

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, 2018 to December 31, 2018



FILED
09/11/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Kevin Nemyer	01-01-18 to 12-31-19
Mayor	Dennis Tyler	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	John Quirk Roger Overbey	01-01-18 to 12-31-18 01-01-19 to 12-31-19
President of the Common Council	Douglas Marshall	01-01-18 to 12-31-19
President of the Sanitary District Board	William Smith	01-01-18 to 12-31-19



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, 2018 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinion on the City's financial statement. This report may be found at www.in.gov/sboa/.

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

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

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

August 28, 2019

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CITY CONTROLLER
CITY OF MUNCIE

CITY CONTROLLER
CITY OF MUNCIE
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Reports B47643, B47710, B51516, and B51518, entitled *OVERDRAWN CASH BALANCES*.

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2018. The cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants require the City to expend funds and, subsequently, request reimbursement. The City funds with overdrawn cash balances at December 31, 2018, which were not due to the timing of reimbursements, are listed below:

Fund	Amount Overdrawn
Local Road and Street	\$ 430,895
CD FY13 Home Program	6,279
CD FY 14 Home Program	5,534
CD FY15 CDBG Program	54,984
CD FY15 Home Program	5,000
Hardest Hit	283,698

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)

CREDIT CARDS

A similar comment also appeared in prior Reports B47643, B47710, B51516, and B51518, entitled *CREDIT CARDS*.

The City incurred the following transactions when testing a sample of three months of credit card disbursements in 2018:

1. Lunch-in or work lunch meetings totaling \$363 were charged to the City's credit card. The receipts were intact; however, the names of individuals attending the meeting and also the meeting agenda or meeting topic was not always included on supporting documentation. Therefore, there was not sufficient documentation to determine if these meetings were for City business purposes or personal. Additionally, the City's credit card policy does not address these types of charges.
2. Charges made to the City's credit card by various departments, totaling \$641, were not supported by documentation. The credit card policy clearly states, "Any missing receipts are the responsibility of the user." There was no indication that these amounts were reimbursed.
3. The City allows the Mayor to use a City vehicle for personal use. There is a policy authorizing personal use of vehicles and states in part, "Employees using take-home vehicles are responsible for maintaining the vehicle in a clean and neat condition. In addition they are responsible for conducting such periodic maintenance check as

CITY CONTROLLER
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AUDIT RESULTS AND COMMENTS
(Continued)

necessary. . . ." However, the policy does not clearly state who is responsible financially to pay for the cleanliness and maintenance of the vehicle. It is also not clear on what other vehicle expenses are allowed or unallowed. During 2018, \$832 was spent on vehicle expenses for gas and car washes for the Mayor's vehicle. Also, the determination of personal use was not calculated and included on the Mayor's W-2 as a fringe benefit and taxed accordingly.

4. Cell phone related expenses totaling \$249 were charged to the City's credit card, but there was not sufficient documentation to determine if these were for City phones or personal cell phones. Additionally, the City's credit card policy does not address cell phone related charges.
5. Expenses of \$162 were charged to the City's credit card, but there was not sufficient documentation to determine if they were for City business purposes or personal.

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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)

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.

CITY CONTROLLER
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AUDIT RESULTS AND COMMENTS
(Continued)

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

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

APPROPRIATIONS

Disbursements exceeded the amount budgeted for the Center Township Revenue fund by 55 percent. There were no additional appropriations requested for this fund during 2018 to prevent this occurrence.

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

Indiana Code 6-1.1-18-5 states in part:

"(a) If the proper officers of a political subdivision desire to appropriate more money for a particular year than the amount prescribed in the budget for that year as finally determined under this article, they shall give notice of their proposed additional appropriation. The notice shall state the time and place at which a public hearing will be held on the proposal. The notice shall be given once in accordance with [IC 5-3-1-2\(b\)](#). . . .

(d) A political subdivision may make an additional appropriation without approval of the department of local government finance if the additional appropriation is made from a fund that is not described under subsection (b). However, the fiscal officer of the political subdivision shall report the additional appropriation to the department of local government finance.

(e) After the public hearing, the proper officers of the political subdivision shall file a certified copy of their final proposal and any other relevant information to the department of local government finance. . . ."



Official Response to the SBOA Audit of the City of Muncie for the 2018 Calendar Year

Overdrawn Cash Balances: The funds listed by the SBOA as being overdrawn will be corrected so as to not reflect a negative balance. These funds are overdrawn due to errors made by Department Heads and department financial managers responsible for their respective funds. My Office will attempt to train those responsible the prescribed procedure in handling and reporting appropriations, receipts, disbursements, and cash balances.

Credit Cards: The City's current credit card policy is both deficient, in that it does not clearly define allowed and unallowed expenditures and supporting documentation, and in that the policy is not consistently enforced. The policy will be updated to include purchase guidelines and supporting documentation requirements, as noted in the Audit, credit card users will be informed of the revised policy and purchase requirements, and the policy will be strictly enforced, with the monitoring and enforcement being done by the Controller's Office.

