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# 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, 2012 to December 31, 2017

FILED
12/14/2018

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SCHEDULE OF OFFICIALS

| Office | Official | Term |
|---|---|---|
| Clerk-Treasurer | Sherry Ervin | 01-01-12 to 12-31-19 |
| President of the Town Council | Maynard Fowler | 01-01-12 to 12-31-14 |
| | Mark McCarty | 01-01-15 to 12-31-16 |
| | Jeff Mardis | 01-01-17 to 12-31-18 |

**STATE OF INDIANA**
**AN EQUAL OPPORTUNITY EMPLOYER**

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

This report is supplemental to our audit report of the Town of Cambridge City (Town), for the period from January 1, 2012 to December 31, 2017. 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 our Financial Statements Audit Report of the Town, which provides our opinion on the Town's financial statements. 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, was not verified for accuracy.

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

October 30, 2018

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CLERK-TREASURER
TOWN OF CAMBRIDGE CITY

CLERK-TREASURER
TOWN OF CAMBRIDGE CITY
AUDIT RESULT AND COMMENT

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

There were deficiencies in the internal control system of the Town related to financial transactions and reporting.

Lack of Segregation of Duties: The Town had not separated incompatible activities related to cash, receipts, payroll disbursements, and financial close and reporting. The Clerk-Treasurer was primarily responsible for collecting and recording Town receipts, completing the bank reconcilements, and preparing and submitting the Annual Financial Report (AFR) into the Indiana Gateway for Government Units financial reporting system without a system of oversight, review or approval. Payroll disbursements were prepared and approved by the Clerk-Treasurer; however, they were not presented to the Town Council for approval. The Utility Clerk was primarily responsible for collecting, recording, and depositing Water Utility receipts and depositing Town and Water Utility receipts without a system of oversight, review or approval.

The Town's lack of an effective internal control system allowed the following errors to remain undetected and uncorrected:

- Four funds were omitted from the 2013, 2014, 2015, 2016, and 2017 AFRs, which understated receipts and disbursements by $416,263 and $409,346, respectively.

- One fund was reported twice in the 2012, 2013, 2014, 2015, and 2016 AFRs resulting in an overstatement of receipts by $518,070.

- The disbursements from one fund were not reported in the 2012, 2013, 2014, 2015, 2016, and 2017 AFRs resulting in an understatement of disbursements by $575,530.

- The receipts and disbursements of two funds were under reported in the 2016 and 2017 AFRs resulting in an understatement of receipts and disbursements by $20,628 and $17,072, respectively.

Audit adjustments were proposed, accepted by the Town, and made to the financial statements.

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. . . ."

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

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

OFFICIAL RESPONSE

10-30-2018

We agree with the above audit result and comment and will implement a procedure going forward to comply with our Internal Controls Ordinance.

Sincerely,

Sherry Ervin, Clerk-Treasurer
Town of Cambridge City, Indiana

CLERK-TREASURER
TOWN OF CAMBRIDGE CITY
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2018, with Sherry Ervin, Clerk-Treasurer, and Jeff Mardis, President of the Town Council.