

**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, 2020 to December 31, 2020



**FILED**  
11/16/2021



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Trent Conway Craig Wright	01-01-20 to 11-30-20 12-01-20 to 12-31-21
Mayor	Honorable Dan Ridenour	01-01-20 to 12-31-21
President of the Common Council	Brad Polk Jeff Robinson	01-01-20 to 12-31-20 01-01-21 to 12-31-21
President of the Board of Public Works and Safety	Linda Gregory	01-01-20 to 12-31-21
President of the Sanitary District Board	Stephen Brand	01-01-20 to 12-31-21



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, 2020, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated October 7, 2021, 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.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2020-001 and 2020-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
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 2020-001 and 2020-002.

***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

October 7, 2021



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH 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 Each 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 each of its major federal programs for the year ended December 31, 2020. The City's major federal programs are 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 each of the City's major federal programs 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 each 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 2020-003 and 2020-004 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 EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

***Basis for Qualified Opinion on CDBG - Entitlement Grants Cluster***

As described in item 2020-006 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 CDBG - Entitlement Grants Cluster regarding Reporting. Consequently, we were unable to determine whether the City complied with those requirements applicable to the program.

***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 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 Economic Development Cluster for the year ended December 31, 2020.

***Qualified Opinion on CDBG - Entitlement Grants Cluster***

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on CDBG - Entitlement Grants 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 CDBG - Entitlement Grants Cluster for the year ended December 31, 2020.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2020.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2020-005. Our opinion on each major federal program is not modified with respect to these matters.

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

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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.

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

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 2020-003, 2020-004, 2020-005, and 2020-006, 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.

### **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, 2020, and the related notes to the financial statement. We issued our report thereon dated October 7, 2021, 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

October 7, 2021

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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.

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CITY OF MUNCIE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2020

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	11.307			
Industrial Revolving Loan Fund			06-19-01414	\$ -	\$ 2,787,645
Total - Economic Development Cluster				-	2,787,645
Total - Department of Commerce				-	2,787,645
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct Grant	14.218			
CD FY15 CDBG Program			B-15-MC-18-0010	-	180,423
CD FY16 CDBG Program			B-16-MC-18-0010	-	30,868
CD FY17 CDBG Program			B-17-MC-18-0010	24,644	251,631
CD FY18 CDBG Program			B-18-MC-18-0010	93,819	552,659
CD FY19 CDBG Program			B-19-MC-18-0010	281,529	838,426
CD FY20 CDBG Program			B-20-MC-18-0010	16,921	17,508
Subtotal - Community Development Block Grants/Entitlement Grants				416,912	1,871,515
COVID-19 - Community Development Block Grants/Entitlement Grants	Direct Grant	14.218			
CD FY20 CDBG Program			B-20-MC-18-0010	124,642	128,409
Total - Community Development Block Grants/Entitlement Grants				541,554	1,999,924
Total - CDBG - Entitlement Grants Cluster				541,554	1,999,924
Home Investment Partnerships Program	Direct Grant	14.239			
CD FY15 HOME Program			M-15-MC-18-0206	22,783	31,180
CD FY16 HOME Program			M-16-MC-18-0206	22,871	35,426
CD FY17 HOME Program			M-17-MC-18-0206	23,181	94,292
CD FY18 HOME Program			M-18-MC-18-0206	52,692	84,135
CD FY19 HOME Program			M-19-MC-18-0206	178,957	253,737
Total - Home Investment Partnerships Program				300,484	498,770
Total - Department of Housing and Urban Development				842,038	2,498,694

