

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

TOWN OF PENDLETON

MADISON 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               | Willie Boles    | 01-01-23 to 12-31-24 |
| President of the Town Council | Marissa Skaggs  | 01-01-23 to 12-31-24 |
| Utility Office Manager        | Tracie Dodd     | 01-01-23 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 PENDLETON, MADISON 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 Pendleton (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 27, 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 item 2023-001, 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 item 2023-001.

***Town of Pendleton'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 27, 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 PENDLETON, MADISON COUNTY, INDIANA

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited the Town of Pendleton'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 items 2023-002 and 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 deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2023-002 and 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 27, 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 27, 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 PENDLETON  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2023

| Federal Grantor Agency<br>Cluster Title/Program Title/Project Title | Pass-Through Entity or Direct Grant  | Assistance<br>Listings<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Passed Through<br>to Subrecipient | Total<br>Federal Awards<br>Expended |
|---|--------------------------------------|----------------------------------|--|-----------------------------------|-------------------------------------|
| <u>Department of Transportation</u>                                 |                                      |                                  |  |                                   |                                     |
| Highway Planning and Construction                                   | Indiana Department of Transportation | 20.205                           |  |                                   |                                     |
| US 36 Pedestrian Connectivity                                       |                                      |                                  | 2001127  | \$ -                              | \$ 128,177                          |
| Pendleton Business Park   |                                      |                                  | 2001811  | -                                 | 2,480                               |
|   |                                      |                                  |  | <u>-</u>                          | <u>130,657</u>                      |
| Total - Highway Planning and Construction                           |                                      |                                  |  | -                                 | 130,657                             |
| Total - Department of Transportation                                |                                      |                                  |  | -                                 | 130,657                             |
| <u>Department of the Treasury</u>                                   |                                      |                                  |  |                                   |                                     |
| COVID-19 - Coronavirus State and Local Fiscal Recovery Funds        |                                      | 21.027                           |  |                                   |                                     |
| American Rescue Plan Act 2021 (ARPA)                                | Direct Grant                         |                                  | FY 2023  | -                                 | 264,293                             |
| State Water Infrastructure Fund                                     | Indiana Finance Authority            |                                  | TRSW222248   | -                                 | 633,643                             |
|   |                                      |                                  |  | <u>-</u>                          | <u>897,936</u>                      |
| Total - Coronavirus State and Local Fiscal Recovery Funds           |                                      |                                  |  | -                                 | 897,936                             |
| Total - Department of the Treasury                                  |                                      |                                  |  | -                                 | 897,936                             |
| Total federal awards expended                                       |                                      |                                  |  | <u>\$ -</u>                       | <u>\$ 1,028,593</u>                 |

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

TOWN OF PENDLETON  
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.

**Note 3. Coronavirus State and Local Fiscal Recovery Funds**

The Town was awarded a State Water Infrastructure and Transportation & Storm Water Grant Programs (SWIF/TNSW) grant from the Indiana Finance Authority (IFA). The funding source for the SWIF/TNSW grant awards is the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) grant. As the IFA maintained custody of the grant funds and disbursed them on the Town's behalf, some of the activity for the SLFRF grant that is presented on the SEFA is not presented as receipts and disbursements in the financial statement of the Town.

TOWN OF PENDLETON  
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  |
| Noncompliance material to financial statement noted? | yes   |

Federal Awards:

|  |      |
|--|------|
| Internal control over major program:   |      |
| Material weaknesses identified?  | yes  |
| Significant deficiencies identified?   | none |
| 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:

| Assistance Listings Number | Name of Federal Program or Cluster                           | Opinion Issued |
|----------------------------|--|----------------|
| 21.027                     | COVID-19 - Coronavirus State and Local Fiscal Recovery Funds | Unmodified     |

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

|  |    |
|--|----|
| Auditee qualified as low-risk auditee? | no |
|--|----|

**Section II - Financial Statement Findings**

**FINDING 2023-001**

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

*Condition and Context*

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

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

TOWN OF PENDLETON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Although the Town's consultant prepared the SEFA and the Clerk-Treasurer or Town Manager reviewed the SEFA by comparing it to the grant files, the internal control was not effective and did not detect and allow correction of errors prior to submission.

