

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF FRENCH LICK

ORANGE COUNTY, INDIANA

January 1, 2013 to December 31, 2014



FILED
04/07/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2014-001 - Internal Controls Over Financial Transactions and Reporting.....	6
Finding 2014-003 - Preparation of the Schedule of Expenditures of Federal Awards	6
Corrective Action Plans	7-8
Audit Results and Comments:	
Appropriations	9
Penalties, Interest, and Other Charges.....	9
Errors on Claims	9-10
Collection of Amounts Due	10
Exit Conference	11
Town Council:	
Audit Results and Comments:	
Appropriations	14
Travel Policy.....	14
Exit Conference	15
Revolving Loan:	
Federal Findings:	
Finding 2014-002 - Internal Controls Over Revolving Loan Funds	18
Finding 2014-004 - Activities Allowed or Unallowed.....	18-19
Finding 2014-005 - Allowable Costs/Cost Principles	19-20
Finding 2014-006 - Program Income	20-21
Finding 2014-007 - Reporting	21-22
Finding 2014-008 - Special Tests and Provisions	23-24
Corrective Action Plans	25-30
Exit Conference	31
Board of Aviation:	
Federal Findings:	
Finding 2014-009 - Cash Management	34
Finding 2014-010 - Davis-Bacon Act, Equipment and Real Property Management, and Period of Availability.....	35
Corrective Action Plans	36-37
Exit Conference	38
Redevelopment Commission:	
Audit Result and Comment:	
Use of Tax Increment Financing (TIF) Funds	40-41
Exit Conference	42

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen R. Brosmer Melinda Pendley	08-03-12 to 12-31-13 01-01-14 to 12-31-15
President of the Town Council	Donald L. Renner	01-01-13 to 12-31-15
Superintendent of Wastewater Utility	Chris Mills	01-01-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF FRENCH LICK, ORANGE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of French Lick (Town), for the period from January 1, 2013 to December 31, 2014. 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 Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town'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 Plans for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 17, 2015

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF FRENCH LICK

CLERK-TREASURER
TOWN OF FRENCH LICK
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

1. **Lack of Segregation of Duties:** The Town has not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The Clerk-Treasurer writes receipts, writes checks, completes the bank reconciliation, and posts to the records. 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 Town's system of internal control has not been conducted. The failure to monitor the internal control system places the Town 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 Town has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting requires the Town 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 Cities and Towns, Chapter 7)

FINDING 2014-003 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Town did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town 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.

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 Cities and Towns, Chapter 7)

Town of French Lick

7959 W Hunters Run Drive
French Lick, Indiana 47432-8315

BOARD OF TRUSTEES

Donald Renner (President)
David Harner
John H. Harrison
Marlene Noble
Barry Wininger

CLERK TREASURER

Mindy Pendley

Incorporated May 2, 1857

Telephone: (812) 936-4737

Fax: (812) 936-7006

www.townoffrenchlick.com

CORRECTIVE ACTION PLAN

FINDING: 2014-001 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Mindy Pendley, Clerk-Treasurer
Contact Phone Number: (812) 936-4737

Office procedures are being reviewed and we are in the process of implementing additional internal controls to avoid any substantial risk of invalid transactions, inaccurate records and financial statements.

Anticipated Completion Date: 03/01/16



Signature

Clerk - Treasurer

Title

12/17/15

Date

Town of French Lick

7959 W Hunters Run Drive
French Lick, Indiana 47432-8315

BOARD OF TRUSTEES

Donald Renner (President)
David Harner
John H. Harrison
Marlene Noble
Barry Wininger

CLERK TREASURER

Melinda Pendley

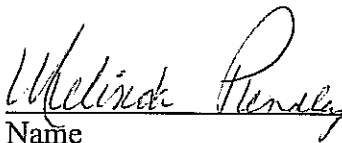
Incorporated May 2, 1857
Telephone: (812) 936-4737
Fax: (812) 936-7006

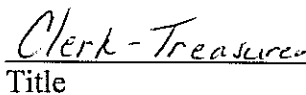
CORRECTIVE ACTION PLAN

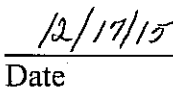
FINDING: 2014-003 PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Mindy Pendley, Clerk-Treasurer
Contact Phone Number: (812) 936-4737

The Town will implement a proper system of internal controls to prevent errors on the Schedule of Expenditures of Federal Awards and ensure accurate reporting of these federal awards.