CITY OF MUNCIE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2020

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 Justice</u>					
COVID-19 - Coronavirus Emergency Supplemental Funding Program COVID-19 - Coronavirus Emergency Supplemental	Direct Grant	16.034	2020-VD-BX-0994	-	73,196
Crime Victim Assistance MPD Victim Advocate 2018-2019	Indiana Criminal Justice Institute	16.575	03216VA-GX-0017	-	157,125
Violence Against Women Formula Grants MPD Stop Domestic Violence 2019-2020	Indiana Criminal Justice Institute	16.588	2019-WF-AX-0005	-	20,321
Bulletproof Vest Partnership Program MPD LEBG Safety/Bulletproof Vest MPD LEBG Safety/Bulletproof Vest	Direct Grant	16.607	2019 BUBX 1904 8200 2020 BUBX 2002 4402	- -	1,074 6,246
Total - Bulletproof Vest Partnership Program				-	7,320
Edward Byrne Memorial Justice Assistance Grant Program MPD JAG 2019	Direct Grant	16.738	2019-DJ-BX-0580	-	22,692
Total - Department of Justice				-	280,654
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster Highway Planning and Construction	Indiana Department of Transportation	20.205			
Kitselman Trail - Bike and Pedestrian Facilities (Phase 1)			DES #8002950	-	839
Wheeling Avenue ROW			DES #1173229	-	197,867
Kitselman Trail - Bike and Pedestrian Facilities (Phase 2)			DES #1592996	-	471,576
Kitselman Trail - Bike and Pedestrian Bridge			DES #1600652	-	14,621
Arts and Culture Trail			DES #1700751	-	92,947
Total - Highway Planning and Construction				-	777,850
Recreational Trails Program White River Levee Trail Project	Indiana Department of Transportation	20.219	FY2020	-	52,662
Total - Highway Planning and Construction Cluster				-	830,512

CITY OF MUNCIE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2020

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
Highway Safety Cluster					
State and Community Highway Safety	Indiana Criminal Justice Institute	20.600			
MPD OPO 2019-2020			032NH-TSA-4022019	-	76,929
MPD OPO 2020-2021			69A375193000040201INO	-	5,776
Total - State and Community Highway Safety				-	82,705
National Priority Safety Programs	Indiana Department of Transportation	20.616			
National Priority Safety Programs			FY2019	-	557
Total - Highway Safety Cluster				-	83,262
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	Indiana Criminal Justice Institute	20.608			
MPD DUI 2018-2019			D3-18-12060	-	18,668
MPD DUI 2019-2020			FY19-20	-	13,134
MPD DUI 2020-2021			69A37519300001640INA	-	1,454
Total - Minimum Penalties for Repeat Offenders for Driving While Intoxicated				-	33,256
Total - Department of Transportation				-	947,030
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus Relief Fund	Indiana Finance Authority	21.019			
COVID-19 - Coronavirus Relief Fund			FY2020	-	2,223,339
Total - Department of the Treasury				-	2,223,339
Total federal awards expended				\$ 842,038	\$ 8,737,362

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, 2020. 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, 2020	\$1,596,827
Cash and Investments as of December 31, 2020	897,899
Administrative expenses paid out of RLF income during 2020	26,426
Unpaid principal on loans written off during 2020	<u>365,805</u>
Subtotal	\$2,886,957
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>\$2,787,645</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?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

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

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
	Economic Development Cluster	Qualified
	CDBG - Entitlement Grants Cluster	Qualified
	Highway Planning and Construction Cluster	Unmodified
21.019	COVID-19 - Coronavirus Relief Fund	Unmodified

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

Auditee qualified as low-risk auditee?	no
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**Section II - Financial Statement Findings**

**FINDING 2020-001**

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2019-001.

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

*Condition and Context*

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

*Financial Close and Reporting*

The City had not established internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system which was the source of the City's financial statement. The City Controller prepared and entered the financial information into Gateway with no oversight, review, or approval process in place to prevent, or detect and correct, errors on the financial statement.

