

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MUNCIE

DELAWARE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



**FILED**  
12/13/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Audrey Jones Clares Burke (interim) Kevin Nemyer	01-01-17 to 06-09-17 06-10-17 to 07-30-17 07-31-17 to 12-31-18
Mayor	Dennis Tyler	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	John Quirk	01-01-17 to 12-31-18
President of the Common Council	Douglas Marshall	01-01-17 to 12-31-18
President of the Sanitary District Board	Bill Smith	01-01-17 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of Muncie (City), for the period from January 1, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

November 5, 2018

CITY CONTROLLER  
CITY OF MUNCIE

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS

***FINDING 2017-001***

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. The prior audit finding number was 2016-001.

*Condition*

The City did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA. One employee prepared the grant information for the federal awards without a system of oversight or review to detect and correct the errors before submission.

*Context*

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

1. Several grants were understated by either using the wrong amounts or omitting grant expenditures. The net understatement totaled \$1,208,708.
2. Amounts provided to subrecipients were overstated by \$1,736,511.
3. Information such as grantor agency, program title, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were either incorrectly reported or omitted for some grants.

Audit adjustments were proposed, accepted by the City, and made to the SEFA.

*Criteria*

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

"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. . . .



CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

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

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

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

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (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 control that would have ensured proper reporting of the SEFA.

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(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 *Context*.

*Recommendation*

We recommended that the City's management establish controls related to the preparation of the SEFA.

*Views of Responsible Officials*

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

**FINDING 2017-002**

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-002.

*Condition*

The Muncie Redevelopment Commission funds, which included the Economic Adjustment Assistance (revolving loan funds/RLF), were not properly recorded within the City's ledger by the City Controller. For all fund activity, except for the Redevelopment Commission funds, receipts and disbursements were individually entered into the City's ledger. For the Redevelopment Commission funds, each related bank statement activity was posted as one receipt for the total month's deposits and one disbursement for the month's debit activity. Deposits in transit, outstanding checks, and other potential reconciling items were not accounted for under this method.

Supporting documentation for the individual disbursements of the Redevelopment Commission were also not included in the City's ledger, as was required for all other departments. Additionally, the City Controller was not the signatory for all accounts related to the Muncie Redevelopment Commission. The City had not established an internal control system to ensure that the Redevelopment Commission activity was properly accounted for within the City's ledger in the same manner as all other departments of the City.

*Context*

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

*Criteria*

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

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

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

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

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

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

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

13 CFR 307.13(b)(1) states: "Maintain adequate accounting records and source documentation to substantiate the amount and percent of RLF Income expended for eligible RLF administrative costs."

Indiana Code 36-4-10-2(c) states in part: "The city controller appointed under [IC 36-4-9-6](#) is the fiscal officer of each second class city. . . ."

Indiana Code 36-4-10-5(b) states in part:

". . . The fiscal officer shall do the following:

- (1) Prescribe the form of reports and accounts to be submitted to the department.
- (2) Sign and issue all warrants on the city treasury.
- (3) Audit and revise all accounts and trusts in which the city is concerned.
- (4) Keep separate accounts for each item of appropriation made for each city department,  
. . .
- (9) Manage the finances and accounts of the city . . ."

Indiana Code 36-7-14-8(b) states in part:

"The fiscal officer of the unit establishing a redevelopment commission is the treasurer of the redevelopment commission. . . . the treasurer has charge over and is responsible for the administration, investment, and disbursement of all funds and accounts of the redevelopment commission in accordance with the requirements of state laws that apply to other funds and accounts administered by the fiscal officer. . . ."

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)

CITY CONTROLLER  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management of the City had not established a proper system of internal control over the financial transactions and reporting of the Redevelopment Commission funds.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected regarding the Redevelopment Commission funds.

*Recommendation*

We recommended that the City establish a system of internal controls related to financial transactions and reporting of the Redevelopment Commission funds.

*Views of Responsible Officials*

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



**CORRECTIVE ACTION PLAN**  
**Findings 2017-001 and 2017-002**

***FINDING 2017-001***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a system of oversight and internal control in place to prevent errors and/or misstatements, and several errors were discovered and corrected.

**Description of Corrective Action Plan:**

An internal control procedure for the Schedule of Expenditures of Federal Awards will be put into place and will include oversight by the Controller, or his designee, who will review and check the SEFA for errors, omissions, and misstatements prior to its submission.