Name


Title


Date

CLERK-TREASURER
TOWN OF FRENCH LICK
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
General	2013	\$ 89,501
Debt Service	2013	8,523
Cumulative Capital Improvements	2013	1,710
General	2014	169,249
Local Road and Street	2014	6,025
Park and Recreation Improvements	2014	8,672

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid \$483 in penalties, interest, and finance charges on two credit card accounts. The Town also paid overdraft charges in the amount of \$132 because the Town overdrew the Municipal Airport's bank account in May 2013.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON CLAIMS

A test of claims identified the following deficiencies:

1. Of the 47 claims tested, five claims, or 11 percent, did not have Council approval. The Council did not have the opportunity to review these claims as they did not appear on the Accounts Payable Registers prepared by the Clerk-Treasurer's Office approved by the Council. This error resulted in \$18,574 of expenditures which did not have proper approval.

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

2. Of the 47 claims tested, four claims, or 9 percent, did not have proper approval by the fiscal officer. This error resulted in \$5,839 of expenditures which did not have proper approval by the fiscal officer.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

COLLECTION OF AMOUNTS DUE

The Town took ownership of storage rental units as settlement of a dispute. The Clerk-Treasurer's Office has not collected all the rent that is due from these units, nor has any attempt been made to collect on past due rent. The amount of \$4,055 was due to the Town as of December 31, 2014.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2015, with Melinda Pendley, Clerk-Treasurer, and Donald L. Renner, President of the Town Council.

(This page intentionally left blank.)

TOWN COUNCIL
TOWN OF FRENCH LICK

TOWN COUNCIL
TOWN OF FRENCH LICK
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
General	2013	\$ 89,501
Debt Service	2013	8,523
Cumulative Capital Improvements	2013	1,710
General	2014	169,249
Local Road and Street	2014	6,025
Park and Recreation Improvements	2014	8,672

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

TRAVEL POLICY

The Town Council has not approved a travel expense reimbursement policy for the Town.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes.

Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN COUNCIL
TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2015, with Donald L. Renner, President of the Town Council.

(This page intentionally left blank.)

REVOLVING LOAN
TOWN OF FRENCH LICK

REVOLVING LOAN
TOWN OF FRENCH LICK
FEDERAL FINDINGS

FINDING 2014-002 - INTERNAL CONTROLS OVER REVOLVING LOAN FUNDS

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

1. Lack of Segregation of Duties: The Revolving Loan Department has not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The Revolving Loan Director writes receipts, writes checks, completes the bank reconciliation, and posts to the records. 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. Bank reconciliations were not completed timely and were not accurate for the French Lick Revolving Loan Fund (FLRLF-Loan). The last reconciliations presented for audit were completed for February 2014.

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 Cities and Towns, Chapter 7)

FINDING 2014-004 - ACTIVITIES ALLOWED OR UNALLOWED

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

Federal Award Number and Year (or Other Identifying Number): 06-019-02187

The Revolving Loan Board has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements pertaining to Activities Allowed or Unallowed that have a direct and material effect on the program. The failure to establish an effective internal control system places the Revolving Loan 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 grant.

The Revolving Loan Director is the only employee. In 2014, the Town Clerk-Treasurer took over the responsibility of disbursing funds and reconciling the Administration Fund portion of the program.

Additionally, the Revolving Loan Program is not following established internal control procedures. In two of the eight loan disbursements, no claim was prepared for Board review and approval. In another instance, the claim was prepared but did not have the Board members' signatures indicating approval of the disbursement.

REVOLVING LOAN
TOWN OF FRENCH LICK
FEDERAL FINDINGS
(Continued)

An internal control system, including segregation of duties, should be designed and operate efficiently to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, 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. It is also important to follow established internal control procedures for an internal control system to function effectively.

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 that have a direct and material effect to the program could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements related activities allowed or unallowed.

FINDING 2014-005 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number and Year (or Other Identifying Number): 06-019-02187

The Revolving Loan Board has not established an effective internal control system related to the grant agreement and the compliance requirements pertaining to Allowable Costs/Cost Principles. The lack of an internal control system allows noncompliance with compliance requirements. It could also allow the misuse and mismanagement of federal funds and assets to go undetected. An effective internal control system will provide proper oversight, reviews, and approvals over the activities of the program.

The requirements governing time and effort were not followed regarding some costs charged to the Revolving Loan Program. The Clerk-Treasurer receives a salary of \$125 per month, or \$1,500 per year, for assistance with the administrative functions of the Revolving Loan Program. However, these costs were not supported by proper documentation since records were not maintained for the Clerk-Treasurer's actual time spent on the Revolving Loan Program.

