

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

PETERSBURG/PIKE COUNTY REVOLVING
LOAN FUND ADMINISTRATION BOARD
PIKE COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED
07/09/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Loan Coordinator	Paul Lake	01-01-12 to 09-30-14
	(Vacant)	10-01-14 to 01-19-15
	Tammy Selby	01-20-15 to 12-31-15
President of the Board	Marvin Stratton	01-01-12 to 04-17-13
	Carla Willis	04-18-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE PETERSBURG/PIKE COUNTY REVOLVING
LOAN FUND ADMINISTRATION BOARD, PIKE COUNTY, INDIANA

This report is supplemental to our audit report of the Petersburg/Pike County Revolving Loan Fund Administration Board (Board), for the period from January 1, 2012 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Board. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Board, which provides our opinions on the Board's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings incorporated within this report, were not verified for accuracy.

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

May 20, 2015

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
FEDERAL FINDINGS

FINDING 2013-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Board should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following error: The calculation of the Economic Adjustment Assistance program expenditures for both years were inaccurate. Audit adjustments were proposed, accepted by the Board, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
FEDERAL FINDINGS
(Continued)

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Board related to financial transactions and reporting.

- 1. Lack of Segregation of Duties: The Board has not separated incompatible activities related to receipts, disbursements, and cash and investments. One person is solely responsible for all aspects of receipting, disbursing, and reconciling the bank accounts with no oversight or review process. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
- 2. Monitoring of Controls: An evaluation of the Board's system of internal control has not been conducted. The failure to monitor the internal control system places the Board at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the Board has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the Board to monitor and assess the quality of the system of internal control.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

FINDING 2013-003 - INTERNAL CONTROL OVER THE ECONOMIC ADJUSTMENT ASSISTANCE PROGRAM

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number: 063902634
Pass-Through Entity: Direct Grant

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
FEDERAL FINDINGS
(Continued)

Management of the Board has not established an effective internal control system, which would include segregation of duties related to the grant agreement and the following compliance requirements: Allowable Activities, Allowable Costs, Program Income, Reporting, and Special Tests and Provisions.

No controls could be identified for any compliance requirement. One person is solely responsible for all aspects of all applicable compliance requirements with no review or oversight process.

The failure to establish an effective internal control system places the Board at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the Board.

We recommended that the Board's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

FINDING 2013-004 - REPORTING

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number: 063902634
Pass-Through Entity: Direct Grant

Special Report ED-209 is required to be submitted to the Economic Development Agency (EDA) semiannually. Though all required reports for the audit period were submitted, only four were available for audit.

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
FEDERAL FINDINGS
(Continued)

Much of the ED-209 Report is dependent upon cumulative figures arising from activity and calculations from prior periods. The grant records did not contain documentation to support the cumulative amounts from prior periods reported on the ED-209 reports. These cumulative amounts factor into current reporting period key figures such as RLF Income Earned to Date, Status of RLF Capital, and Current Balance Available for New Loans, as well as the calculation of Capital Utilization. Due to the lack of cumulative records containing this information, we were unable to verify the accuracy of the reports. Additionally, the reports indicate that Program Specific Audits have been performed and filed on time with the Federal Audit Clearinghouse. However, no such audits have occurred, nor been submitted to the Federal Audit Clearinghouse.

15 CFR 24.20(b) states in part:

- "(1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

Failure to maintain records that accumulate data for the required reports hinders the Board's ability to adequately prepare and monitor reports. Noncompliance with the grant agreement or the reporting compliance requirements could result in the loss of federal funds to the Board.

We recommended the Board maintain grant records that adequately identify and document data required to prepare the ED-209 reports.

FINDING 2013-005 - SPECIAL TESTS AND PROVISIONS - LOAN REQUIREMENTS

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number: 063902634
Pass-Through Entity: Direct Grant

Loan files for loans that were active during the audit period do not contain the minimum standard loan documentation nor has the Board certified that these documents were in place and had been reviewed by its legal counsel.