**Anticipated Completion Date:**

The above internal control procedure will be implemented immediately.

***FINDING 2017-002***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a proper system of internal controls in place to ensure Muncie Redevelopment activity was correctly accounted for, or recorded, in the City's ledger.

**Description of Corrective Action Plan:**

The funds of the Muncie Redevelopment Commission will be recorded within the City's ledger in the same manner as other departments, with all individual disbursements being correctly recorded, with supporting documentation.

**Anticipated Completion Date:**

The above procedure will be implemented immediately.

Kevin Neuman  
(Signature)

Controller  
(Title)

10.31.2018  
(Date)

CITY CONTROLLER  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

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

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2017. Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants required the City to expend funds and subsequently request reimbursement. The City funds with overdrawn cash balances at December 31, 2016, which were not due to the timing of reimbursements, are listed below:

The Gateway Park Project Grant and Parks and Recreation #3 funds were overdrawn at December 31, 2017, by \$333,969, and \$33,978, respectively.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**ANNUAL FINANCIAL REPORT**

A similar comment also appeared in prior Report B51516, entitled *ANNUAL FINANCIAL REPORT*.

The following errors were detected during our testing of the Annual Financial Report and the financial statement presented for audit, which was prepared using the online Indiana Gateway for Government Units financial reporting system:

1. The beginning Cash and Investment balances were overstated by \$2,176,124 in comparison to the December 31, 2016 Cash and Investment balances in the prior report due to the omission of \$2,150 cash on hand, the omission of \$265,067 investments on hand, and the improper inclusion of Industrial Develop Revolving Loan fund receivables of \$2,443,341.
2. The ending Cash and Investment balances were overstated by \$2,125,132 due to the omission of \$2,150 cash on hand, the omission of \$266,686 investments on hand, and the improper inclusion of Industrial Develop Revolving Loan fund receivables of \$2,393,968.
3. The Supplemental Schedule of Leases and Debt - Ending Principal Balance was overstated by \$10,927,932 and Principal and Interest Due Within One Year was overstated by \$1,712,078.

For the above items, audit adjustments were proposed, accepted by the City, and made to the financial statement and Supplemental Schedule of Leases and Debt.

4. The Supplemental Schedule of Capital Assets had numerous material errors and, therefore, was not included in the issued report.

CITY CONTROLLER  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS  
(Continued)

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

**CAPITAL ASSETS**

The same comment also appeared in the prior Report B51516.

Capital asset records were not presented for audit and a physical inventory was not conducted to verify all assets on hand were included in the accounting records. As noted in the Audit Result and Comment *ANNUAL FINANCIAL REPORT*, the Supplemental Schedule of Capital Assets had numerous material errors and therefore was not included in the issued report.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**CREDIT CARDS**

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

The City's credit card policy stated the use of credit cards was subject to the following procedure: "Credit cards are not to be used for personal items, but only for office supplies, equipment, parts, services, and items approved by the Department Heads."

We identified credit card purchases made for food for meetings, gas stations, car washes, restaurants, travel, training, cable television service, and the purchase of a television. Employees used their City credit card to make personal purchases and reimbursed the City for the personal expenses at the end of the month.

We also identified purchases totaling \$1,872, which were paid without the necessary supporting documentation.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



CITY CONTROLLER  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS  
(Continued)

***FUND SOURCES AND USES***

The following posting error was identified:

The November advance property tax distribution of \$390,489 for the Parks and Recreation fund was incorrectly receipted to the Cemetery Operating fund.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

- **Overdrawn Cash Balances – The Gateway Park Project and Parks and Recreation #3 funds were overdrawn at December 31, 2016:**

When this was discussed with the Mayor, Dennis Tyler he had stated that this project was going to be reimbursed for the expenses in the project. It is my understanding that if the project went over budget the EDIT fund would pay the overages based on the project manager over this project (Augusta Consulting).

- **Capital Assets – Capital Asset records were not presented for audit and a physical inventory was not conducted to verify all assets on hand are included in the accounting records 2016:**

During the last year of being Controller I did an overhaul on Asset recording. We entered all the old data into the computer system. I had an employee that presented all the information to each department and met with each department head to discuss assets. The lists were verified and discussed thoroughly to make sure that assets were reported in the system correctly. I was no longer the Controller when the assets were audited and I don't know why they weren't presented or verified during the audit process.

