

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF MUNCIE

DELAWARE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED

12/29/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Kevin Nemyer	01-01-19 to 12-31-19
	Trent Conway	01-01-20 to 11-30-20
	Craig Wright	12-01-20 to 12-31-20
Mayor	Dennis Tyler	01-01-19 to 12-31-19
	Dan Ridenour	01-01-20 to 12-31-20
President of the Common Council	Douglas Marshall	01-01-19 to 12-31-19
	Brad Polk	01-01-20 to 12-31-20
President of the Board of Public Works and Safety	John Quirk	01-01-19 to 03-05-19
	Roger Overbey	03-06-19 to 12-31-19
	Linda Gregory	01-01-20 to 12-31-20
President of the Sanitary District Board	William Smith	01-01-19 to 08-25-20
	Stephen Brand	08-26-20 to 12-31-20



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

TO: THE OFFICIALS OF THE CITY OF MUNCIE, DELAWARE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of Muncie (City), for the year ended December 31, 2019, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated December 10, 2020, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2019-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002.

City of Muncie's Response to Findings

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

Purpose of This Report

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


Paul D. Joyce, CPA
State Examiner

December 10, 2020



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

TO: THE OFFICIALS OF THE CITY OF MUNCIE, DELAWARE COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the City of Muncie's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2019. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Economic Development Cluster

As described in items 2019-003 and 2019-004 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting compliance of the City with the Economic Development Cluster regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting. Consequently, we were unable to determine whether the City complied with those requirements applicable to the program.

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

Qualified Opinion on Economic Development Cluster

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on the Economic Development Cluster* paragraph the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Economic Development Cluster for the year ended December 31, 2019.

Other Matters

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

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2019-003 and 2019-004, that we consider to be material weaknesses.

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

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

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

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

We have audited the financial statement of the City, as of and for the year ended December 31, 2019, and the related notes to the financial statement. We issued our report thereon dated December 10, 2020, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.


Paul D. Joyce, CPA
State Examiner

December 10, 2020

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

CITY OF MUNCIE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Commerce</u>					
Economic Development Cluster					
Economic Adjustment Assistance	Direct Grant				
Industrial Revolving Loan Fund		11.307	06-19-01414	\$ -	\$ 2,579,759
Total - Economic Development Cluster				-	2,579,759
Total - Department of Commerce				-	2,579,759
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct Grant				
CD FY15 CDBG PROGRAM		14.218	B-15-MC-18-0010	-	4,808
CD FY16 CDBG			B-16-MC-18-0010	-	30,712
CD FY2017 CDBG PROGRAM			B-17-MC-18-0010	255,627	252,709
CD FY19 CDBG PROGRAM			B-18-MC-18-0010	184,275	380,002
Total - Community Development Block Grants/Entitlement Grants				439,902	668,231
Total - CDBG - Entitlement Grants Cluster				439,902	668,231
Home Investment Partnerships Program	Direct Grant				
CD FY16 HOME PROGRAM		14.239	M-16-MC-180206	48,078	22,908
CD FY2017 HOME PROGRAM			M-17-MC-180206	109,075	57,072
CD FY19 HOME PROGRAM			M-19-MC-180206	-	77,173
Total - Home Investment Partnerships Program				157,153	157,153
Total - Department of Housing and Urban Development				597,055	825,384
<u>Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant Program	Direct Grant				
MPD JAG 2018		16.738	2018-DJ-BX-0830	-	37,875
Crime Victim Assistance	Indiana Criminal Justice Institute				
MPD Victim Advocate 2016-2018		16.575	03216VA-GX-0017	-	157,780
Violence Against Women Formula Grants	Indiana Criminal Justice Institute				
MPD STOP Violence 2017-2018		16.588	03217WF-AX-005503	-	27,000

CITY OF MUNCIE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Bulletproof Vest Partnership Program MPD LEBG Safety/Bulletproof Vest	Direct Grant	16.607	1121-035	-	4,470
Total - Department of Justice					227,125
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction					
Local Road and Street	Indiana Department of Transportation	20.205	DES #8002950	-	14,925
Local Road and Street			DES #1173229	-	404,200
Local Road and Street			DES #1600652	-	38,188
Local Road and Street			DES #1700751	-	19,374
Local Road and Street			DES #4800040	-	19,374
Total - Highway Planning and Construction					496,061
Recreational Trails Program	Indiana Department of Transportation	20.219	FY 2019	-	54,950
Total - Highway Planning and Construction Cluster					551,011
Highway Safety Cluster					
State and Community Highway Safety					
MPD OPO 2019	Indiana Criminal Justice Institute	20.600	032NH-TSA-4022019	-	5,882
			032NH-TSA-402CF18	-	97,798
Total - State and Community Highway Safety					103,680
Total - Highway Safety Cluster					103,680
Minimum Penalties for Repeat Offenders for Driving While Intoxicated MPD DUI 2018	Indiana Criminal Justice Institute	20.608	D3-18-12060	-	13,875
Total - Department of Transportation					668,566
Total federal awards expended				\$ 597,055	\$ 4,300,834