Due to the lack of internal controls, the financial statement presented for audit included the following errors:

1. Total beginning balance was overstated by \$774,815 as shown in the following individual funds:
  - a. The MRC Sustainable Muncie fund was overstated by \$797,171.
  - b. The City Court fund was understated by \$25,144.
2. Total receipts were understated by \$39,037,513 as shown in the following individual funds:
  - a. The Police Pension fund receipts were understated by \$1,674.
  - b. The MRC Series 2019A MAP/Hillcroft fund receipts were understated by \$107,900.
  - c. The MRC Series 2019B Canal Accutech fund receipts were understated by \$2,174,928.
  - d. The MRC Series 2019C MADJAX/Cardinal fund receipts were understated by \$421,612.
  - e. The Payroll fund receipts of \$35,510,601 were not reported.
  - f. The City Court fund receipts of \$838,529 were not reported.
  - g. The Drug Task Force Federal Forfeiture fund receipts were overstated by \$17,731.
3. Total disbursements were understated by \$38,038,560 as shown in the following individual funds:
  - a. The General fund disbursements were understated by \$12,339.
  - b. The MRC Series 2019A MAP/Hillcroft fund disbursements were understated by \$107,900.

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

- c. The MRC Series 2019B Canal Accutech fund disbursements were understated by \$2,174,928.
- d. The MRC Series 2019C MADJAX/Cardinal fund disbursements were understated by \$412,386.
- e. The Payroll fund disbursements of \$34,489,991 were not reported.
- f. The City Court fund disbursements of \$853,619 were not reported.
- g. The Drug Task Force Federal Forfeiture fund disbursements were overstated by \$12,603.

Audit adjustments were proposed, accepted by the City, and made to the financial statement presented in the Financial Statement Audit Report for the City.

*Incorrect Fire Pension Payments*

The City did not implement effective internal controls, including segregation of duties, over the calculation and payment of fire pension benefits to participants of the 1937 Firefighters' Pension Fund. The City had not detected the incorrect calculations of fire pension payments for the period of January 2019 through February 2021, resulting in underpayments ranging from \$82 to \$2,832, and overpayments ranging from \$298 to \$7,942, and a total net overpayment of \$308,489.

*Receipts*

The City had not separated incompatible activities related to receipts. The same individual entered numerous receipts into the financial system and prepared the bank reconciliations. Additionally, no documentation was presented indicating the receipt postings or bank reconciliations were reviewed by another individual.

*Monitoring*

The City had no process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting requires the City to monitor and assess the quality of the system of internal controls.

*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 OF MUNCIE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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

"The state examiner shall require from every audited entity 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 had not established a proper system of internal controls. An evaluation of the City's system of internal controls had not been conducted. Management had not conducted a risk assessment related to the City's financial reporting and transactions.

*Effect*

The failure to establish a system of internal controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that internal controls may not be either designed properly or operating effectively to provide reasonable assurance that internal controls will prevent, or detect and correct, material misstatements in a timely manner. The financial statement 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.

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

***FINDING 2020-002***

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 2019-002.

*Condition and Context*

The City had not established internal controls over the management of grant files, or the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's Schedule of Expenditures of Federal Awards (SEFA). The City failed to properly manage their grants and the City Controller prepared and entered the federal award information into Gateway with no oversight, review, or approval in place to prevent, or detect and correct, errors on the SEFA.

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

- A. Total federal awards expended were understated by \$6,753,165 due to the following:
  - 1. The Economic Development Cluster was omitted, which understated expenditures by \$2,787,645.
  - 2. The CDBG - Entitlement Grants Cluster expenditures were understated by \$966,484.
  - 3. The Home Investment Partnerships Program expenditures were understated by \$101,173.
  - 4. The COVID-19 - Coronavirus Emergency Supplemental Funding Program was omitted, which understated expenditures by \$73,196.
  - 5. The Crime Victim Assistance expenditures were overstated by \$177,830.
  - 6. The Edward Byrne Memorial Justice Assistance Grant Program expenditures were overstated by \$29,059.
  - 7. The Highway Planning and Construction Cluster was omitted, which understated expenditures by \$830,512.
  - 8. The Highway Safety Cluster expenditures were overstated by \$22,295.
  - 9. COVID-19 - Coronavirus Relief Fund expenditures were omitted, which understated expenditures by \$2,223,339.
  
