

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF CARMEL

HAMILTON COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
11/25/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Result and Comment:	
Condition of Records.....	6
Official Response.....	7-8
Exit Conference	9
Redevelopment Commission:	
Audit Result and Comment:	
Condition of Records.....	12-13
Official Response.....	14-15
Exit Conference	16

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	James Brainard	01-01-19 to 12-31-20
Clerk-Treasurer	Christine Pauley	01-01-19 to 12-31-19
Controller	Ann Bingman	01-01-20 to 12-31-20
President of the Common Council	Jeff Worrell Laura Campbell	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President of the Board of Public Works and Safety	James Brainard	01-01-19 to 12-31-20
President of the Redevelopment Authority	Robert Bush	01-01-19 to 12-31-20
President of the Redevelopment Commission	William Hammer	01-01-19 to 12-31-20
Utilities Director	John Duffy	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDIANAPOLIS, INDIANA 46204-2769

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

This report is supplemental to our audit report of the City of Carmel (City), for the period from January 1, 2019 to December 31, 2019. 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 opinions on the City's financial statement. This report may be found at www.in.gov/sboa/.

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

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

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

September 22, 2020

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CLERK-TREASURER
CITY OF CARMEL

CLERK-TREASURER
CITY OF CARMEL
AUDIT RESULT AND COMMENT

CONDITION OF RECORDS

The same comment also appeared in the prior Reports B48609, B49350, B50857, and B53232.

Condition and Context

The City had not established adequate internal controls over financial reporting of certain cash funds.

The City had multiple funds whose cash was held in Trust. These funds included the Redevelopment Commission Fund, 2016 Prop. Tax Bond - Const. 1 to 2016 Prop. Tax Bond - Const. 13 funds, and the Storm Water fund. Financial records presented to support these funds were determined to contain inaccuracies and did not provide detail listings of revenues or expenses.

The Annual Financial Report included errors in the presented activity for the Capital Lease Fund and the Redevelopment Commission Fund.

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

Criteria

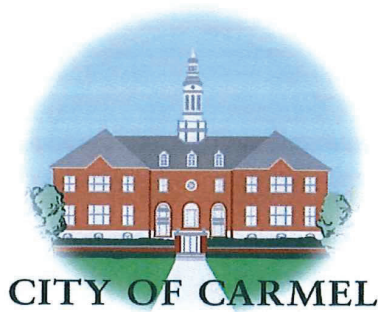
The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana 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 subtraction of total disbursements of a fund from the sum of total receipts and the cash balance at the beginning of a particular period should produce the cash balance of that fund. This calculation shall be made monthly and the cash balance of each fund at the close of the month shall be entered and reconciled with bank account balances. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)



OFFICIAL RESPONSE

Date: September 30, 2020

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Clerk-Treasurer, City of Carmel Audit Result and Comment

CONDITION OF RECORDS

The same comment also appeared in the prior Reports B48609, B49350, B50857, and B53232.

Condition and Context

The City had not established adequate controls over financial reporting of certain cash funds.

The City had multiple funds whose cash was held in Trust. These funds included the Redevelopment Commission Fund, 2016 Prop. Tax Bond - Const. 1 to 2016 Prop. Tax Bond - Const. 13 funds, and the Storm Water fund. Financial records presented to support these funds were determined to contain inaccuracies and did not provide detail listings of revenues or expenses.

There were a few immaterial inaccuracies which were primarily classification issues and they have been corrected. A detail listings of revenues and expenses are being reflected on a going forward basis.

The Annual Financial Report included errors in the presented activity for the Capital Lease Fund and the Redevelopment Commission Fund.

There were a few immaterial errors (one was a trustee error and correction that was a classification issue) that have been corrected and the updated AFR was submitted on September 9th. A Field Examiner reviewed the changes and had no further comments.

DEPARTMENT OF THE CONTROLLER

ONE CIVIC SQUARE, CARMEL, IN 46032 / OFFICE: 317-571-2414 / FAX: 317-571-2410 / WWW.CARMEL.IN.GOV

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

A handwritten signature in black ink, appearing to read 'A. Bingman', with a horizontal line extending to the right.