- **Credit Cards-Credit Card purchases for personal use 2016**

While I was the Controller I did not know that individuals were making personal purchases with their city credit card. The controller's office would receive the credit card bill and each department would submit their receipts for their purchases. There were times where there were credit card purchases made and the receipts weren't presented to the controller's office. If a receipt was not presented to the controller's office the individual would have to reimburse the city. There were a few times where purchases were questioned and returned to the department for reimbursement, further documentation or an explanation of why something had to be purchased. There were several times that I exhausted all avenues and tried calling various places where the credit cards were used to get copies of the receipts for individuals. If I was not able to obtain a receipt the individual was required to pay back the money. The policy did not give the Controller the ability to take the credit card away, which could prevent this type of thing from happening.

- **Credit Cards Paid without Supporting Documentation**

The controller's office would pay the credit fees without supporting documentation to avoid late fees. We would request supporting documentation from the cardholder/purchaser. If the supporting documentation was not received the Controller's office would request that the cardholder or the purchaser would reimburse the City. The policy does not have a consequence if the cardholder/purchaser does not pay the City back. So at times the money wasn't reimbursed because there wasn't anything in place that allowed for further consequence.

Sincerely,

Audrey Jones

CITY CONTROLLER  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; and Megan Quirk, City Attorney.

The contents of this report were discussed on November 14, 2018, via phone with Audrey Jones, former City Controller.

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COMMUNITY DEVELOPMENT  
CITY OF MUNCIE

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
FEDERAL FINDINGS

***FINDING 2017-007***

Subject: CDBG-Entitlement Grants Cluster - Internal Controls  
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-14-MC-18-0010, B-15-MC-18-0010,  
B-16-MC-18-0010, B-17-MC-18-0010  
Compliance Requirements: Reporting, Special Tests and Provisions - Environmental Reviews  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-007.

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the compliance requirements listed above.

*Reporting*

The Director of Community Development was the sole person responsible for preparing, reviewing, and submitting the required reports for the Community Development Block Grant. There was no oversight, review, approval, or other process in place to ensure the accuracy of the reports.

*Special Tests and Provisions - Environmental Reviews*

The Environmental Reviews were the sole responsibility of a planner within the Department of Community Development. There were no controls in place to ensure that the Environmental Reviews were conducted.

*Context*

The lack of controls was a systemic issue 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). . . ."

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not developed a system of internal controls to ensure compliance with the compliance requirements listed above.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

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

**FINDING 2017-008**

Subject: CDBG-Entitlement Grants Cluster - Procurement  
and Suspension and Debarment

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-14-MC-18-0010, B-15-MC-18-0010,  
B-16-MC-18-0010, B-17-MC-18-0010

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-008.

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement. The City did not have adequate policies or procedures in place to ensure that procurement contracts were approved by the Board of Works or to ensure that evidence that vendors were not suspended or debarred from participation in federal programs was maintained.

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

The City was unable to provide documentation for one of the three contractors selected during testing in order to verify compliance with its procedures before entering into a covered transaction. Additionally, documentation was not provided demonstrating that the contract was approved during the Board of Works meeting.

*Context*

The lack of controls and 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). . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

2 CFR 200.318(a) states:

"The non-Federal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section."

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. . . ."



COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not designed or implemented internal control procedures to ensure compliance with the procurement and suspension and debarment requirements.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the procurement and suspension and debarment requirements 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 controls to ensure compliance and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

*Views of Responsible Officials*

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



**CORRECTIVE ACTION PLAN**  
**Findings 2017-007 and 2017-008**

***FINDING 2017-007***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a system of oversight and internal control in place within the Community Development department to prevent misuse and mismanagement of CDBG funds; to verify the accuracy of claims, including payroll; to ensure proper reporting was submitted; or to ensure monitoring subrecipients was conducted correctly.

**Description of Corrective Action Plan:**

A system of internal control will be designed and implemented within the Community Development department to ensure the proper use of the CDBG grant funds, to verify the accuracy of claims and of payroll, and to ensure compliance with reporting and monitoring requirements.

**Anticipated Completion Date:**

A system of internal control will be designed and implemented within the Community Development department as soon as feasible.

***FINDING 2017-008***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a proper system of internal controls in place to ensure the Community Development department was in compliance with the grant agreement, and with the Procurement and Suspension and Disbarment compliance requirement.

**Description of Corrective Action Plan:**

An internal control system in the Community Development department will be designed and implemented as soon as feasible, to ensure compliance with both the grant agreement, and with the Procurement and Suspension and Disbarment compliance requirement.

