,510</u>	

Included in the above, the Sanitary District purchased season tickets to a professional basketball and sponsorship/partnership with a professional football team, which were to be used for promotional purposes. No documentation was presented for audit of who used the tickets to the games.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination 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 1)

Every effort should be made by the unit to avoid unreasonable or excessive costs. Unreasonable or excessive costs may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



*The Official Response submitted included several examples of forms, resolutions, and invoices which are not included in this audit report. These additional documents are available upon request made to the Indiana State Board of Accounts.*

## OFFICIAL RESPONSE

### RESPONSE TO 2016 SBA FINDINGS RE: MUNCIE SANITARY DISTRICT

#### **CREDIT CARDS:**

Please note the entire credit card policy as approved by the MSD Board of Commissioners, Section 5.15, is attached, as the sentence that is referred to in the Audit Comment represents only a small portion of the policy and by including only a portion, the Comment misrepresents the approved uses of the card. Additionally, there have been multiple resolutions approved and passed by the Board which also provide guidelines for use of the credit cards, which have also been attached for reference. Each of the identified expenditures in the Comment, in fact, comply with the guidelines for approved use as defined by the duly approved actions of the Board of Commissioners.

The proper procedure was not followed regarding the hotel bill for \$622.00. The hotel stay was pre-approved; however, no receipt was attached, the on-line reservation document should not have sufficed and the error has been addressed

As was the case with the credit card policy, the entire business travel policy should have been included to avoid the inaccurate interpretation applied by the auditor. The entire policy has been attached for reference, Section 5.14 provides for overnight accommodations only for meetings outside a 50-mile radius of Delaware County **“unless authorized by the District Administrator”**. In the relevant instance, a Commissioner traveled from his home to MSD offices for two days of meetings. His residence was outside of the 50-mile radius, see attached google map, (so certainly within the intent of the policy) and not only was the stay authorized by the District Administrator (the stay was paid for with the District Administrator’s credit card), the President of the Board made the reservation. A Monthly Credit Card Expense Report Form was properly filled out and submitted, see attached, (a form created with the assistance of the SBA and approved in 2008), so all policies and procedures were complied with.

#### **EXCESSIVE OR UNREASONABLE COSTS:**

The business purposes of purchasing sponsorships are clear, and were explained to the auditor previously: promotion, marketing and education concerning recycling and conservation programs. Expenditure of those funds was consistent with the purposes of the recycling grant that is the source of the funds utilized. No documentation of who received the tickets has ever been required in the prior 14



years of the program. Some of the “winners” were anonymous, depending on the promotion, mailed only to “Resident” at a specific address based on participation in the recycling program. The expenditures were always within the budget, approved by the Board generally, see attached resolutions 2007-05 and 2012-23, any allegation of “unreasonable or excessive cost” is merely the subjective and unsupported judgment of the auditor. The Board fully supports and approves of the marketing efforts of the District and its results speak for themselves – a nationally-recognized recycling program that has been so successful it has allowed for curbside recycling at no additional cost to customers.

Author:

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McKinney & Malapit Law

SANITARY DISTRICT  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; Megan Quirk, City Attorney; Bill Smith, President of the Sanitary District Board; Nikki Grigsby, Sanitary District Director; Deborah Ervin, Sanitary District Financial Manager; and Mark McKinney, Sanitary District Attorney.