

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, 2021 to December 31, 2021



FILED
12/22/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Craig Wright	01-01-21 to 12-31-22
Mayor	Honorable Dan Ridenour	01-01-21 to 12-31-22
President of the Common Council	Jeff Robinson	01-01-21 to 12-31-22
President of the Board of Public Works and Safety	Linda Gregory	01-01-21 to 12-31-22
President of the Sanitary District Board	Stephen Brand	01-01-21 to 12-31-22



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, 2021, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated December 8, 2022, 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.

Report on 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) as a basis for designing 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 2021-001 and 2021-002, 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)

Report on 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 item 2021-002.

City of Muncie's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. 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.



Beth Kelley, CPA, CFE
Deputy State Examiner

December 8, 2022



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

Qualified and Unmodified Opinions

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, 2021. 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.

Qualified Opinion on CDBG - Entitlement Grants Cluster

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified and Unmodified Opinions* section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the CDBG - Entitlement Grants Cluster for the year ended December 31, 2021.

Unmodified Opinion on 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 identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2021.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

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)

Matter Giving Rise to Qualified Opinion on CDBG - Entitlement Grants Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the City with the CDBG - Entitlement Grants Cluster, as described in item 2021-003 for Reporting, consequently we were unable to determine whether the City complied with those requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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)

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. 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

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-003, to be material weaknesses.

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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other 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 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)

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, 2021, and the related notes to the financial statement. We issued our report thereon dated December 8, 2022, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed 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.



Beth Kelley, CPA, CFE
Deputy State Examiner

December 8, 2022

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, 2021

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings 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	\$ -	\$ 2,625,867
Total - Economic Development Cluster				-	2,625,867
Total - Department of Commerce				-	2,625,867
<u>Department of Housing and Urban Development</u>					
CDBG - Entitlement Grants Cluster					
Community Development Block Grants/Entitlement Grants	Direct Grant	14.218			
CD FY17 CDBG Program			B-17-MC-18-0010	-	79,729
CD FY18 CDBG Program			B-18-MC-18-0010	5,757	30,813
CD FY19 CDBG Program			B-19-MC-18-0010	121,620	409,981
CD FY20 CDBG Program			B-20-MC-18-0010	431,479	762,431
CD FY21 CDBG Program			B-21-MC-18-0010	53,326	58,035
Subtotal - Community Development Block Grants/Entitlement Grants				612,182	1,340,989
COVID-19 - Community Development Block Grants/Entitlement Grants	Direct Grant	14.218			
CD FY20 CDBG Program			B-20-MC-18-0010	318,223	641,412
Total - Community Development Block Grants/Entitlement Grants				930,405	1,982,401
Total - CDBG - Entitlement Grants Cluster				930,405	1,982,401
Home Investment Partnerships Program	Direct Grant	14.239			
CD FY15 HOME Program			M-15-MC-18-0206	2,369	12,089
CD FY16 HOME Program			M-16-MC-18-0206	12,036	12,036
CD FY17 HOME Program			M-17-MC-18-0206	23,938	40,740
CD FY18 HOME Program			M-18-MC-18-0206	78,774	121,459
CD FY19 HOME Program			M-19-MC-18-0206	104,592	124,203
CD FY20 HOME Program			M-20-MC-18-0206	118,609	210,822
Total - Home Investment Partnerships Program				340,318	521,349
Total - Department of Housing and Urban Development				1,270,723	2,503,750
<u>Department of Justice</u>					
Crime Victim Assistance	Indiana Criminal Justice Institute	16.575			
MPD Victim Advocate 2020-2022			15-5041-0-2-754	-	140,501
Violence Against Women Formula Grants	Indiana Criminal Justice Institute	16.588			
MPD Stop Domestic Violence 2020-2021			15-0409-0-1-754	-	2,991