OMB Circular A-87, Attachment B, section 8(h) states in part:

"(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

REVOLVING LOAN
TOWN OF FRENCH LICK
FEDERAL FINDINGS
(Continued)

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency."

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."

Inadequate recordkeeping of time records indicates noncompliance with the Allowable Costs/Cost Principles requirements of the program. Failure to comply with the Allowable Costs/Cost Principles requirements could result in the loss of federal funds to the Town.

We recommended that the officials establish internal controls and implement procedures to ensure that proper documentation is maintained for requirements pertaining to Allowable Costs/Cost Principles.

FINDING 2014-006 - PROGRAM INCOME

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

Federal Award Number and Year (or Other Identifying Number): 06-019-02187

The Revolving Loan Board has not established an effective internal control system related to the grant agreement and the compliance requirements pertaining to Program Income. The lack of an internal control system allows noncompliance with compliance requirements. It could also allow the misuse and mismanagement of federal funds and assets to go undetected. An effective internal control system will provide proper oversight, reviews, and approvals over the activities of the program.

The Revolving Loan Fund's Program Income is comprised of interest received on the program's outstanding loans. The Administration Fund is used to cover the program's administrative expenses - salaries, utilities, etc., while the Loan Fund is used for disbursements made for loans. Prior to October 1, 2013, this income was split equally between the Administration Fund and the Loan Fund with 50 percent going to each. After that date, the program income was all placed in the Administration Fund and excess funds would be transferred each six months. In May 2014, \$15,000 of excess was transferred from the Administration Fund to the Loan Fund. This was to transfer accumulated income prior to March 2014. No transfer had been made for the months of April to September 2014. The calculated amount for that period that should be placed in the Loan Fund and added to the capital base is \$8,800.

REVOLVING LOAN
TOWN OF FRENCH LICK
FEDERAL FINDINGS
(Continued)

13 CFR 307.12(a) states in part:

"*General requirements.* RLF Income must be placed into the RLF Capital base for the purpose of making loans or paying for eligible and reasonable administrative costs associated with the RLF's operations. RLF Income may fund administrative costs, provided:

- (1) Such RLF Income and the administrative costs are incurred in the same six-month (6) Reporting Period;
- (2) RLF Income that is not used for administrative costs during the six-month (6) Reporting Period is made available for lending activities."

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."

Program Income designated for administrative disbursements that is not spent within the same six-month Reporting Period indicates noncompliance with the Program Income requirements of the program. Failure to comply with the Program Income requirements could result in the loss of federal funds to the Town.

We recommended that officials establish internal controls and implement procedures to ensure that income allocated to cover administrative expenses is disbursed within the same six-month reporting period in which it is received or that this income is added to the unused portion of the capital base for future lending.

FINDING 2014-007 - REPORTING

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

Federal Award Number and Year (or Other Identifying Number): 06-019-02187

The Revolving Loan Board has not established an effective internal control system related to the grant agreement and the compliance requirements pertaining to Reporting. A lack of an internal control system allows noncompliance with compliance requirements. It could also allow the misuse and mismanagement of federal funds and assets to go undetected. An effective internal control system will provide proper oversight, reviews, and approvals over the activities of the program.

The Director for the Revolving Loan Fund completed and certified the semiannual Form ED-209 Reports as required. However, there are no procedures in place to verify that the information being submitted is accurate. The Desk Worksheet is the official record kept by the Director on the activity of the Revolving Loan Fund. The Semi-annual reports were reviewed and compared to the Desk Worksheet completed each month by the Director.

REVOLVING LOAN
TOWN OF FRENCH LICK
FEDERAL FINDINGS
(Continued)

The following errors in RLF reporting were found:

	Period Ending March 31, 2013	Period Ending September 30, 2013	Period Ending March 31, 2014	Period Ending September 30, 2014
Income Reported	\$ 29,998	\$ 28,206	\$ 31,781	\$ 23,227
Income Calculated From the Desk Worksheet	(29,409)	(27,364)	(30,671)	(22,287)
Difference	<u>\$ 589</u>	<u>\$ 842</u>	<u>\$ 1,110</u>	<u>\$ 940</u>
Expenses Reported	\$ 15,790	\$ 14,990	\$ 21,975	\$ 14,341
Expenses Calculated From the Desk Worksheet	(15,743)	(14,990)	(15,375)	(14,341)
Difference	<u>\$ 47</u>	<u>\$ -</u>	<u>\$ 6,600</u>	<u>\$ -</u>

13 CFR 307.14 states:

"Revolving Loan Fund semi-annual report and Income and Expense Statement.

