

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CAMBRIDGE CITY

WAYNE COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED
09/20/2024

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Timely Recording	6
Annual Financial Report.....	6-8
Internal Controls over Financial Transactions and Reporting.....	8-9
Exit Conference	10

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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE TOWN OF CAMBRIDGE CITY, WAYNE COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Cambridge City (Town), for the period from January 1, 2023 to December 31, 2023. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with the Financial Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

August 29, 2024

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CLERK-TREASURER
TOWN OF CAMBRIDGE CITY

CLERK-TREASURER
TOWN OF CAMBRIDGE CITY
AUDIT RESULTS AND COMMENTS

TIMELY RECORDING

Condition and Context

Internal controls were not in place to ensure the Town recorded receipts and disbursements, each totaling \$2,072,707, to the SRFDW Construction BAN22 fund for 2023.

Criteria

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1.

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)

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. . . ."

ANNUAL FINANCIAL REPORT

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The Town had not established internal controls to detect or correct errors prior to submission. The financial information was prepared and submitted in Gateway by the Clerk-Treasurer without a review or approval process.

Financial Data

Due to the lack of effective internal controls, the financial statement presented in the Financial Statement Audit Report of the Town contained the following errors:

CLERK-TREASURER
TOWN OF CAMBRIDGE CITY
AUDIT RESULTS AND COMMENTS
(Continued)

- Receipts and disbursements for the SRFDW Construction BAN22 fund were both understated by \$2,072,702.
- Other immaterial differences were noted.

Adjustments were proposed, approved by the Town, and made to the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the Town.

Grants

The grant schedule entered annually into the AFR via Gateway, which was the source of the Schedule of Expenditures of Federal Awards (SEFA), contained the following errors:

- The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures were not included and, therefore, were understated by \$400,035.
- The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds expenditures were not included and, therefore, were understated by \$15,000.
- The Drinking Water State Revolving Fund (DWSRF) Cluster expenditures were not included and, therefore, were understated by \$2,072,707.

Adjustments were proposed, accepted by the Town, and made to the SEFA presented in the Federal Compliance Audit Report of the Town.

Leases and Debt

- The ending principal balance for the Waterworks Revenue Bonds of 2010 was understated by \$32,065.
- The principal due within one year for the Waterworks Revenue Bonds of 2010 was overstated by \$94,664.
- The ending principal balance for the Waterworks Revenue Bonds of 2022 was understated by \$2,516,783.
- The principal due within one year for the Waterworks Revenue Bonds of 2022 was understated by \$123,000.

Adjustments were proposed, accepted by the Town, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report of the Town.

CLERK-TREASURER
TOWN OF CAMBRIDGE CITY
AUDIT RESULTS AND COMMENTS
(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](#)."

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:

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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. . . ."

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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.

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 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 trust bank 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 each understated by \$2,072,707.

CLERK-TREASURER
TOWN OF CAMBRIDGE CITY
AUDIT RESULTS AND COMMENTS
(Continued)

Adjustments were proposed, accepted by the Town, and made to the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the Town.

Criteria

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

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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)

CLERK-TREASURER
TOWN OF CAMBRIDGE CITY
EXIT CONFERENCE

The contents of this report were discussed on August 29, 2024, with Sherry Ervin, Clerk-Treasurer; Jim McLane, President of the Town Council; and Gary Cole, Town Council member.