CITY OF MUNCIE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2021

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Bulletproof Vest Partnership Program MPD LEBG 2021 Safety/Bulletproof Vest	Direct Grant	16.607	15-0404-0-1-754	-	13,763
Total - Department of Justice				-	157,255
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster Highway Planning and Construction	Indiana Department of Transportation	20.205			
Wheeling Avenue ROW			DES #1173229	-	208,913
Kitselman Trail - Bike and Pedestrian Facilities (Phase 2)			DES #1592996	-	81,021
Arts and Culture Trail			DES #1700751	-	147,138
Kitselman Trail - Gateway (Phase 3)			DES #1900774	-	57,155
Total - Highway Planning and Construction				-	494,227
Total - Highway Planning and Construction Cluster				-	494,227
Highway Safety Cluster State and Community Highway Safety MPD OPO 2020-21	Indiana Criminal Justice Institute	20.600	D3-18-11910	-	50,928
Total - Highway Safety Cluster				-	50,928
Minimum Penalties for Repeat Offenders for Driving While Intoxicated MPD DUI 2020-2021	Indiana Criminal Justice Institute	20.608	D3-18-12060	-	9,537
Total - Department of Transportation				-	554,692
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus Relief Fund COVID-19 - Coronavirus Relief Fund	Indiana Finance Authority	21.019	FY2021	-	18,338
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds ARPA	Direct Grant	21.027	FY2021	-	12,724,661
Total - Department of the Treasury				-	12,742,999
<u>Department of Energy</u>					
State Energy Program State Energy Program	Indiana Department of Energy	81.041	89-0321-0-1-270	-	41,500
Total - Department of Energy				-	41,500
Total federal awards expended				<u>\$ 1,270,723</u>	<u>\$ 18,626,063</u>

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, 2021. 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, 2021	\$ 2,192,262
Cash and Investments as of December 31, 2021	521,940
Administrative expenses paid out of RLF income during 2021	5,213
Unpaid principal on loans written off during 2021	<u>0</u>
Subtotal	\$ 2,719,415
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>\$ 2,625,867</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:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
21.027	Economic Development Cluster	Unmodified
	CDBG - Entitlement Grants Cluster	Qualified
	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Unmodified

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 2020-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2020-001.

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 receipts and financial close and reporting.

Receipts

The City had not separated incompatible activities related to receipts. The same individual entered numerous receipts into the accounting system and prepared the bank reconciliation. Additionally, no documentation was presented, which indicated the receipt postings were reviewed by another individual. Internal control activities should be in place to reduce the risks of errors in financial 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.

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. . . ."

Cause

Management had not established a proper system of internal control over receipts and financial close and reporting.

Effect

The failure to establish a system of internal control could have enabled misstatements or irregularities to remain 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 2021-002

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 2020-002.

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 grant files were not properly managed, and the City Controller prepared and entered the federal award information into Gateway with no oversight, review, or approval process 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:

1. The CDBG - Entitlement Grants Cluster expenditures were understated by \$1,676,468.
2. The Home Investment Partnerships Program expenditures were understated by \$399,758.
3. The Crime Victim Assistance expenditures were overstated by \$20,706.
4. The Violence Against Women Formula Grants expenditures were overstated by \$28,317.
5. The Highway Planning and Construction Cluster was omitted, which understated expenditures by \$494,227.
6. The Highway Safety Cluster expenditures were overstated by \$66,572.
7. The Minimum Penalties for Repeat Offenders for Driving While Intoxicated expenditures were overstated by \$25,463.
8. The State Energy Program was omitted, which understated expenditures by \$41,500.
9. The COVID-19 - Coronavirus Emergency Supplement was omitted, which understated expenditures by \$18,338.

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

10. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds was omitted, which understated expenditures by \$12,724,661.
11. The CDBG - Entitlement Grants Cluster passed through to subrecipient expenditures were understated by \$930,405.
12. The Home Investment Partnerships Program passed through to subrecipient expenditures were understated by \$340,318.

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 200.1 states in part:

". . . *Internal controls* for non-Federal entities means:

- (1) Processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - (i) Effectiveness and efficiency of operations;
 - (ii) Reliability of reporting for internal and external use; . . ."