**Anticipated Completion Date:**

The system of internal control described above will be implemented as soon as feasible.

Kevin Nguyen  
(Signature)

Controller  
(Title)

10.31.2018  
(Date)

COMMUNITY DEVELOPMENT  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; Megan Quirk, City Attorney; and Terry Bailey, Community Development Director.

FIRE DEPARTMENT  
CITY OF MUNCIE

FIRE DEPARTMENT  
CITY OF MUNCIE  
FEDERAL FINDING

***FINDING 2017-009***

Subject: Staffing for Adequate Fire and Emergency Response (SAFER) - Internal Controls  
Federal Agency: Department of Homeland Security  
Federal Program: Staffing for Adequate Fire and Emergency Response (SAFER)  
CFDA Number: 97.083  
Federal Award Number and Year (or Other Identifying Number): EMW-2014-FH-00344  
Pass-Through Entity: Direct Grant  
Compliance Requirements: Cash Management, Reporting  
Audit Finding: Material Weakness

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Cash Management and Reporting compliance requirements.

*Cash Management*

Two of the four reimbursement requests tested had no control procedure in place to ensure that program costs were paid prior to requesting reimbursement.

*Reporting*

There was no control procedure in place to ensure that the performance report, Hiring Performance Report, was submitted timely and accurately.

*Context*

The lack of controls was a systemic issue throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

FIRE DEPARTMENT  
CITY OF MUNCIE  
FEDERAL FINDING  
(Continued)

"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). . . ."

*Cause*

Management had not developed a system of internal controls to ensure compliance with the Cash Management and Reporting compliance requirements.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that management of the City establish controls related to the grant agreement and the Cash Management and Reporting compliance requirements.

*Views of Responsible Officials*

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



**CORRECTIVE ACTION PLAN**  
Finding 2017-009

**FINDING 2017-009**

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a system of oversight and internal control in place to ensure compliance with the Cash Management and reporting compliance requirement.

**Description of Corrective Action Plan:**

The City is no longer eligible for this grant; corrective action is not applicable.

**Anticipated Completion Date:**

Corrective action is not applicable (see above).

Kevin Nemyer  
(Signature)

Controller  
(Title)

10.31.2018  
(Date)



FIRE DEPARTMENT  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; and Megan Quirk, City Attorney.

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REDEVELOPMENT COMMISSION  
CITY OF MUNCIE

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS

***FINDING 2017-003***

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. The prior audit finding number was 2016-003.

*Condition*

An effective internal control system was not in place at the City in order 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 paid three claims, which totaled \$1,119, to a vendor for the reimbursement of expenses associated with administering the federal program. However, no invoices were provided to substantiate these claims. In addition, the City paid two claims for \$26,463 to two other vendors and no invoices were provided to substantiate these claims. Since the City did not provide invoices to substantiate these claims, it could not be determined whether these expenses were for activities allowed according to the requirements of the program. These claims paid without adequate supporting documentation were considered questioned costs.

The City had an inter-local agreement to pay an unspecified portion of the Director of Business Development's (Director) salary from the revolving loan fund grant. The City paid \$17,443 of the Director's salary from grant funds. No supporting documentation of the time allocated to the management of the grant was provided. The compensation paid without adequate supporting documentation was considered questioned costs.

*Context*

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

*Criteria*

OMB Circular A-133, Subpart C(1), section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

13 CFR 307.13(b) states in part:

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

- (2) Retain records of administrative expenses incurred for activities and equipment relating to the operation of the RLF for three years from the actual submission date of the last semi-annual report that covers the Reporting Period in which such costs were claimed. . . ."

OMB Circular A-87, Attachment A, section C(1) states in part:

"Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular. . . .
- j. Be adequately documented."

OMB Circular A-87, Attachment A, section C(3)(a) states: "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

*Cause*

Management of the City had not designed or implemented internal control procedures to ensure compliance with the compliance requirements listed above. The City did not have controls in place to ensure that adequate documentation was available for expenditures of grant funds.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds to the City.

*Questioned Costs*

Known questioned costs of \$45,025 were identified, as detailed in the *Condition*.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and comply with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

*Views of Responsible Officials*

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

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

***FINDING 2017-004***

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. The prior audit finding number was 2016-004.

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement. The City did not have controls in place to ensure that supporting documentation was maintained for reports that were submitted.