- (a) *Frequency of reports.* All RLF Recipients, including those receiving Recapitalization Grants for existing RLFs, must complete and submit a semi-annual report in electronic format, unless EDA approves a paper submission.
- (b) *Report contents.* RLF Recipients must certify as part of the semi-annual report to the EDA that the RLF is operating in accordance with the applicable RLF Plan. RLF Recipients also must describe (and propose pursuant to §307.9) any modifications to the RLF Plan to ensure effective use of the RLF as a strategic financing tool.
- (c) *RLF Income and Expense Statement.* An RLF Recipient using either fifty (50) percent or more (or more than \$100,000) of RLF Income for administrative costs in a six (6) month Reporting Period must submit to EDA a completed Income and Expense Statement (Form ED-209I or any successor form) for that Reporting Period in electronic format, unless EDA approves a paper submission."

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."

Inaccurate report submissions indicate noncompliance with the Reporting requirements of the program. Failure to comply with the Reporting requirements, including accurate submission of information, could result in the loss of federal funds to the Town.

We recommended that the officials establish internal controls and implement procedures to ensure that accurate information is submitted and compliance requirements for Reporting are followed.

REVOLVING LOAN
TOWN OF FRENCH LICK
FEDERAL FINDINGS
(Continued)

FINDING 2014-008 - SPECIAL TESTS AND PROVISIONS

Federal Agency: Department of Commerce
Federal Program: Economic Adjustment Assistance
CFDA Number: 11.307
Federal Award Number and Year (or Other Identifying Number): 06-019-02187

The Revolving Loan Board has not established an effective internal control system related to the grant agreement and the compliance requirements pertaining to Special Tests and Provisions - Loan and Accounting System Documents. The lack of an internal control system allows noncompliance with compliance requirements. It could also allow the misuse and mismanagement of federal funds and assets to go undetected. An effective internal control system will provide proper oversight, reviews, and approvals over the activities of the program.

The Director of the Revolving Loan Fund is responsible for maintaining the loan files and acquiring all necessary documentation required of loan applicants. Seven new loans were issued during the audit period and the loan files for each were reviewed for completeness.

The following exceptions were noted:

In one of the new loan files tested, the Board of Directors' meeting minutes approved the loan and the promissory note was present in the loan file. However, the loan application, loan agreement, security agreement, deed of trust/mortgage, and signed bank turn-down letter were not present for review and per the Director were never obtained. In five of the remaining six loan files, the signed bank turn-down letter was not present in the loan file and per the Director was never obtained.

13 CFR 307.15 states in part:

"(b) Loan and accounting system documents. . . .

- (2) 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);

REVOLVING LOAN
TOWN OF FRENCH LICK
FEDERAL FINDINGS
(Continued)

- (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."

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."

Incomplete loans files indicate noncompliance with the Special Tests and Provisions requirements of the program. Failure to comply with the loan documentation requirements for loan recipients could result in the loss of federal funds to the Town.

We recommended that the officials establish internal controls and implement procedures to ensure acquisition of all documentation that is required as part of the loan application process and that the required documentation is included in the recipients' loan files.

French Lick Revolving Loan

Town of French Lick

7959 W Hunters Run Drive
French Lick, IN 47432-1000

Jim Springer
Executive Director

Telephone (812) 936-4885
Fax: (812) 936-7006

Board members:

Peggy Leehe, President
Mindy Pendley, Clerk/Treas.
Don Renner
Marlene Noble
Karen Brosmer
Ann Troutman
John H Harrison

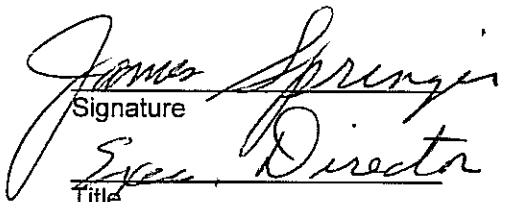
CORRECTIVE ACTION PLAN

Finding: 2014-002 INTERNAL CONTROLS OVER REVOLVING LOAN FUNDS

Contact person Responsible for Corrective Action; Jim Springer Exec. Director
Phone Number (812) 936-4885

I am in the process of implementing a Bank Reconciliation and starting January 1, 2016, a running monthly bank reconciliation will be implemented for the FLRLF Loan account.