Of the nine active loans during the audit period, there were two loans for which no loan file could be located. Of the remaining seven, one did not have a loan application in the file, seven did not have a loan agreement in the file, seven did not have a copy of the Board meeting minutes approving the RLF loan in the file, three did not have a promissory note in the file, three did not have a security agreement in the file, one file did not have a deed of trust or mortgage, nor enough information in the file to determine if one was applicable, five files either did not have an agreement of prior lien holder or enough information to determine if one was applicable, and five files did not have a signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed.

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
FEDERAL FINDINGS
(Continued)

13 CFR 307.15 (b)(2) states:

"Prior to the disbursement of any EDA funds, the RLF Recipient shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the Grant and applicable State and local law. The standard loan documents must include, at a minimum, the following:

- (i) Loan application;
- (ii) Loan agreement;
- (iii) Board of directors' meeting minutes approving the RLF loan;
- (iv) Promissory note;
- (v) Security agreement(s);
- (vi) Deed of trust or mortgage (as applicable);
- (vii) Agreement of prior lien holder (as applicable); and
- (viii) Signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. EDA will permit the RLF Recipient to accept alternate documentation only if such documentation is allowed in the Recipient's EDA-approved RLF Plan."

Failure to secure and certify the minimum standard loan documents prior to the lending of EDA funds could result in the improper lending of funds. Noncompliance could result in difficulty collecting on defaulted loans and the loss of federal funds to the Board.

We recommended that the Board develop a system for ensuring that prior to the disbursement of loan funds, the minimum required loan documents are in place and have been reviewed by legal counsel for adequacy and compliance with the terms and conditions of the grant and state and local laws, and that all documents are retained for audit of the program.

***FINDING 2013-006 - SPECIAL TESTS AND PROVISIONS - INCREASES
TO RLF CAPITAL BASE AND CAPITAL UTILIZATION***

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number: 063902634
Pass-Through Entity: Direct Grant

RLF Capital Base could not be verified. Therefore, it could not be determined if the Board was in compliance with the capital utilization standard or if the proper amount of excess funds had been sequestered. The federal portion of the interest earned on the sequestered funds was not remitted in a timely manner.

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
FEDERAL FINDINGS
(Continued)

Because the Board does not keep cumulative records to support the amount reported as the RLF Capital Base, and because they do not retain communications concerning sequestration from the EDA, the exact amount that should be sequestered cannot be determined, nor verified against directives from EDA. Additionally, the ledger for the Fund - EDA No 06-39-02634-01 Sequestered Account has not been posted since May 31, 2012, and the federal portion of the interest earned on the sequestered fund was not remitted at all during 2012 and only once during 2013.

13 CFR 307.16(c) states in part:

"Capital utilization standard.

- (1) During the Revolving Phase, RLF Recipients must manage their repayment and lending schedules to provide that at all times at least 75 percent of the RLF Capital is loaned or committed. The following exceptions apply: . . .
 - (ii) FEDA may require an RLF Recipient with an RLF Capital base in excess of \$4 million to adopt a Plan that maintains a proportionately higher percentage of its funds loaned.
- (2) When the percentage of loaned RLF Capital falls below the capital utilization standard, the dollar amount of the RLF funds equivalent to the difference between the actual percentage of RLF Capital loaned and the capital utilization standard is referred to as 'excess funds.'
 - (i) *Sequestration of excess funds.* If the RLF Recipient fails to satisfy the capital utilization standard for two consecutive Reporting Periods, EDA may require the RLF Recipient to deposit excess funds in an interest-bearing account. The portion of interest earned on the account holding excess funds attributable to the Federal Share (as defined in §314.5 of this chapter) of the RLF Grant shall be remitted to the U.S. Treasury. The RLF Recipient must obtain EDA's written authorization to withdraw any sequestered funds."

U.S. Department of Commerce Economic Development Administration Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions (May 1, 2013), RLF RECIPIENTS' MANAGEMENT AND ADMINISTRATIVE REQUIREMENTS, Chapter E. Effective Utilization of Revolving Loan Funds, Section 3. Remittance of Interest on Sequestered Funds states in part: "The portion of the interest earned on the account holding sequestered funds that is attributable to the EDA share of the Award must be remitted semi-annually to EDA within 30 days of the end of each semi-annual Reporting Period . . ."

