

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF KENDALLVILLE

NOBLE COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED
11/19/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sheryl J. Hanes	01-01-12 to 12-31-19
Mayor	W. SuzAnne Handshoe	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	James Dazey	01-01-15 to 12-31-19
President Pro Tempore of the Common Council	Regan L. Ford James Dazey	01-01-15 to 12-31-15 01-01-16 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF KENDALLVILLE, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Kendallville (City), for the period from January 1, 2015 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 City. It should be read in conjunction with our Financial Statements Audit Report of the City, which provides our opinion on the City'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 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.

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

October 7, 2019

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CLERK-TREASURER
CITY OF KENDALLVILLE

CLERK-TREASURER
CITY OF KENDALLVILLE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER ANNUAL FINANCIAL REPORT

The City did not have a proper system of internal control in place over financial close and reporting to prevent, or detect and correct, errors on the financial statement. The Clerk-Treasurer prepared and submitted the Annual Financial Report (AFR) into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statements. There was no evidence of an oversight, review, or approval process to ensure that the information was accurate prior to submission.

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. . . ."

SUPPORTING DOCUMENTATION

In April 2016, the Mayor was on medical leave and the Clerk-Treasurer received an email from the Mayor's email address stating that the City needed to wire \$48,500 to a vendor for services performed. The Clerk-Treasurer immediately did as requested in the email from the Mayor, without following proper payment procedures. After a discussion with the Mayor it was determined that the Mayor's email had become compromised as the Mayor did not make a request to wire funds to a vendor. Upon discovery of this situation the Clerk-Treasurer contacted the Police department, the Indiana State Board of Accounts, and their bank. The City was able to recover \$40,585 of the original \$48,500 amount that was wired.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

City of Kendallville

234 S. Main Street

Kendallville, IN 46755-1795

www.kendallville-in.org

"OFFICIAL RESPONSE"

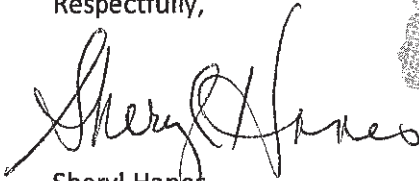
October 8, 2019

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Indianapolis, IN 46204-2765

In response to the internal controls for the fraud, case that happened April 2016. The City of Kendallville has put in place controls as follows:

No e-mail or text will be acceptable for money wires or cash transaction. Only in person or by phone conversation with code word.

Respectfully,



Sheryl Hanes
Clerk Treasurer
City of Kendallville

CLERK-TREASURER
CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on October 7, 2019, with Sheryl J. Hanes, Clerk-Treasurer; Kathren R. Ritchie, Accounts Receivable Clerk; W. SuzAnne Handshoe, Mayor; Regan L. Ford, Common Council member; and Steven T. Clouse, Common Council member.