- B. Total pass-through to subrecipient expenditures were understated by \$842,038 due to the omission of the following:

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

1. The CDBG - Entitlement Grants Cluster subrecipient expenditures totaling \$541,554.
2. The Home Investment Partnerships Program subrecipient expenditures totaling \$300,484.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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

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

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

2 CFR 200.303 states in part:

"The non-federal entity must:

- (a) Establish and maintain effective internal control . . ."

2 CFR 200.62 states in part:

"*Internal control over compliance requirements for Federal awards* means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- (a) Transactions are properly recorded and accounted for, in order to:

- (1) Permit the preparation of reliable financial statements . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with § 200.510 Financial statements. . . ."

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

2 CFR 200.510(b) states:

*"Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

*Cause*

Management had not established a system of internal 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.

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

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2020-003**

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 2019-003.

*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.

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 \$14,064 to the managing company in 2020 from grant funds; however, there was no supporting documentation to support the allocation of time spent on this grant. Therefore, the undocumented amounts paid to the managing company is considered questioned costs.

Additionally, the managing company was paid at a rate of 40 percent of costs on invoices dated April 29, 2020, and July 24, 2020, instead of the 20 percent of costs as approved per the MIRLF Board's January 13, 2019 minutes. There was no documentation provided to show that the MIRLF Board supported the increase to 40 percent in 2020.

The lack of internal controls and the failure to maintain adequate supporting documentation 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). . . ."

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

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. . . ."

13 CFR 307.13(b) states in part:

"*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 CFR 200.405 states in part:

"(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart. . . ."

*Cause*

Management had not established a system of internal controls that would have ensured compliance or that adequate supporting documentation of amounts paid to the managing company would have been maintained and made available for audit related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Effect*

The failure to provide appropriate supporting documentation for the time spent on the grant and the contract percent charged to the federal program prevented the determination of the City's compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Questioned Costs*

Known questioned costs of \$14,064 were identified as detailed in the *Condition and Context*.

*Recommendation*

We recommended that the City's management establish a system of internal controls to ensure that all required documentation will be maintained and made available for audit 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)

*Views of Responsible Officials*

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

**FINDING 2020-004**

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 2019-004.

*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 internal controls in place to ensure that all 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. Most supporting records were not maintained to support the accuracy of the ED-209 Revolving Loan Fund Semi-Annual and Final Financial Reports. The Final Financial Report key line items did not agree to the provided supporting documentation.

The lack of internal controls, noncompliance, and the failure to maintain adequate supporting documentation 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). . . ."

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

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."

13 CFR 307.14 states:

*"(a) Frequency of reports.* All RLF Recipients, including those receiving Recapitalization Grants for existing RLF's must complete and submit an RLF report, using Form ED-209, in a format and at a frequency as required by EDA.

*(b) Report contents.* RLF Recipients must certify as part of the RLF report to EDA that the RLF is operating in accordance with the applicable RLF Plan and that the information provided is complete and accurate."

*Cause*

Management had not established a system of internal controls that would have ensured compliance or that adequate supporting documentation would have been maintained and made available for audit related to the grant agreement and the Reporting compliance requirement.

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

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

*Recommendation*

We recommended that the City's management establish internal controls and ensure that documentation will be maintained and made available for audit related to the grant agreement and the 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 2020-005**

Subject: Economic Development Cluster - Special Tests and Provisions -  
Priority of Payments on Defaulted and Written Off RLF Loans  
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 - Priority of Payments  
on Defaulted and Written Off RLF Loans  
Audit Findings: Material Weakness, Other Matters

*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 Special Tests and Provisions - Priority of Payments on Defaulted and Written Off Revolving Loan Fund (RLF) Loans compliance requirement. The City did not have effective internal controls in place to ensure that proceeds on a written off RLF loan were applied in the proper order of priority.