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

CITY OF MUNCIE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Calculation of Economic Adjustment Assistance Expenditures on the SEFA

The reported expenditures were calculated as follows in accordance with guidance by the grantor:

Revolving Loan Fund (RLF):	
Outstanding loans as of December 31, 2019	\$ 1,273,394
Cash and Investments as of December 31, 2019	1,255,530
Administrative expenses paid out of RLF income during 2019	20,232
Unpaid principal on loans written off during 2019	<u>122,508</u>
Subtotal	\$ 2,671,664
Calculation of Federal Participation Rate (FPR):	
Original grant	\$ 5,000,000
Original match (In-kind)	<u>178,000</u>
Subtotal	\$ 5,178,000
FPR - Original grant awarded divided by total including original match	<u>96.56%</u>
Expenditures reported on the SEFA	<u>\$ 2,579,759</u>

CITY OF MUNCIE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	yes
Noncompliance material to financial statement noted?	yes

Federal Awards:

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

Identification of Major Program and type of auditor's report issued on compliance for it:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Economic Development Cluster	Qualified
Dollar threshold used to distinguish between Type A and Type B programs: \$750,000	
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

FINDING 2019-001

Subject: Financial Transactions and Reporting
Audit Findings: Significant Deficiency, Noncompliance

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting.

- The City had not detected the incorrect reporting of the Economic Dev Income Tax Revenue Bond 2013 Sinking and City Court funds, or the omission of a new bank account related to the 2019A Bond issue, resulting in total understatements in the presented financial statement of \$6,337, \$1,709,420, \$1,686,847, and \$28,910 for beginning balance, receipts, disbursements, and ending balances, respectively.

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

- The City had not detected the incorrect calculations of fire pension payments for the period of 2015 through November 2020 resulting in underpayments ranging from \$199 to \$12,478, overpayments ranging from \$255 to \$19,939, and a total net overpayment of \$264,692.

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; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

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

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](#)."

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 controls over financial transactions and reporting.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the financial statement remained undetected.

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

Views of Responsible Officials

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

FINDING 2019-002

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2018-002.

Condition and Context

The City had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Schedule of Expenditures of Federal Awards (SEFA). One employee prepared and entered the federal award information into Gateway without evidence of a control in place to detect and correct errors prior to submission.

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

1. The Economic Development Cluster was omitted, which understated expenditures by \$2,579,759.
2. The Crime Victim Assistance grant expenditures were understated by \$140,870.
3. The Highway Planning and Construction Cluster was omitted, which understated expenditures by \$551,011.
4. Several additional grants had individually immaterial errors that resulted in misstatements of expenditures of \$280,262, in total, including amounts passed through to subrecipients.
5. Other errors included incorrect program names, pass-through entities, and identifying numbers.

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:

CITY OF MUNCIE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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 Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- 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.

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

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

Cause

Management had not established a system of internal controls that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition and Context*.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2019-003

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 report. The prior audit finding number was 2018-003.

Condition and Context

An effective internal control system was not in place at the City to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

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

The City had an interlocal agreement between the Muncie Industrial Revolving Loan Fund (MIRLF) Board and a managing company to pay an unspecified amount to the managing company for administration of the grant. The City paid \$9,407 to the managing company in 2019 from grant funds; however, there was no documentation to support the amount paid. The undocumented amount paid to the managing company is considered questioned costs.

The lack of internal controls related to two of the three disbursements audited.

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). . . ."

13 CFR 307.13(b) states in part:

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

- (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. . . ."

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: . . .

- (g) Be adequately documented. . . ."

Cause

Management of the City had not designed or implemented internal control procedures that would have ensured that adequate supporting documentation of amounts paid to the managing company was maintained in compliance with the requirements listed above.

Effect

The failure to retain or provide appropriate supporting documentation prevented the determination of the City's compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

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

Questioned Costs

Known questioned costs of \$9,407 were identified as detailed in the *Condition and Context*.

Recommendation

We recommended that the City's management establish internal controls and ensure that documentation will be maintained and made available for audit.

Views of Responsible Officials

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

FINDING 2019-004

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 report. The prior audit finding number was 2018-004.

Condition and Context

An effective internal control system was not in place at the City 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 requirements that supporting documents be maintained per the grant agreement and program regulations. No supporting records were maintained to support the accuracy of the ED-209 Revolving Loan Fund Semi-Annual and Final Financial Reports.

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

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

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). . . ."