Failure to maintain adequate cumulative records concerning the RLF Capital Base could result in inaccurate RLF reporting and in not sequestering the proper amount of funds. Noncompliance with the above listed requirements could result in the loss of federal funds to the Board.

We recommended that the Board maintain grant records to support the RLF Capital Base and to determine if the proper amount of excess funds are sequestered. We also recommended that interest earned on the Sequestered funds be remitted in a timely manner.

PIKE REVOLVING LOAN BOARD
704 E MAIN STREET
PETERSBURG, IN 47567

CORRECTIVE ACTION PLAN

FINDING 2013-001

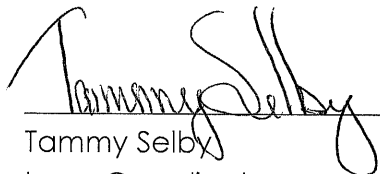
ESTIMATED COMPLETION DATE: Before 12/31/2015

AUDITEE CONTACT PERSON: Tammy Selby

PHONE NUMBER OF CONTACT PERSON: 812-354-8511

Description of Corrective Action Plan:

More time needs to be given on the Federal Awards. A schedule of expenditures should be drawn up which lists the amount of awards for each and its CFDA number or a number that is indentified with the award.

A handwritten signature in black ink, appearing to read "Tammy Selby", is written over a horizontal line.

Tammy Selby
Loan Coordinator
05/20/2015

PIKE REVOLVING LOAN BOARD
704 E MAIN STREET
PETERSBURG, IN 47567

CORRECTIVE ACTION PLAN

FINDING 2013-002

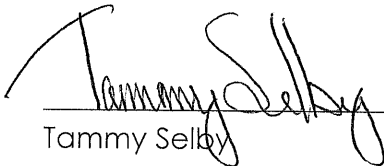
ESTIMATED COMPLETION DATE: Before 06/01/2015

AUDITEE CONTACT PERSON: Tammy Selby

PHONE NUMBER OF CONTACT PERSON: 812-354-8511

Description of Corrective Action Plan:

Reports will be made up each month and reported to the Board for their approval. An approval sheet will be attached for each signature. Each report that is to be done will be constructed and then approved by the Board also.

A handwritten signature in black ink, appearing to read "Tammy Selby", is written over a horizontal line.

Tammy Selby
Loan Coordinator
05/20/2015

PIKE REVOLVING LOAN BOARD
704 E MAIN STREET
PETERSBURG, IN 47567

CORRECTIVE ACTION PLAN

FINDING 2013-003

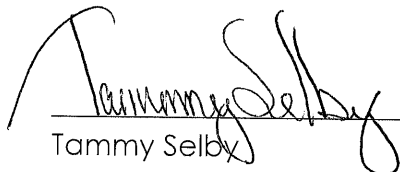
ESTIMATED COMPLETION DATE: Before 06/01/2015

AUDITEE CONTACT PERSON: Tammy Selby

PHONE NUMBER OF CONTACT PERSON: 812-354-8511

Description of Corrective Action Plan:

Monthly reports will be drawn up for approval of the Board. Also approval sheets will be made for each of the Board members to sign showing their approval. These will be done monthly. This is accordance with the grant agreements and requirements.

A handwritten signature in black ink, appearing to read 'Tammy Selby', is written over a horizontal line.

Tammy Selby
Loan Coordinator
05/20/2015

PIKE REVOLVING LOAN BOARD
704 E MAIN STREET
PETERSBURG, IN 47567

CORRECTIVE ACTION PLAN

FINDING 2013-004

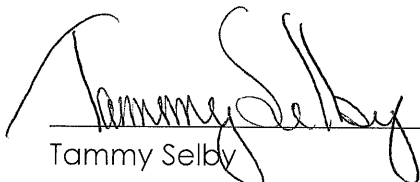
ESTIMATED COMPLETION DATE: Before 06/30/2015

AUDITEE CONTACT PERSON: Tammy Selby

PHONE NUMBER OF CONTACT PERSON: 812-354-8511

Description of Corrective Action Plan:

Accurate reporting and activities will be established and reported to the Board to adequately report the ED-209

A handwritten signature in black ink, appearing to read "Tammy Selby", is written over a horizontal line.