Anticipated Completion Date: 01/31/16


Signature
Exec Director
Title
12-15-2015
Date

French Lick Revolving Loan

Town of French Lick
7959 W Hunters Run Drive
French Lick, IN 47432-1000

Jim Springer
Executive Director

Telephone (812) 936-4885
Fax: (812) 936-7006

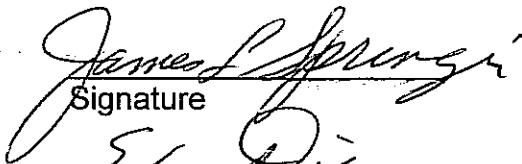
Board members:
Peggy Leehe Pres.
Mindy Pendley Clerk/Treas.
Don Renner
Marlene Noble
Karen Brosmer
Ann Troutman
John H Harrison

CORRECTIVE ACTION PLAN

Finding :2014-004 ACTIVITIES ALLOWED OR UNALLOWED
Contact person Responsible for Corrective Action ; Jim Springer Exec. Director
Phone Number (812) 936-4885

Most of the loans in question were revised or re-amortized loans and Board approved pr. Board minutes. However all loans in the future whether new or revised will have claim forms with board signature.

Anticipated Completion Date : Immediately


Signature


Title


Date

French Lick Revolving Loan

Town of French Lick

7959 W Hunters Run Drive
French Lick, IN 47432-1000

Jim Springer
Executive Director

Telephone (812) 936-4885
Fax: (812) 936-7006




Board members:
Peggy Leehe, President
Mindy Pendley, Clerk/Treas.
Don Renner
Marlene Noble
Karen Brosmer
Ann Troutman
John H Harrison

CORRECTIVE ACTION PLAN

Finding: 2014-005 ALLOWABLE COSTS/COST PRINCIPLES
Contact person Responsible for Corrective Action: Jim Springer, Exec. Director
Phone Number (812) 936-4885

Effective January 1, 2016, Clerk/Treasurer will document time spent on performance of duties pertaining to FLRLF, to be included in monthly report to Executive Director.

Anticipated Completion Date: Beginning with January 2016 report.


Signature

Title

Date

French Lick Revolving Loan

Town of French Lick

7959 W Hunters Run Drive
French Lick, IN 47432-1000

Jim Springer
Executive Director

Telephone (812) 936-4885
Fax: (812) 936-7006

Board members:
Peggy Leehe, President
Mindy Pendley, Clerk/Treas.
Don Renner
Marlene Noble
Karen Brosmer
Ann Troutman
John H Harrison

CORRECTIVE ACTION PLAN

Finding: 2014-006 PROGRAM INCOME

Contact person Responsible for Corrective Action: Jim Springer, Exec. Director
Phone Number (812) 936-4885

Excess funds in the Administrative Account are due to the fact that I was unable to identify a location on the Semi-Annual Reports to include them. I have contacted EDA about this and they have not provided the needed information. It is my intention to transfer \$20,000 from Administrative Account to Loan Account in January 2016, and will continue to make the needed transfers every six (6) months. I will consult the State Board of Accounts Representative for instruction as to how to document these transfers.

Anticipated Completion Date: Beginning January 2016


Signature


Title


Date

French Lick Revolving Loan

Town of French Lick

7959 W Hunters Run Drive
French Lick, IN 47432-1000

Jim Springer
Executive Director

Telephone (812) 936-4885
Fax: (812) 936-7006

Board members:

Peggy Leehe, President
Mindy Pendley, Clerk/Treas.
Don Renner
Marlene Noble
Karen Brosmer
Ann Troutman
John H Harrison

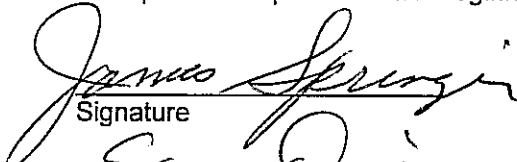
CORRECTIVE ACTION PLAN

Finding: 2014-007 REPORTING

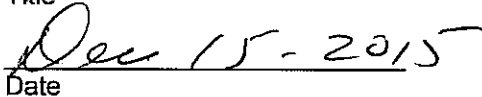
Contact person Responsible for Corrective Action: Jim Springer, Exec. Director
Phone Number (812) 936-4885

I will ask someone else to review reports for accuracy and sign off on them.