The City did not comply with the reporting requirements that supporting documents be maintained per the grant agreement and program regulations. No supporting records were maintained for the ED-209- Revolving Loan Fund Semi-Annual Financial Report and the ED-209I- Revolving Loan Fund Income and Expense Statement.

*Context*

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

*Criteria*

OMB Circular A-133, Subpart C(1), section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

15 CFR 24.42 states in part:

"(a) *Applicability.*

- (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:
  - (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or
  - (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement.

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

(2) This section does not apply to records maintained by contractors or subcontractors. For a requirement to place a provision concerning records in certain kinds of contracts, see section 24.36(i)(10).

(b) *Length of retention period.* (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . ."

*Cause*

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

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the reporting requirements 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 controls to ensure compliance and comply with the grant agreement and 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 2017-005**

Subject: Economic Development Cluster - Special Tests and Provisions - Loan Requirements  
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 - Loan Requirements  
Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-005.

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Loan Requirements compliance requirement. The City did not have controls in place to ensure that standard loan documentation included proper signed bank turn-down letters, board of directors meeting minutes, and loan applications.

The City did not comply with the loan requirements that certain documentation be maintained. The City did not gather the required signed bank turn-down letters demonstrating that credit was not otherwise available before distributing loans. The City also did not maintain loan applications and board meeting minutes showing approval of the loans in the loan files.

*Context*

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

*Criteria*

OMB Circular A-133, Subpart C(1), section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

13 CFR 307.15(b)(2) states in part:

"Prior to the disbursement of any EDA funds, the RLF Recipient shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the Grant and applicable State and local law. The standard loan documents must include, at a minimum, the following:

- (i) Loan application; . . .
- (iii) Board of directors' meeting minutes approving the RLF loan; . . .
- (viii) Signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. EDA will permit the RLF Recipient to accept alternate documentation only if such documentation is allowed in the Recipient's EDA-approved RLF Plan."

*Cause*

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Special Tests and Provisions - Loan Requirements 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 loan requirements could have resulted in the loss of federal funds to the City.



REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and comply with the grant agreement and the Special Tests and Provisions - Loan Requirements 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 2017-006**

Subject: Economic Development Cluster - Special Tests and Provisions -  
Increases to RLF Capital Base and Capital Utilization

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 - Increases to  
RLF Capital Base and Capital Utilization

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-006.

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization. The Director of Business Development was the sole person responsible for the determination of increases to the revolving loan fund capital base and capital utilization. There was no oversight, review, approval, or other process in place to ensure that the necessary calculations were performed.

*Context*

The lack of controls was a systemic issue throughout the audit period.

*Criteria*

OMB Circular A-133, Subpart C(1), section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management of the City had not designed or implemented internal control procedures to ensure compliance with the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement.

*Views of Responsible Officials*

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



**CORRECTIVE ACTION PLAN**  
**Findings 2017-003 to 2017-006**

***FINDING 2017-003***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not a proper system of internal controls nor requirement of supporting documentation for the expenditures of grant funds, putting these funds at risk.

**Description of Corrective Action Plan:**

Supporting documentation and invoices will be required before the expenditure of any grant funds, or reimbursements for expenses using grant funds. Documentation of the share of the Director's salary to be paid from grant funds will be filed in the Controller's Office.

**Anticipated Completion Date:**

Internal control procedures to ensure compliance of the above will be implemented as soon as feasible; documentation concerning the Director's salary will be compiled as soon as feasible.

***FINDING 2017-004***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not an internal control system in place to ensure compliance with the grant agreement and the grant reporting requirements, which could have resulted in the loss of federal funds to the City.

**Description of Corrective Action Plan:**

The Controller's Office will establish an internal control procedure of grant agreements review to ensure compliance, and of grant reporting reviews to ensure they comply with the requirements.

**Anticipated Completion Date:**

These internal control procedures will be implemented immediately..

***FINDING 2017-005***

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. The City's lack of internal controls allowed noncompliance with the grant agreement and the loan requirements.

**Description of Corrective Action Plan:**

An internal control system will be established to ensure compliance with both the grant agreement, and with the Special Tests and Provisions for Loan Requirements compliance requirement.

**Anticipated Completion Date:**

An internal control system will be designed and implemented as soon as feasible.

**FINDING 2017-006**

Kevin Nemyer  
765.747.4828

**Views of Responsible Official:**

We concur with the finding. There was not an internal control to ensure compliance with the grant agreement and the compliance requirements.

