

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF PENDLETON

MADISON COUNTY, INDIANA

January 1, 2017 to December 31, 2018



FILED
10/18/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Virgil Mabrey (Vacant) Matt Roberts	01-01-17 to 11-17-18 11-18-18 to 12-17-18 12-18-18 to 12-31-19
President of the Town Council	Robert Jones Jessica Smith	01-01-17 to 12-31-18 01-01-19 to 12-31-19
Town Manager	Tim McClintick	01-01-17 to 12-31-19
Utility Office Manager	Jo DeWitt Tracie Dodd	01-01-17 to 01-11-19 01-12-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF PENDLETON, MADISON COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Pendleton (Town), for the period from January 1, 2017 to December 31, 2018. 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 Statement Audit Report of the Town, which provides our opinion 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 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

September 10, 2019

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CLERK-TREASURER
TOWN OF PENDLETON

CLERK-TREASURER
TOWN OF PENDLETON
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, payroll disbursements, and financial reporting. The failure to establish these controls enabled material misstatements to occur and remain undetected. The lack of internal controls was a systemic issue throughout the audit period.

Cash and Investments

Reconcilements of the bank and ledger activity were completed by one individual without a documented oversight, review, or approval process in place to ensure their accuracy.

Receipts

Receipts were issued, recorded, and deposited without a documented oversight, review, or approval process in place to ensure their accuracy and classification to the proper funds.

Payroll Disbursements

Payroll was processed by one individual without a documented oversight, review, or approval process in place to ensure employees were paid the correct amounts from the proper funds.

Financial Reporting

One individual entered the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source for the Annual Financial Report (AFR) and financial statement. Although a documented review process was in place over the submission of the AFR, the process was not effective in detecting errors in the AFR and financial statement. Overstatements of both receipts and disbursements, due to the inclusion of bank-to-bank transfers in the AFR and financial statement, totaled \$5,025,730 and \$9,110,125 in 2017 and 2018, respectively. Adjustments to the financial statement were proposed and approved by management.

CLERK-TREASURER
TOWN OF PENDLETON
AUDIT RESULT AND COMMENT
(Continued)

Criteria

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

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

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

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

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](#)."

CLERK-TREASURER
TOWN OF PENDLETON
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2019, with Matt Roberts, Clerk-Treasurer; Tim McClintick, Town Manager; Linda Kreigh, Deputy Clerk-Treasurer; and Jessica Smith, President of the Town Council.