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

- The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds grant was omitted, which understated expenditures by \$897,936.
- The Highway Planning and Construction grant expenditures were overstated by \$282,465, in total.

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

*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. . . ."

TOWN OF PENDLETON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2 CFR 200.510(b) states:

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

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

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. . . .

TOWN OF PENDLETON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies. The Town did not add grant activity related to its State and Local Fiscal Recovery Funds fund award from the Indiana Finance Authority to the SEFA as they were unaware that this award should be added to the Town's SEFA. In addition, a state grant was included within the Highway Planning and Construction grant because they were unaware that state grants were not to be included on the SEFA.

*Effect*

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

*Views of Responsible Officials*

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

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

**FINDING 2023-002**

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Suspension and Debarment  
Federal Agency: Department of the Treasury  
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds  
Assistance Listings Number: 21.027  
Federal Award Number and Year (or Other Identifying Number): FY 2023  
Compliance Requirement: Procurement and Suspension and Debarment  
Audit Findings: Material Weakness, Other Matters

*Condition and Context*

*Suspension and Debarment*

Prior to entering into subawards and covered transactions with State and Local Fiscal Recovery Funds (SLFRF), recipients are required to verify that such contractors and subrecipients are not suspended, debarred, or otherwise excluded. "Covered transactions" include, but are not limited to, contracts for goods and services awarded under a nonprocurement transaction (i.e., grant agreement) that are expected to equal or exceed \$25,000. The verification is to be done by checking the Excluded Parties List System (EPLS), collecting a certification from that person, or adding a clause or condition to the covered transaction with that person. Due to the U.S. Department of the Treasury's (Treasury) determination that the revenue loss eligible use category does not give rise to subawards, the Town was only required to comply with suspension and debarment requirements related to covered transactions.

TOWN OF PENDLETON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Upon inquiry of the Town, in order to review the procedures in place for verifying that an entity with which it plans to enter into a covered transaction is not suspended, debarred, or otherwise excluded, the Town explained they were aware of the suspension and debarment requirements related to the SLFRF awards; however, the Town did not retain documentation of SAM.gov checks nor was a clause always included in a contract. A population of four covered transactions for goods or services, totaling \$720,504, that equaled or exceeded \$25,000 paid from SLFRF funds during the audit period was identified. A sample of two transactions, totaling \$666,643, was selected for testing. For one of the two transactions, the Town did not verify the vendor's suspension and debarment status prior to payment.

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). . . ."

31 CFR 19.300 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 do business is not excluded or disqualified. You do this by:

- (a) Checking the *EPLS*; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person."

*Cause*

The Town was unable to provide documentation to demonstrate they checked SAM.gov to verify the contractor was not suspended or debarred. Although the Town verified the contractor's suspension and debarment status, no documentation was retained to document the search or results.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, the Town cannot ensure the vendors paid with federal funds are eligible to participate in federal programs. Any program funds the Town used to pay vendors that have been suspended or debarred would be unallowable, and the funding agency could potentially recover them.

TOWN OF PENDLETON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Town strengthen its system of internal controls to ensure that all vendors that are paid \$25,000 or more, all or in part with federal funds, are not suspended or debarred from participating in federal programs before entering into any covered transactions. In addition, we recommended strengthening policies and procedures to ensure appropriate supporting documentation for federal programs is retained to be presented for audit.

*Views of Responsible Officials*

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

**FINDING 2023-003**

Subject: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Reporting  
Federal Agency: Department of the Treasury  
Federal Program: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds  
Assistance Listings Number: 21.027  
Federal Award Number and Year (or Other Identifying Number): FY 2023  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*Condition and Context*

Recipients are required to submit quarterly or annually Project and Expenditure (P&E) reports to the U.S. Department of the Treasury (Treasury). The reporting periods, as well as the respective due dates, are based upon type of recipient and its population, as well as the recipient's allocation amount. Information to be reported includes projects funded, expenditures, and contracts for the appropriate reporting period.

The Town was classified as a Non-Entitlement Unit with a population below 250,000 residents that are allocated less than \$10 million in Coronavirus State and Local Fiscal Recovery Funds (SLFRF). As such, the Town's P&E report, covering the period from April 1, 2022 to March 31, 2023, was required to be submitted to the Treasury by April 30, 2023.