**Description of Corrective Action Plan:**

An internal control system, including segregation of duties, will be established to ensure compliance with both the grant agreement, and with the Special Tests and Provisions for Increases to RLF Capital Base and Capital Utilization compliance requirement.

**Anticipated Completion Date:**

An internal control system and segregation of duties will be designed and implemented as soon as feasible.

Kevin Nemyer  
(Signature)

Controller  
(Title)

10.31.2018  
(Date)

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS

**ACCOUNTING FOR TAX INCREMENT FINANCING (TIF) ALLOCATION PROCEEDS**

A similar comment also appeared in prior Report B51516, entitled *ACCOUNTING FOR TAX INCREMENT FINANCING (TIF) ALLOCATION PROCEEDS*.

The Redevelopment Commission did not account for the proceeds from each TIF Allocation area in separate funds.

The Redevelopment Commission established two checking accounts. Proceeds from the parking garage collections were commingled with other TIF revenue and expenditures from these accounts were for multiple TIF areas from these accounts.

Indiana Code 36-7-14-39(b)(3) states in part:

" . . . property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following. . . ."

**TIF ALLOCATION DISBURSEMENTS**

A similar comment also appeared in prior Report B51516, entitled *TIF ALLOCATION DISBURSEMENTS*.

We identified disbursements, which were not included in the redevelopment plan and resolution, as part of the redevelopment project under Indiana Code 36-7-14-15 and Indiana Code 36-7-14-16.

We identified disbursements from Redevelopment Commission funds containing TIF allocation proceeds which were determined to be operating and capital costs of the City or for items unrelated to the redevelopment plan or project, rather than expenses related to the duties and powers of the Redevelopment Commission, as stated in Indiana Code 36-7-14-11 and Indiana Code 36-7-14-12.2.

Disbursements identified as operating and capital costs of the City or items not included within the redevelopment plan or project were as follows:

Description	Amount
Co: Lab Operating Expenses	\$ 42,550
Parking Garage Operating Expenses	31,945
Fire Truck for City of Muncie	100,000
Video Cameras for Police Department	77,076
Thermal Imaging Drone	8,825
Hearts and Hands United	1,151
Event Sponsorships	7,400

A Redevelopment Commission has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition development, and disposal of property in "areas needing redevelopment." The powers granted to a redevelopment commission in Indiana Code 36-7-14-12.2 allow the commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS  
(Continued)

The general operating costs of the City should be paid from the City's General Fund, as set forth in the Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 4:

"GAAFR defines the General Fund as the fund used to account for all financial resources except those required to be accounted for in another fund. The General Fund is the general operating fund of the municipality. Tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The general operating expenditures of the municipality are paid from the General Fund. To summarize, the General Fund shall be used for current general operations of the city or town."

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.
- (D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.
- (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.
- (G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.
- (H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.
- (I) For property taxes first due and payable before January 1, 2009, . . .
- (J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS  
(Continued)

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located: (i) in the allocation area; and (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. . . .

(M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

The allocation fund may not be used for operating expenses of the commission."

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

**SUPPORTING DOCUMENTATION**

A similar comment also appeared in prior Report B51516, entitled *SUPPORTING DOCUMENTATION*.

Supporting documentation was not presented for audit for Redevelopment Commission disbursements totaling \$42,180. Due to the lack of supporting documentation, the validity of the disbursements could not be determined.

Indiana Code 36-7-14-29(a) states: "All payments from any of the funds established by this chapter shall be made by warrants drawn by the proper officers of the unit upon vouchers of the redevelopment commission signed by the president or vice-president and the secretary or executive secretary."

Indiana Code 36-7-14-8(b) states in part:

"The fiscal officer of the unit establishing a redevelopment commission is the treasurer of the redevelopment commission . . . the treasurer has charge over and is responsible for the administration, investment, and disbursement of all funds and accounts of the redevelopment commission in accordance with the requirements of state laws that apply to other funds and accounts administered by the fiscal officer. . . ."

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

(2) there is a fully itemized invoice or bill for the claim; . . ."



REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS  
(Continued)

***PENALTIES, INTEREST, AND OTHER CHARGES***

A similar comment also appeared in prior Report B51516, entitled *PENALTIES, INTEREST, AND OTHER CHARGES*.