Appropriations: The Center Township fund disbursements exceeded the 2018 appropriation amount due to the contention presented to the Controller's Office that, in this particular fund, amounts appropriated in prior years were considered to be included in the amount appropriated in 2018, and therefore, an additional appropriation was not needed, unlike all other funds. With the State Board of Accounts stating that an additional appropriation is, in fact, necessary, these additional appropriations will be requested in such circumstances going forward, using the same additional appropriation procedures as are used with all other funds.

Respectfully,

Kevin Nemyer, Controller

City of Muncie

300 N. High Street

Muncie, IN 47305

(765)747.4828 (office)

(765)741.1656 (fax)

CITY CONTROLLER
CITY OF MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2019, with Kevin Nemyer, City Controller; Dennis Tyler, Mayor; Clares Burke, Investment Clerk; John P. Hampton, Common Council member; Linda Gregory, Common Council member; Roger Overbey, President of the Board of Public Works and Safety; and Megan Quirk, City and Redevelopment Commission Attorney.

REDEVELOPMENT COMMISSION
CITY OF MUNCIE

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
AUDIT RESULT AND COMMENT

TAX INCREMENT FINANCING (TIF) ALLOCATION DISBURSEMENTS

A similar comment also appeared in prior Reports B51516 and B51518, entitled *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.

Disbursements from Redevelopment Commission funds containing TIF allocation proceeds 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 unrelated to the redevelopment plan or project were as follows:

Description	Amount
Co: Lab Operating Expenses	\$ 127,413
Parking Garage Operating Expenses	182,256
City Operating Expenses	38,280
City Capital Expense - Fire Vehicles Payment	100,000
City Capital Expense - Park Playground Equip	34,469
City Capital Expense - Park Waterline	5,000
City Capital Expense - Police Body Cameras Lease	90,966
City Capital Expense - Audio/Video Equipment for City Hall Auditorium	29,070
City Debt Expense	49,500

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.

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."

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:

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
AUDIT RESULT AND COMMENT
(Continued)

- (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, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. This credit equals the amount determined under the following STEPS for each taxpayer in a taxing district (as defined in [IC 6-1.1-1-20](#)) that contains all or part of the allocation area: . . .
- (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.
- (K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located: . . .
- (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. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following: . . .
- (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."

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
AUDIT RESULT AND COMMENT
(Continued)

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)

REDEVELOPMENT COMMISSION
CITY OF MUNCIE
EXIT CONFERENCE

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SANITARY DISTRICT
CITY OF MUNCIE

SANITARY DISTRICT
CITY OF MUNCIE
AUDIT RESULT AND COMMENT

CREDIT CARDS

A similar comment also appeared in prior Reports B51516 and B51518, entitled *CREDIT CARDS*.

The Sanitary District (District) incurred the following transactions when testing a sample of three months of credit card disbursements in 2018:

1. Lunch-in or work lunch meetings totaling \$622 were charged to the District's credit card. The receipts were intact; however, the names of individuals attending the meeting and also the meeting agenda or meeting topic was not always included on supporting documentation. Therefore, there was not sufficient documentation to determine if these meetings were for District business purposes or personal.
2. The Sanitary District Coordinator (Coordinator) was allowed to use a District vehicle for personal use and charged vehicle expenses totaling \$2,694 to the District's credit card. These expenses included items, such as gas while not in travel status, OnStar, car washes, purchase of a warranty, and also inspection of the vehicle. The District does not have clear guidelines on which vehicle expenses, if any, the employee is responsible for when using a District vehicle for personal use. Also, the determination of personal use was not calculated and included on the Coordinator's W-2 as a fringe benefit and taxed accordingly.
3. Gift cards totaling \$4,554 were charged to the District's credit card with the description of "HSA Incentive" for employees; however, there was no documentation of who received these gift cards and the District does not have a resolution authorizing the benefit for employees.
4. Protective phone cases totaling \$187 were charged to the District's credit card, but there was not sufficient documentation to determine if these were for District phones or personal cell phones.

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

SANITARY DISTRICT
CITY OF MUNCIE
AUDIT RESULT AND COMMENT
(Continued)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the unit. Any personal expenses 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)

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

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

SANITARY DISTRICT
CITY OF MUNCIE
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2019, with Kevin Nemyer, City Controller; Dennis Tyler, Mayor; Clares Burke, Investment Clerk; John P. Hampton, Common Council member; Linda Gregory, Common Council member; Roger Overbey, President of the Board of Public Works and Safety; William Smith, President of the Sanitary District Board; Deanna Cox, Financial Manager of the Sanitary District; Mark R. McKinney, Sanitary District Attorney; and Megan Quirk, City and Redevelopment Commission Attorney.