The Town timely submitted one P&E report during the audit period; however, the report was submitted without a review or oversight process in place to prevent, or detect and correct, errors. As a result, errors in reporting were identified. The Town reported current expenditures of \$33,325, which did not agree with the accounting records.

The lack of internal controls and noncompliance were isolated to the one annual P&E report.

TOWN OF PENDLETON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*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). . . ."

Coronavirus State and Local Fiscal Recovery Funds Compliance and Reporting Guidance, page 10, states in part:

". . . **10. Reporting.** All recipients of federal funds must complete financial, performance, and compliance reporting as required and outlined in Part 2 of this guidance. Expenditures may be reported on a cash or accrual basis, as long as the methodology is disclosed and consistently applied. Reporting must be consistent with the definition of expenditures pursuant to 2 CFR 200.1. Your organization should appropriately maintain accounting records for compiling and reporting accurate, compliant financial data, in accordance with appropriate accounting standards and principles. . . ."

31 CFR 35.4(c) states in part: "*Reporting and requests for other information.* During the period of performance, recipients shall provide to the Secretary periodic reports providing detailed accounting of the uses of funds, . . ."

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. . . ."

TOWN OF PENDLETON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

A proper system of internal controls over P&E reports was not implemented by the management of the Town to ensure that complete and accurate information related to the SLFRF awards was provided to the Treasury. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies. The Town incorrectly reported the current expenditures due to misunderstanding the line-item requirement.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As such, errors, as identified in the *Condition and Context*, occurred and inaccurate information was provided to the Treasury.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the Town. In addition, not meeting the SLFRF reporting requirements increases the likelihood that the public will not have access to transparent and accurate information regarding expenditures of federal awards.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that management of the Town design and implement a proper system of internal controls that would provide for segregation of duties to ensure appropriate reviews, approvals, and oversight are taking place. Additionally, management should develop policies and procedures to ensure that the Town provides the Treasury with complete and accurate information for the P&E report.

*Views of Responsible Officials*

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

AUDITEE-PREPARED DOCUMENT

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



## CORRECTIVE ACTION PLAN

### Finding 2023-001

Contact Person Responsible for the Corrective Action: Willie Boles  
Contact Phone Number: 765-778-7937

Views of the Responsible Official:

We concur with the findings.

Description of Corrective Action Plan:

1. Before the close of the year, the clerk's office will conduct a meeting with the plan department staff on the grants that have been awarded and that will be included in the Schedule of Expenditures of Federal Awards (SEFA).
2. A grant summary sheet will be reviewed and signed by both staff members in the plan department and the clerk treasurer's office at the end of the year to have an accurate accounting of all federal grant projects throughout the year.

Anticipated Completion Date: March 1st, 2025



Willie Boles, Clerk-Treasurer



## CORRECTIVE ACTION PLAN

### Finding 2023-002

Contact Person Responsible for the Corrective Action: Willie Boles  
Contact Phone Number: 765-778-7937

Views of the Responsible Official:

We concur with the findings.

Description of Corrective Action Plan:

1. The Town passed Resolution R24-13, Procurement of Federal Grants/Funds, outlining the procedures to follow when procuring purchases made with federal funds. This includes the form and informal procurement method.
2. Within Resolution R24-13, it states that the Town will check for Suspension and Debarment for any vendor expenditures over \$25,000.
3. The Town passed Resolution R24-12, cost Principles for Spending Federal Funds, for the efficient and effective administration of future grant funds.

Anticipated Completion Date: August 26<sup>th</sup> 2024

A handwritten signature in blue ink, appearing to read "Willie Boles", written over a horizontal line.

Willie Boles, Clerk-Treasurer



## CORRECTIVE ACTION PLAN

Finding 2023-003

Contact Person Responsible for the Corrective Action: Willie Boles  
Contact Phone Number: 765-778-7937

Views of the Responsible Official:

We concur with the findings.

Description of Corrective Action Plan:

1. Prior to the submission of the annual P&E report, two deputy clerk treasurers will each calculate the totals within the project codes and review any variances in totals.

Anticipated Completion Date: April 30<sup>th</sup>, 2025



Willie Boles, Clerk-Treasurer

## 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/>.