The Redevelopment Commission paid late fees of \$25 on a copier lease and \$2 on a water bill for a total of \$27 in penalties, interest, and other charges.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Michael,

I hope all is well. During our review process on November 5, 2018, there were some findings that I was concerned about that were not investigated through my office. Things that could have been cleared up and would not be on the Finding Report. The following is the response and the explanation or attachment to verify as to why these may not need to be an issue in the Finding Report.

Thank you for your consideration:

**Finding 2016-003**

In one area, it was stated that there were claims paid that your team could not find invoices for. These were regarding the RLF. In July, Cole Woelfle asked for those invoices. I sent them over to him within a few days of the request. All was good. Cole stated that they were what he was looking for. A few weeks later I am told that Cole has left and George Dennitson would be taking over the review of the RLF moving forward. In September, George asked me for the same invoices. I told him that I gave them to Cole and he stated that he doesn't have everything that Cole checked out. I went to their office and found them on the shelf next to his desk. He was satisfied. Then he left.

In another area, it was stated that there are no internal controls over the Federal award. There is a Board of Directors that makes the decisions for the money per the requirement of the Federal Grant. This Grant was established in 1977. This board not only has to approve all claims to be paid, they also have to review and approve all loans that are to be paid out. In fact, the Chairperson of the board has to be at all closings to sign and be notarized at that signing. Once all the documents are verified and signed, the loan proceeds are issued. Outside of filing documentation with the Department of Commerce twice a year, my board of 7 members has to approve the financial reports and the expenditure of any funds. To say there are NO internal controls is confusing.

**Finding 2016-004**

It is stated that there were no supporting documentation maintained for the ED-209 RLF Semi-Annual report when in fact, there was a complete notebook provided to the investigator that verified every invoice, payment of loans and receivables for the loan payments in detail and dated when issued or received. This could have been an issue because of changing investigators in a 3 month period, and was overlooked.

**Finding 2016-005**

Our Loan Requirements, (see attached) approved by the Department of Commerce, as they are submitted every 5 years for review, do not require loan turn-down documentation. In fact, it states clearly that the board MAY consider turndown letters as a part of the request. There were minutes for every meeting for all of 2016, (see attached). All of these were submitted to the investigators. Plus, we have loan applications for every approved loan. When asked, those were also submitted.

**Finding 2016-006**

Every ED209 submitted shows the amount of the Capital Base and the Capital Utilization. And, these are regulated by the Department of Commerce. We are not the sole decision maker in these levels. That is a standard requirement of the Department of Commerce.

These remarks were repeated in Finding 2017-003, 2017-004, 2017-005 and 2017-006

**Redevelopment Commission:**

Under the 2016 report, the team states that we did not maintain TIF accounts in separate funds. That is not accurate. Each TIF fund was assigned an account in New World.

The two checking accounts were NOT part of the TIF accounts, therefore, these funds did not come in with garage funds. The TIF account was set up in the Cardinal TIF fund and did not begin receiving TIF until 2016. The Garage Fund Checking account was set up to receive revenue to assist in paying the expenses of operating the garage. That was in 2014. In 2017, four of the TIF areas were consolidated into one TIF call the Consolidated Muncie TIF. I have a copy of the ledger kept by my office on the 2016 TIF, checking and other accounts. I also included the 2017 fiscal year. They were kept separate in 2017, although they were consolidated. In 2018 is when we combined accounts.

The checking accounts referred to in the report are not TIF accounts. One, account #310-0961-1, was set up specifically to receive funds from the parking gates for credit cards and deposits from the other parking revenue. This account pays for the expenses to operate the parking garage per the lease established by resolution. This is NOT a TIF fund.

The other checking account is #1726382 was set up prior to me coming to work in this position. This is a general fund account for all other revenue that is not related to TIF. There is never any TIF funds deposited into this account.

All TIF accounts go through the city from the Delaware County Treasurer. I do not receive any TIF draws.

As for the comments regarding the payment from TIF for police cars and or other equipment. I am attaching the resolutions that amended the TIF plans to add these to the TIF options. As for the expense paid from the TIF for the City Hall Roof. I am also attaching the resolution approved that amended the TIF to allow this to be part of the infrastructure paid from the TIF. There was a bond approved, (Series 2014, documents attached) that allowed for what we called the Multi-TIF Bond, that was set up to invest in infrastructure improvements in all four of the TIF areas known as the Cardinal TIF, the Central City TIF, the Muncie Mall TIF and the South Muncie TIF. These areas were assigned a specific amount. The payback for the bond was divided from the specific TIF areas based on the amount utilized in each TIF area. We kept a different account for this through the City Controller New World system. Everything was controlled through the city controller.