The proceeds recovered related to a written off RLF loan were applied directly to the outstanding principal balance.

The lack of internal controls and the 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). . . ."

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

13 CFR 307.12(c) states:

*"Priority of payments on defaulted and written off RLF loans. When an RLF Recipient receives proceeds on a defaulted or written off RLF loan that is not subject to liquidation pursuant to § 307.21, such proceeds shall be applied in the following order of priority:*

- (1) First, towards any costs of collection;*
- (2) Second, towards outstanding penalties and fees;*
- (3) Third, towards any accrued interest to the extent due and payable; and*
- (4) Fourth, towards any outstanding principal balance."*

*Cause*

Management had not established a system of internal controls that would have ensured compliance with the grant agreement and the Special Tests and Provisions - Priority of Payments on Defaulted and Written Off RLF Loans compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the Special Tests and Provisions - Priority of Payments on Defaulted and Written Off RLF Loans compliance requirement 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 a system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Priority of Payments on Defaulted and Written Off RLF Loans 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 2020-006**

Subject: CDBG - Entitlement Grants Cluster - Reporting

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-15-MC-18-0010, B-16-MC-18-010,  
B-17-MC-18-0010, B-18-MC-18-010,  
B-19-MC-18-0010, B-20-MC-18-010

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Modified Opinion

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

*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 had not established a system of internal controls to ensure that proper documentation was retained for audit.

The City did not complete required Transparency Act - FFATA reporting. For the reports not completed, we were unable to determine if the reports, totaling \$635,127, were compliant with the grant agreement and compliance requirement. We consider the \$635,127 to be questioned costs.

The lack of internal controls and the failure to maintain adequate supporting documentation 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). . . ."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

2 CFR 170, Appendix A(l)(a) states:

*"Reporting of first-tier subawards.*

1. *Applicability.* Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term).

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

2. *Where and when to report.*

i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsr.gov>.

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

3. *What to report.* You must report the information about each obligating action that the submission instructions posted at <http://www.fsr.gov> specify."

*Cause*

Management had not established a system of internal controls that would have ensured compliance or that adequate supporting documentation would have been maintained and made available for audit related to the grant agreement and the Reporting compliance requirement.

*Effect*

The failure to complete reporting and to establish an effective internal control system prevented determination of the City's compliance with the Reporting compliance requirement.

*Questioned Costs*

Known questioned costs of \$635,127 were identified, as detailed in the *Condition and Context*.

*Recommendation*

We recommended that the City's management establish a system of internal controls to ensure proper reporting, and to ensure that documentation be maintained and made available for audit related to the grant agreement and the 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.

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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 2019-001***

Fiscal year in which the finding Initially occurred: 2019

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 2019-002***

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.

### ***FINDING 2019-003***

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.

### ***FINDING 2019-004***

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.



City of **MUNCIE**

MUNCIE, INDIANA

CORRECTIVE ACTION PLAN

**FINDING 2020-001**

Craig Wright  
(765)747-4828

Views of the Responsible Official: We concur with the findings.

The City had not established internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system which was the source of the City's Financial Statement. The Controller prepared and entered the financial information into Gateway with no oversight, review, or approval process in place to prevent, or detect and correct errors on the Financial Statement.

Description of Corrective Action Plan:

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

Anticipated Completion Date:

The internal control monitoring and checks and balance will be implemented immediately and continue going forward.



City of **MUNCIE**

MUNCIE, INDIANA

CORRECTIVE ACTION PLAN

**FINDING 2020-002**

Craig Wright  
(765)747-4828

Views of the Responsible Official: We concur with the findings.

