

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

TOWN OF CAMBRIDGE CITY

WAYNE COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED
09/20/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sherry Ervin	01-01-23 to 12-31-24
President of the Town Council	Steve Sorah Jim McLane	01-01-23 to 12-31-23 01-01-24 to 12-31-24



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 TOWN OF CAMBRIDGE CITY, WAYNE 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 Town of Cambridge City (Town), for the year ended December 31, 2023, and the related notes to the financial statement, which collectively comprise the Town's financial statement and have issued our report thereon dated August 29, 2024, wherein we noted the Town 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 Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 Town'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, as described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-002, 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 Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-002.

Town of Cambridge City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town'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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

August 29, 2024



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

TO: THE OFFICIALS OF THE TOWN OF CAMBRIDGE CITY, WAYNE COUNTY, INDIANA

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Town of Cambridge City's (Town) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2023. The Town's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

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 Town 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 Town's compliance with the compliance requirements referred to above.

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 Town's federal programs.

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

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 Town'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 Town'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 Town'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 Town'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 Town'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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2023-003. Our opinion on the major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Town's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

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

Report on 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. 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. We consider the deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2023-003, to be material weaknesses.

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 Town's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Town'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 THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

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

We have audited the financial statement of the Town, as of and for the year ended December 31, 2023, and the related notes to the financial statement. We issued our report thereon dated August 29, 2024, 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

August 29, 2024

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 Town. The schedule and notes are presented as intended by the Town.

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TOWN OF CAMBRIDGE CITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2023

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 Housing and Urban Development</u>					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii Community Development Block Grant	Indiana Office of Community and Rural Affairs	14.228	038-CDBG-20-SUB	\$ -	\$ 400,035
Total - Department of Housing and Urban Development				-	400,035
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds American Rescue Plan Indiana Local Body Camera Grant	Indiana Finance Authority Indiana Department of Homeland Security	21.027	CY 2021 385ARPAILBC2023	-	11,000
Total - COVID-19 - Coronavirus State and Local Fiscal Recovery Funds				-	4,000
Total - Department of the Treasury				-	15,000
<u>Environmental Protection Agency</u>					
Drinking Water State Revolving Fund (DWSRF) Cluster Drinking Water State Revolving Fund WATER UTILITY IMPROVEMENTS PROJECT 2022	Indiana Finance Authority	66.468	DW22168902	-	2,072,707
Total - Drinking Water State Revolving Fund (DWSRF) Cluster				-	2,072,707
Total - Environmental Protection Agency				-	2,072,707
Total federal awards expended				\$ -	\$ 2,487,742

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

TOWN OF CAMBRIDGE CITY
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 Town under programs of the federal government for the year ended December 31, 2023. 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 Town, it is not intended to and does not present the financial position of the Town.

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

TOWN OF CAMBRIDGE CITY
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 program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

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

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Drinking Water State Revolving Fund (DWSRF) Cluster	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 2023-001

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

Condition and Context

Financial information is required to be entered annually into the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the Town's Annual Financial Report (AFR) and financial statement.

The Town had not designed or implemented internal controls over the financial information entered into Gateway. The Clerk-Treasurer uploaded the required information into Gateway without a documented oversight or review process in place to prevent, or detect and correct, errors on the AFR.

TOWN OF CAMBRIDGE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Due to the lack of effective internal controls, the financial statement presented for audit did not reflect all the financial activity of the Town. The financial statement did not include the relevant activity from the Bank of New York trust accounts for the Waterworks Revenue Bonds. During the audit period, the Indiana Finance Authority paid \$2,072,707 to the project contractors on behalf of the Town from the trust accounts. The Town did not post the receipt and disbursement transactions associated with the Bank of New York trust account to the Town's ledger nor was the activity reported in the AFR. As a result, receipts and disbursements reported in the Town's financial statement were understated by \$2,072,707.

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

Criteria

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

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

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

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

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

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

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

Cause

Due to the Town's unfamiliarity with trust accounts, management had not established a proper system of internal controls to ensure proper reporting of the AFR.