Tammy Selby
Loan Coordinator

05/20/2015

PIKE REVOLVING LOAN BOARD
704 E MAIN STREET
PETERSBURG, IN 47567

CORRECTIVE ACTION PLAN

FINDING 2013-005

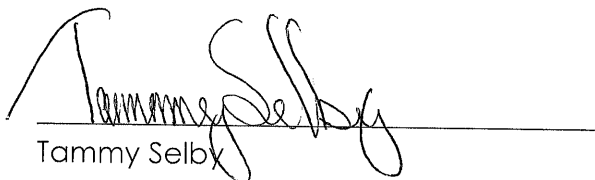
ESTIMATED COMPLETION DATE: Before 06/30/2015

AUDITEE CONTACT PERSON: Tammy Selby

PHONE NUMBER OF CONTACT PERSON: 812-354-8511

Description of Corrective Action Plan:

Loans will all be kept in their loan files. All should be kept together for audit purposes. All minutes should also be approved and kept in their files for each meeting. These files will be reviewed by the Board to make sure it is all in place.

A handwritten signature in black ink, appearing to read 'Tammy Selby', is written over a horizontal line.

Tammy Selby
Loan Coordinator
05/20/2015

PIKE REVOLVING LOAN BOARD
704 E MAIN STREET
PETERSBURG, IN 47567

CORRECTIVE ACTION PLAN

FINDING 2013-006

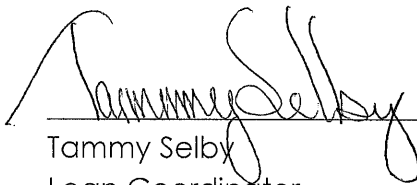
ESTIMATED COMPLETION DATE: Before 12/31/2015

AUDITEE CONTACT PERSON: Tammy Selby

PHONE NUMBER OF CONTACT PERSON: 812-354-8511

Description of Corrective Action Plan:

Cumulative records need to be kept to support the amount reported as the RLF Capital base of excess funds that had been sequestered. This needs to be remitted in a timely manner. This also will be reviewed by the Board.



Tammy Selby
Loan Coordinator
05/20/2015

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The Annual Financial Report for 2012 was not filed electronically until April 22, 2013, which was 52 days after the due date.

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."

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the Sequestered Account fund balance to the bank account balance were not presented for audit for nineteen months during the audit period. Depository reconciliations of the Loan Fund balance to the bank account balance were not presented for audit for six months during the audit period.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

CONDITION OF RECORDS

Financial records presented for audit for both the Loan and Sequestered Account funds were incomplete or inaccurate.

Some of the deficiencies include:

1. No activity has been posted in the ledger for the Sequestered Account fund since May 31, 2012.
2. No documentation for disbursements from either fund was retained for audit.

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
AUDIT RESULTS AND COMMENTS
(Continued)

3. No cumulative records of loan activity such as loans made, loans defaulted, or loan fees, interest, or principal payments received are maintained. Loan payment records consist solely of amortization schedules with inconsistent and incomplete posting of payments noted on the schedules. These schedules must be searched out in each loan file, making the completeness and accuracy of accounts receivable principal and interest balances difficult to determine and verify. Inconsistent and incomplete recordkeeping for the loans has resulted in incorrect final payments for two loans that were paid off during the audit period. The final payment on the loan for PC-1 Stop was overpaid by \$820, while the final payment on the loan for Onyett Fabricators, Inc., was underpaid by \$3,836.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

RECEIPT ISSUANCE AND DEPOSITS

We conducted a test designed to verify that receipts were issued at the time the transactions occurred and that deposits were made within one business day following the receipt of funds. Our test of these procedures found that receipts for loan payments were only periodically issued and recorded. Receipts were issued and posted on the dates that deposits were made, rather than at the time of the receipt of payments. In one instance, receipts for loan payments received in November 2012 were not issued, posted, or deposited until December 2012.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Indiana Code 5-13-6-1(c) states in part:

" . . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . . "

PETERSBURG/PIKE COUNTY REVOLVING LOAN FUND ADMINISTRATION BOARD
EXIT CONFERENCE

The contents of this report were discussed on May 20, 2015, with Tammy Selby, Loan Coordinator; Cynthia Gaskins, Board Secretary; and R.C. Klipsch, Board member.