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

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. . . ."

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. 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 Assistance Listings Number or other identifying number when the Assistance Listings 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(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."

Cause

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

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

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *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 2021-003

Subject: CDBG - Entitlement Grants Cluster - Reporting

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/Entitlement Grants

Assistance Listings Number: 14.218

Federal Award Numbers and Years (or Other Identifying Numbers): B-17-MC-18-0010, B-18-MC-18-0010,
B-19-MC-18-0010, B-20-MC-18-0010,
B-21-MC-18-0010

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 2020-006.

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 control to ensure that proper documentation was retained for audit and compliance with the Reporting compliance requirement was met.

Federal Funding and Transparency Act Reporting

The City did not complete the required Federal Funding and Transparency Act (FFATA) reporting for two of four subrecipients. For the reports not completed, we were unable to determine if the reports, with subaward expenditures totaling \$148,086, were compliant with the grant agreement and compliance requirement. We considered the \$148,086 to be questioned costs. Additionally, two reports the City completed, with expenditures totaling \$79,000, were not submitted timely as they were filed after it was brought to the attention of the City's staff during the audit, and those reports were missing key elements.

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

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
4	2	2	0	2
Dollar Amount of Tested Transactions	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
\$ 227,086	\$ 148,086	\$ 79,000	\$ -	\$ 79,000

PR-29 CDBG CV Cash on Hand Reporting

The City did not complete the two quarterly PR 29 CDBG CV Cash on Hand Reports for the COVID-19 - Community Development Block Grants/Entitlement Grants funds that were received in 2021.

The lack of internal controls, noncompliance, and 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 200.334 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. . . ."

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

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).
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.fsrs.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.fsrs.gov> specify."

Cause

Management had not established a system of internal control 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 \$148,086 were identified, as detailed in the *Condition and Context*.

Recommendation

We recommended that the City's management establish a system of internal control 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.

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 2020-001

Fiscal year in which the finding Initially occurred: 2019

Status of Audit Finding: Correcting this audit finding is ongoing. The City is in the process of improving controls and processes to prevent reoccurring errors noted in the finding.

FINDING 2020-002

Fiscal year in which the finding initially occurred: 2018

Status of Audit Finding: Correcting this audit finding is ongoing. The City is in the process of improving controls and processes to prevent reoccurring errors noting in the finding.

FINDING 2020 -003

Fiscal year in which the finding initially occurred: 2018

Status of Audit Finding: Corrected.

FINDING 2020-004

Fiscal year in which the finding initially occurred: 2018

Status of Audit Finding: Corrected.

FINDING 2020 -005

Fiscal year in which the finding initially occurred: 2020

Status of Audit Finding: Corrected.

FINDING 2020 -006

Fiscal year in which the finding initially occurred: 2020

Status of Audit Finding: Correcting this audit finding is ongoing. The City is in the process of improving controls and processes to prevent reoccurring errors noting in the finding.



City of **MUNCIE**

MUNCIE, INDIANA

CORRECTIVE ACTION PLAN

FINDING 2021-001

Contact Person Responsible for Corrective Action: Craig Wright
Contact Phone Number: (765)747-4828

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan:

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

Anticipated Completion Date:

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

FINDING 2021-002

Contact Person Responsible for Corrective Action: Craig Wright
Contact Phone Number: (765)747-4828

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan:

Correcting the audit findings is ongoing. The city has implemented monitoring procedures to review and prevent reoccurring errors. Communication and review and approval with all departments will be closely monitored and reviewed.

Anticipated Completion Date:

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



City of **MUNCIE**

MUNCIE, INDIANA

CORRECTIVE ACTION PLAN

FINDING 2021-003

Contact Person Responsible for Corrective Action: Craig Wright
Contact Phone Number: (765)747-4828

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan:

Correcting the audit findings is ongoing. The city has implemented monitoring procedures to review and prevent reoccurring errors and have updated our policies and procedures.

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/>.