TOWN OF CAMBRIDGE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

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

Views of Responsible Officials

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

FINDING 2023-002

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

Condition and Context

The Town is required to file reports after the close of each fiscal year. Reports are to be filed electronically as prescribed.

The Town filed its reports as prescribed; however, the Town had not established internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's Schedule of Expenditures of Federal Awards (SEFA).

The federal grant award information was entered into Gateway and submitted by the Clerk-Treasurer without an oversight or review 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 was inaccurate and not reflective of the federal activity of the Town's underlying records. The SEFA contained the following errors:

- The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures were understated by \$400,035.
- The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds expenditures were understated by \$15,000.
- The Drinking Water State Revolving Fund (DWSRF) Cluster expenditures were understated by \$2,072,707.

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

TOWN OF CAMBRIDGE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Criteria

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

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; . . ."

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 section § 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.

TOWN OF CAMBRIDGE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (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."

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 of the Town had not established a system of internal controls that would have ensured proper reporting of the SEFA. As the bond funds were handled by IFA through trust accounts, the Town did not realize that the grant activity for the DWSRF Cluster should be included on the SEFA.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained 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.

TOWN OF CAMBRIDGE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III - Federal Award Findings and Questioned Costs

FINDING 2023-003

Subject: Drinking Water State Revolving Fund (DWSRF) Cluster - Procurement
Federal Agency: Environmental Protection Agency
Federal Program: Drinking Water State Revolving Fund
Assistance Listings Number: 66.468
Federal Award Number (or Other Identifying Number): DW22168902
Pass-Through Entity: Indiana Finance Authority
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition and Context

Federal regulations allow for informal procurement methods when the value of the procurement for property or services does not exceed the simplified acquisition threshold, which is set at \$250,000 unless a lower, more restrictive threshold is set by a nonfederal entity. As Indiana Code has set a more restrictive threshold of \$150,000, informal procurement methods are permitted when the value of the procurement does not exceed \$150,000. This informal process allows for methods other than the formal bid process. The informal process is divided between two methods based on thresholds. Micro-purchases, typically for those purchases \$10,000 or under, and small purchase procedures for those purchases above the micro-purchase threshold but below the simplified acquisition threshold. Micro-purchases may be awarded without soliciting competitive price rate quotations. If small purchase procedures are used, then price or rate quotations must be obtained from an adequate number of qualified sources.

The Town did not obtain price or rate quotes for the two vendors identified and tested that were less than the simplified acquisition threshold of \$150,000 but exceeded the \$10,000 micro-purchase threshold. The micro-purchase threshold may be increased, but the Town did not provide documentation that the threshold had been increased. Documentation detailing the history of procurement, which must include the reason for the procurement method used, was not available for audit.

The lack of internal 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 200.320 states in part:

"The non-Federal entity must have and use documented procurement procedures, consistent with the standards of this section and §§ 200.317, 200.318, and 200.319 for any of the following methods of procurement used for the acquisition of property or services required under a Federal award or sub-award.

TOWN OF CAMBRIDGE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(a) *Informal procurement methods.* When the value of the procurement for property or services under a Federal award does not exceed the simplified acquisition threshold (SAT), as defined in § 200.1, or a lower threshold established by a non-Federal entity, formal procurement methods are not required. The non-Federal entity may use informal procurement methods to expedite the completion of its transactions and minimize the associated administrative burden and cost. The informal methods used for procurement of property or services at or below the SAT include: . . .

(2) *Small purchases –*

(i) *Small purchase procedures.* The acquisition of property or services, the aggregate dollar amount of which is higher than the micro-purchase threshold but does not exceed the simplified acquisition threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources as determined appropriate by the non-Federal entity. . . ."

Cause

The Town was unable to provide documentation to demonstrate it had properly procured services. The Town noted they were unaware professional services agreements for consultants were required to follow small purchase procurement guidelines.

