

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, 2019 to December 31, 2020



FILED

12/07/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Matt Roberts Willie Boles	01-01-19 to 12-31-19 01-01-20 to 12-31-21
President of the Town Council	Jessica Smith Chet Babb	01-01-19 to 12-31-19 01-01-20 to 12-31-21
Utility Office Manager	Jo DeWitt Tracy Dodd	01-01-19 to 01-11-19 01-12-19 to 12-31-21



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, 2019 to December 31, 2020. 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 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.

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

November 22, 2021

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CLERK-TREASURER
TOWN OF PENDLETON

CLERK-TREASURER
TOWN OF PENDLETON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

This is a repeat Audit Result and Comment from the immediately prior Report B53557.

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 receipts and financial reporting. The lack of internal controls was a systemic issue throughout the audit period.

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.

Final Close and Reporting

The Town had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Annual Financial Report (AFR) and financial statement.

The Town failed to properly document the review of the financial information prepared and submitted in Gateway for the AFR. Although inquiry revealed that one employee prepared the supporting worksheets and records used to prepare the AFR and another employee entered the information and submitted the report, there was no documentation that the AFR was reviewed prior to submission.

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. . . ."

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

ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Condition and Context

The Town did not properly account for the Coronavirus Relief Fund (CRF) monies in accordance with State Examiner Directive 2020-3 (Directive).

The Town did not follow one of the three defined Frameworks as outlined in the Directive for its non-payroll related expenditures. The reimbursements passed through Indiana Finance Authority (IFA) for non-payroll expenditures were recorded in the individual funds from which the non-payroll related expenditures were originally recorded instead of the designated CARES CRF fund.

The noncompliance was isolated to non-payroll expenses, as the payroll reimbursement was accounted for as outlined in the Directive.

Criteria

Reimbursed Costs Other than Public Health and Safety Payroll Costs

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Framework Two. If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

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

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.** (State Examiner Directive 2020-3)

CAPITAL ASSETS

Condition and Context

A detailed capital asset listing was not presented for inspection and there was no evidence provided that would indicate that the Town has taken a physical inventory of capital assets within the last two years as required.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detailed listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town certified on the Indiana Gateway for Government Units financial reporting system that appropriate personnel were trained on internal control standards adopted by the Town. However, review of the records revealed that not all employees whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity received the training.

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 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 November 22, 2021, with Willie Boles, Clerk-Treasurer; Karen Parkinson, Deputy Clerk-Treasurer; Chet Babb, President of the Town Council; Robert Jones, Town Council member; Marissa Skaggs, Town Council member; and Scott Reske, Town Manager.

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TOWN COUNCIL
TOWN OF PENDLETON

TOWN COUNCIL
TOWN OF PENDLETON
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The Town did not provide audit evidence that all of the appropriate personnel received the required training on internal control standards. Review of the records revealed that not all employees whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity received the training.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF PENDLETON
EXIT CONFERENCE

The contents of this report were discussed on November 22, 2021, with Willie Boles, Clerk-Treasurer; Karen Parkinson, Deputy Clerk-Treasurer; Chet Babb, President of the Town Council; Robert Jones, Town Council member; Marissa Skaggs, Town Council member; and Scott Reske, Town Manager.