The City had not established internal controls over the management of grant files or the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system which was the source of the City's Schedule of Expenditures of Federal Awards (SEFA). The City failed to properly manage their grants and the Controller prepared and entered the federal award information into Gateway with no oversight, review, or approval in place to prevent, or detect and correct errors on the SEFA.

Description of Corrective Action Plan:

Correcting the audit findings is ongoing. The city has implemented personnel changes and will implement monitoring procedures to prevent reoccurring errors. All transactions entered will be reviewed by additional personnel.

Anticipated Completion Date:

The internal control monitoring and checks and balance will be implemented immediately and continue going forward.



City of **MUNCIE**

MUNCIE, INDIANA

CORRECTIVE ACTION PLAN

**FINDING 2020-003**

Craig Wright  
(765)747-4828

Views of the Responsible Official: We concur with the findings.

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 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 \$14,064 to the managing company in 2020 from grant funds; however, there was no supporting documentation to support the allocation of time spent on this grant. Therefore, the undocumented amounts paid to the managing company is considered questioned costs.

Additionally, the managing company was paid at a rate of 40% of costs on invoices dated 4/29/20 and 7/24/20 instead of the 20% of costs as approved per the MIRLF Board's 01/31/19 minutes. There was no documentation provided to show that the MIRLF Board supported the increase to 40% in 2020.

The lack of internal controls and the failure to maintain adequate supporting documentation were systemic issues throughout the audit period.

Description of Corrective Action Plan:

This has been corrected, the managing director is not a paid position and maintained under the Deputy Mayor.

Anticipated Completion Date:

This was implemented and corrected on 01/01/2021.



## CORRECTIVE ACTION PLAN

### ***FINDING 2020-004***

Craig Wright  
(765)747-4828

Views of the Responsible Official: We concur with the findings.

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 all 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. Most supporting records were not maintained to support the accuracy of the ED-209 Revolving Loan Fund Semi-Annual and Final Financial Reports. The Final Financial Report key line items did not agree to the provided supporting documentation.

The lack of internal controls, noncompliance, and the failure to maintain adequate supporting documentation were systemic issues throughout the audit period.

#### Description of Corrective Action Plan:

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

#### Anticipated Completion Date:

The internal control monitoring and checks and balances has been implemented and will continue moving forward.



City of **MUNCIE**

MUNCIE, INDIANA

CORRECTIVE ACTION PLAN

**FINDING 2020-005**

Craig Wright  
(765)747-4828

Views of the Responsible Official: We concur with the findings.

An effective internal control system was not in place at the City to ensure compliance with requirements related to the grant agreement and the Special Tests and provisions - Priority of Payments on Defaulted and Written Off Revolving Loan Fund (RLF) Loans compliance requirement. The City did not have effective controls in place to ensure that proceeds on a written off RLF loan were applied in the proper order of priority.

The proceeds recovered related to a written off RLF loan were applied directly to the outstanding principal balance.

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

Description of Corrective Action Plan:

In this case the MIRLF was instructed to deposit the funds in to the "misc account" by the EDA. In the future we will follow the priority of payments unless otherwise instructed by the Economic Development Administration.

Anticipated Completion Date:

Immediately and going forward.



City of **MUNCIE**

MUNCIE, INDIANA

CORRECTIVE ACTION PLAN

**FINDING 2020-006**

Craig Wright  
(765)747-4828

Views of the Responsible Official: We concur with the findings.

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 had not established a system of internal control to ensure that proper documentation was retained for audit.

The City did not complete required Transparency Act - FFATA reporting. For the reports not completed, we were unable to determine if the reports, totaling \$635,127, were in compliance with the grant agreement and compliance requirements.

The lack of internal controls and the failure to maintain adequate supporting documentation were systemic issues throughout the audit period

Description of Corrective Action Plan:

The city has implemented personnel changes and monitoring procedures to prevent reoccurring errors.

Anticipated Completion Date:

The internal control monitoring and checks and balances will be implemented immediately and continue going forward.

## 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/>.