Ann Bingman, CPA
City Controller

CLERK-TREASURER
CITY OF CARMEL
EXIT CONFERENCE

The contents of this report were discussed on September 22, 2020, with Christine Pauley, Clerk-Treasurer; Sue Finkam, Vice President of the Common Council; Ann Bingman, Controller; Dianne Walthall, Deputy Director; Jim Crider, Director of Administration; Henry Mestetsky, Executive Director of the Department of Redevelopment; Mike Lee, Finance Manager of the Department of Redevelopment; William Hammer, President of the Redevelopment Commission; Arnie Hanish, Audit Committee Chairman; Jo Biggers, Audit Committee member; Mike Ruggiero, Audit Committee member; Ted Spearman, Supervisor of Utilities Accounting; Curt Coonrod, Consultant; and Stephanie Lilly, Consultant.

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REDEVELOPMENT COMMISSION
CITY OF CARMEL

REDEVELOPMENT COMMISSION
CITY OF CARMEL
AUDIT RESULT AND COMMENT

CONDITION OF RECORDS

Condition and Context

The City had not established adequate internal controls over reporting of financial transactions of the Redevelopment Commission.

The Redevelopment Commission has been designated as the oversight department over the financial activity of the Redevelopment Authority, the Carmel Midtown Building Corporation, and the Downtown City Center Development Company.

Although an Annual Financial Report (AFR) was prepared and supporting financial records presented, the following items were noted:

- The AFR included errors in the presented activity for the following funds: Redevelopment Authority Debt Service Fund, Redevelopment Authority Capital Projects Fund, 2017 A Bond Construction Fund, 2018 CMBC Bond Construction Fund, and the 2019 Project Fund.
- The financial records presented were determined to contain inaccuracies and did not include detail listings of revenues or expenses.
- No evidence was observed indicating expenses were approved by the Redevelopment Commission Board or other governing board.

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

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:

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

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

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

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

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

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."



OFFICIAL RESPONSE

Date: September 30, 2020

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Redevelopment Commission, City of Carmel Audit Result and Comment

CONDITION OF RECORDS

Condition and Context

The City had not established adequate controls over reporting of financial transactions of the Redevelopment Commission.

The Redevelopment Commission has been designated as the oversight department over the financial activity of the Redevelopment Authority, the Carmel Midtown Building Corporation, and the Downtown City Center Development Company.

Although an Annual Financial Report was prepared and supporting financial records presented the following items were noted:

The Annual Financial Report included errors in the presented activity for the following funds: Redevelopment Authority Debt Service Fund, Redevelopment Authority Capital Projects Fund, 2017 A Bond Construction Fund, 2018 CMBC Bond Construction Fund, and the 2019 Project Fund.

There were a few errors that have been corrected and the updated AFR was submitted on September 14th. A Field Examiner reviewed the changes and had no further comments.

The financial records presented were determined to contain inaccuracies and did not include detail listings of revenues or expenses.

There were a few inaccuracies and they have been corrected. A detail listings of revenues and expenses are being reflected on a going forward basis.

DEPARTMENT OF THE CONTROLLER

ONE CIVIC SQUARE, CARMEL, IN 46032 / OFFICE: 317-571-2414 / FAX: 317-571-2410 / WWW.CARMEL.IN.GOV

No evidence was observed indicating expenses were approved by the Redevelopment Commission Board or other governing Board.

The criteria cited for this finding by the SBOA is IC 5-11-1-27(e) and related internal control guidance. These do not apply to CMBC and DCCDC because they are not political subdivisions. It is unclear whether IC 5-11-1-27(e) applies to the RDA, but the governing body claims approval process of IC 5-11-10-1.6 does not apply to RDA, and SBOA has cited no authoritative source to establish that adequate internal control must include direct approval of expenses by a governing body. Also, no statute, regulation, or other authority is cited to establish or define any "oversight" duties by CRC over RDA, CMBC, and DCCDC. Accordingly, no further action is warranted.

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



Ann Bingman, CPA
City Controller

REDEVELOPMENT COMMISSION
CITY OF CARMEL
EXIT CONFERENCE

The contents of this report were discussed September 22, 2020, with Sue Finkam, Vice President of the Common Council; Ann Bingman, Controller; Dianne Walthall, Deputy Director; Jim Crider, Director of Administration; Henry Mestetsky, Executive Director of the Department of Redevelopment; Mike Lee, Finance Manager of the Department of Redevelopment; William Hammer, President of the Redevelopment Commission; Arnie Hanish, Audit Committee Chairman; Jo Biggers, Audit Committee member; Mike Ruggiero, Audit Committee member; Ted Spearman, Supervisor of Utilities Accounting; Curt Coonrod, Consultant; and Stephanie Lilly, Consultant.