These are all items that we were written up on that have fair and confirming explanation that was justified and controlled. With the exception of the checking accounts not being in New World, everything else was controlled. We are in the process of fixing the checking accounts and have set up the accounts and deposited funds into these accounts for any future payments.

We are also working on the RLF fund account.

I would hope that you can take these items under consideration and look to remove the comments related to these items that we have clarified.

Please feel free to contact me with any questions.

Thank you

Todd

**TODD DONATI**

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REDEVELOPMENT COMMISSION  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; Megan Quirk, City Attorney; and Todd Donati, Redevelopment Commission Director.

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SANITARY DISTRICT  
CITY OF MUNCIE

SANITARY DISTRICT  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS

**CREDIT CARDS**

A similar comment also appeared in prior Report B51516, entitled *CREDIT CARDS*.

The Sanitary District Personnel Policies Handbook stated: "District employees may request the use of a District credit card for travel related expenses associated with attending conferences, workshops, business meetings or other work related expenses." The Handbook did not state any other approved uses.

We identified credit cards were used for an office desk, toaster, administrative lunches, Sanitary Board lunches, car washes, memberships, season tickets to a professional basketball team, and data plane for OnStar.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance/resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the governing body.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
- (5) The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
- (6) Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of that officer or employee.
- (8) If authorized, an annual fee may be paid.

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



SANITARY DISTRICT  
CITY OF MUNCIE  
AUDIT RESULTS AND COMMENTS  
(Continued)

**EXCESSIVE OR UNREASONABLE COSTS**

A similar comment also appeared in prior Report B51516, entitled *EXCESSIVE OR UNREASONABLE COSTS*.

The Sanitary District purchased the following sponsorships for 2017, totaling \$64,212, from the Recycling fund for which a business purpose could not be determined:

Date	Vendor	Amount	Description
01-20-17	Collective Coalition of Concerned Clergy	\$ 500	MLK Day Celebration
02-03-17	Shafer Leadership Academy	5,000	Premiere Sponsorship
03-31-17	Star/Cardmember Service	7,444	Colts/MSD Sponsorship - Tickets
04-28-17	Star/Cardmember Service	9,058	2017-18 Indiana Pacers Season Tickets - Gold Half Season
05-26-17	Star/Cardmember Service	4,960	Colts/MSD Sponsorship - Tickets
06-09-17	Muncie Park Department	20,000	Sponsorship and Advertising for recycling event
07-07-17	Muncie Exchange Club	500	Justice level sponsorship
07-21-17	Cardinal Greenway	500	Bike Fest 2017 Bronze Sponsorship
09-01-17	Millennium Productions	1,000	Underwriting Community Focus Public Access Show
09-01-17	Muncie Police Department	1,000	Sponsorship for the Policeman's ball
10-13-17	Meridian Services	4,000	Duck Derby Sponsorship - Naming Rights
10-27-17	Youth Symphony	250	Corporate Sponsorship
11-09-17	Muncie Downtown Development	10,000	2017 Premier Partner investment
		<u>\$ 64,212</u>	

Included in the above, the Sanitary District purchased season tickets to a professional basketball and sponsorship/partnership with a professional football team, which were to be used for promotional purposes. No documentation was presented for audit of who used the tickets to the games.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Every effort should be made by the unit to avoid unreasonable or excessive costs. Unreasonable or excessive costs may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**PERSONAL CELL PHONE REIMBURSEMENTS**

During 2017, the Sanitary District reimbursed three employees \$604, \$893, and \$849, respectively, for a portion of their personal cell phone bill, but did not have sufficient documentation detailing the employees' portion of their bill. The Sanitary District did not have a policy or ordinance addressing personal cell phone reimbursements.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

SANITARY DISTRICT  
CITY OF MUNCIE  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2018, with Kevin Nemyer, City Controller; Clares Burke, Investment Clerk; Dennis Tyler, Mayor; John Quirk, President of the Board of Public Works and Safety; Douglas Marshall, President of the Common Council; Megan Quirk, City Attorney; Bill Smith, President of the Sanitary District Board; Nikki Grigsby, Sanitary District Director; and Deborah Ervin, Sanitary District Financial Manager.