Effect

Without the proper implementation of an effectively designed system of internal controls, the Town could not demonstrate it had obtained an adequate number of price or rate quotations prior to selecting a vendor. Therefore, the Town could have overpaid for the services obtained.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommend that management of the Town strengthen its system of internal controls to ensure that an adequate number of price or rate quotations are obtained for small purchases.

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.



TOWN OF CAMBRIDGE CITY

127 NORTH FOOTE STREET
CAMBRIDGE CITY, INDIANA 47327
PHONE 765-478-3522 • FAX 765-478-3832

CORRECTIVE ACTION PLAN

FINDING 2023-001

Finding Subject: Financial Transactions and Reporting

Summary of Finding:

The Town had not designed or implemented internal controls over the financial information entered into the Gateway. The Clerk-Treasurer uploaded the required information into Gateway without a documented oversight or review process in place to prevent, or detect and correct, errors on the AFR.

Due to the lack of effective internal controls, the financial statement presented for audit did not reflect all the financial activity of the Town. The financial statement did not include the relevant activity from the Bank of New York trust accounts for the Waterworks Revenue Bonds. During the audit period, the Indiana Finance Authority paid \$2,072,707 to the project contractors on behalf of the Town from the trust accounts. The Town did not post the receipt and disbursement transactions associated with the Bank of New York trust account to the Town's ledger nor was the activity reported in the AFR. As a result, receipts and disbursements reported in the Town's financial statement were understated by \$2,072,707.

Contact Person Responsible for Corrective Action: Sherry Ervin

Contact Phone Number and Email Address: 765-478-3522 cctownclerk@comcast.net

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

I have now created ledger sheets for the Bank of New York Mellon accounts and will reconcile monthly to ensure proper reporting of the Annual Financial Report and financial statement.

Anticipated Completion Date:

By year end 12/31/2024

Per Uniform Guidance:

2 CFR § 200.511(a) - "The auditee is responsible for follow-up and corrective action on all audit findings... The auditee must also prepare a corrective action plan for current year audit findings... The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS. "

2 CFR § 200.511(c) - "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons."



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CORRECTIVE ACTION PLAN

FINDING 2023-002

Finding Subject: Preparation of the Schedule of Expenditures of Federal Awards

Summary of Finding:

Due to the lack of internal controls, the SEFA presented for audit was inaccurate and not reflective of the federal activity of the Town's underlying records and contained the following errors:

- Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures were understated by \$400,035.
- COVID-19 Coronavirus State and Local Fiscal Recovery Funds expenditures were understated by \$15,000.
- Drinking Water State Revolving Fund (DWSRF) Cluster expenditures were understated by \$2,072,707.

Contact Person Responsible for Corrective Action: Sherry Ervin

Contact Phone Number and Email Address: 765-478-3522 cctownclerk@comcast.net

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

Auto adjustments were proposed and accepted by the Town and made to the SEFA presented in this report. I will keep better records of the Federal grants received for proper placement on my financial report.

Anticipated Completion Date:

By year end 12/31/2024



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CORRECTIVE ACTION PLAN

FINDING 2023-003

Finding Subject: Drinking Water State Revolving Fund (DWSRF) Cluster -Procurement

Summary of Finding:

The Town did not obtain price or rate quotes for the two vendors tested that were less than the simplified acquisition threshold of \$150,000 but exceeded the \$10,000 micro-purchase threshold. The micro-purchase threshold may be increased, but the Town did not provide documentation that the threshold had been increased. Documentation detailing the history of procurement, which must include the reason for the procurement method used, was not available for audit.

Contact Person Responsible for Corrective Action: Sherry Ervin

Contact Phone Number and Email Address: 765-478-3522 cctownclerk@comcast.net

Views of Responsible Officials:

We concur with the finding.

Description of Corrective Action Plan:

The Town will document in the minutes when there is only one (1) vendor available for the purchase of equipment

Anticipated Completion Date:

By year end 12/31/2024

OTHER REPORTS

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