13 CFR 307.13(b) states:

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

- (1) Maintain adequate accounting records and source documentation to substantiate the amount and percent of RLF Income expended for eligible RLF administrative costs.
- (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 report that covers the fiscal year in which such costs were claimed.
- (3) Consistent with § 307.11(a), for the duration of RLF operations, maintain records to demonstrate:
 - (i) The adequacy of the RLF's accounting system to identify, safeguard, and account for the entire RLF Capital Base, outstanding RLF loans, and other RLF operations;
 - (ii) That standard RLF loan documents reasonably necessary or advisable for lending are in place; and
 - (iii) Evidence of fidelity bond coverage for persons authorized to handle funds under the Grant award in an amount sufficient to protect the interests of EDA and the RLF.
- (4) Make available for inspection retained records, including those retained for longer than the required period. The record retention periods described in this section are minimum periods and such prescription does not limit any other record retention requirement of law or agreement. In no event will EDA question claimed administrative costs that are more than three years old, unless fraud is at issue."

Cause

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Reporting compliance requirement.

Effect

The failure to retain or provide appropriate supporting documentation prevented the determination of the City's compliance with the Reporting compliance requirement.

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish internal controls and ensure that documentation will be maintained and made available for audit.

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.



Summary Schedule of Prior Audit Findings

FINDING 2018-001

Fiscal year in which the finding initially occurred: 2017

Status of Audit Finding: This finding has been corrected.



Summary Schedule of Prior Audit Findings

FINDING 2018-002

Fiscal year in which the finding initially occurred: 2017

Status of Audit Finding: Correcting the audit findings is currently ongoing. The city has implemented personnel changes and monitoring procedures to prevent the reoccurring errors.

FINDING 2018-003

Fiscal year in which the finding initially occurred: 2017

Status of Audit Finding: Correcting the audit findings is currently ongoing. The city has implemented personnel changes and monitoring procedures to prevent the reoccurring errors.

FINDING 2018-004

Fiscal year in which the finding initially occurred: 2017

Status of Audit Finding: Correcting the audit findings is currently ongoing. The city has implemented personnel changes and monitoring procedures to prevent the reoccurring errors.

FINDING 2018 -005

Fiscal year in which the finding initially occurred: 2017

Status of Audit Finding: Nothing has changed and it is ongoing

FINDING 2018-006

Fiscal year in which the finding initially occurred: 2018

Status of Audit Finding: Correcting the audit findings is currently ongoing. The city has implemented personnel changes and monitoring procedures to prevent the reoccurring errors



Corrective Action Plan

FINDING 2019-001

Craig Wright
(765)747-4828

Views of responsible Official:

We concur with the following, the City did not detect the incorrect reporting in the financial statements of the Economic Dev Income Tax Revenue Bond 2013 Sinking and City Court funds or the omission of a new bank account related to the 2019A Bond issue resulting in total understatements in the presented financial statements of \$6,337, \$1,709,420, \$1,686,847, and \$28,910 for beginning balance, receipts, disbursements, and ending balances, respectively. The City did not detect the incorrect calculations of fire pension benefit payments from the Fire Pension fund for the period of 2015 through November 2020 resulting in underpayments ranging from \$199 to \$12,478, overpayments ranging from \$255 to \$19,939, and a total net overpayment of \$264,692.

Description of Corrective Action Plan:

Correcting the audit findings is currently ongoing. The city has implemented personnel changes and monitoring procedures to prevent the reoccurring errors.

Anticipated Completion Date:

Changes were made immediately in 2020 due to the new administration and is ongoing.



Corrective Action Plan

FINDING 2019-002

Craig Wright
(765)747-4828

Views of responsible Official:

We concur with the finding the city had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the SEFA.

Description of Corrective Action Plan:

Correcting the audit findings is currently ongoing. The city has implemented personnel changes and monitoring procedures to prevent the reoccurring errors.

Anticipated Completion Date:

Many changes have occurred in 2020. We are working diligently in correcting the previous findings immediately and moving into 2021.

FINDING 2019-003

Craig Wright
(765)747-4828

Views of responsible Official:

We concur with the finding an effective internal control system was not in place at the City 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 had an inter-local agreement between the Muncie Industrial Revolving Loan Fund (MIRLF) Board and a managing company to pay an unspecified amount to the managing company for administration of the grant. The City paid \$9,407 to the managing company in 2019 from grant funds; however, there was no documentation to support the amount paid. The undocumented amount paid to the managing company is considered questioned costs.

Description of Corrective Action Plan:

We have implemented internal controls and have made changes in personnel to closely monitor the Muncie Revolving Loan Fund.



Anticipated Completion Date:

Changes were made immediately in 2020 due to the new administration and ongoing.

FINDING 2019-004

Craig Wright
(765)747-4828

Views of responsible Official:

We concur with the finding an effective internal control system was not in place at the City to ensure compliance with requirements related to the grant agreement and 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 requirements that supporting documents be maintained per the grant agreement and program regulations. No supporting records were maintained to support the accuracy of the ED-209 Revolving Loan Fund Semi-Annual and Final Financial Reports.

Description of Corrective Action Plan:

Correcting the audit findings is currently ongoing. The city has implemented personnel changes and monitoring procedures to prevent the reoccurring errors.

Anticipated Completion Date:

Changes were made immediately in 2020 due to the new administration and ongoing.

OTHER REPORTS

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