Anticipated Completion Date: Beginning immediately


Signature


Title


Date

French Lick Revolving Loan

Town of French Lick

7959 W Hunters Run Drive
French Lick, IN 47432-1000

Jim Springer
Executive Director

Telephone (812) 936-4885
Fax: (812) 936-7006

Board members:

Peggy Leehe, President
Mindy Pendley, Clerk/Treas.
Don Renner
Marlene Noble
Karen Brosmer
Ann Troutman
John H Harrison

CORRECTIVE ACTION PLAN

Finding: 2014-008 SPECIAL TESTS AND PROVISIONS

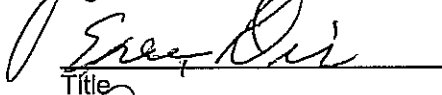
Contact person Responsible for Corrective Action: Jim Springer, Exec. Director

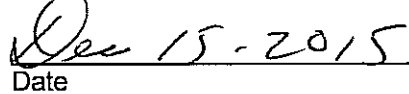
Phone Number (812) 936-4885

At some of our loan closings some of the needed documents were not available for various reasons and we failed to follow up on obtaining them. In most cases these were bank letters of denial. We will make every effort to avoid this in the future.

Anticipated Completion Date: Beginning all future loans


Signature


Title


Date

REVOLVING LOAN
TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on December 15, 2015, with James Springer, Executive Director of the Revolving Loan, and Peggy A. Leehe, President of the Revolving Loan Board.

The contents of this report were discussed on December 17, 2015, with Donald L. Renner, President of the Town Council.

(This page intentionally left blank.)

BOARD OF AVIATION
TOWN OF FRENCH LICK

BOARD OF AVIATION
TOWN OF FRENCH LICK
FEDERAL FINDINGS

FINDING 2014-009 - CASH MANAGEMENT

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): 03-18-0027-09, 03-18-0027-10,
03-18-0027-11, 03-18-0027-12,
03-18-0027-13, 03-18-0027-14

Management of the Town has not established an effective internal control system related to the grant agreement and the compliance requirements for Cash Management that have a direct and material effect to the program. The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. The lack of an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets to go undetected. An effective internal control system provides proper oversight, reviews, and approvals over the activities of the program.

The Airport Improvement Program grant was a reimbursable grant. The Town was to disburse funds to the vendor before the federal funds were received. However, the Town typically did not have the funds available to make these disbursements first. Instead, they intended to disburse the funds as soon as the federal reimbursement was received. During the audit period, the Town made thirteen requests for reimbursement. Nine of those were disbursed within five days of receipt. In two other instances, \$262,512 and \$13,725 were each held for twelve days. In another instance, \$3,493 was held for nineteen days. In another instance, \$10,385 was held for seven days.

49 CFR 18.21(b) Payment states:

"Basic Standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205."

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 and implement internal controls enabled material noncompliance to go undetected and failure to minimize the cash on hand may result in the loss of federal funds to the Town.

We recommended that the Aviation Board and Town Officials develop and implement procedures and controls to ensure that the time between the receipt and disbursement of federal funds is minimized according to Cash Management requirements.

BOARD OF AVIATION
TOWN OF FRENCH LICK
FEDERAL FINDINGS
(Continued)

***FINDING 2014-010 - DAVIS-BACON ACT, EQUIPMENT AND REAL
PROPERTY MANAGEMENT, AND PERIOD OF AVAILABILITY***

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): 03-18-0027-09, 03-18-0027-10,
03-18-0027-11, 03-18-0027-12,
03-18-0027-13, 03-18-0027-14

Management of the Town has not established an effective internal control system related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Davis-Bacon Act, Equipment and Real Property Management, and Period of Availability.

The Town hired an engineering consulting firm to administrator their grants. The consulting firm was responsible for the requirements for the Davis-Bacon Act and Period of Availability, but the Town had no controls in place to insure that the programs were in compliance.

The aviation grants were for improvements to the airport property including expenses for a parallel taxiway. There were no procedures in place to verify that the improvements are included in the Town's capital asset records.

The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of 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.

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 that have a direct and material effect to the program could result in the loss of federal funds to the Town.

We recommended that the Town's management establish and implement controls related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

Town of French Lick

7959 W Hunters Run Drive
French Lick, Indiana 47432-8315

BOARD OF TRUSTEES

Donald Renner (President)
David Harner
John H. Harrison
Marlene Noble
Barry Wininger

CLERK TREASURER

Melinda Pendley

Incorporated May 2, 1857
Telephone: (812) 936-4737
Fax: (812) 936-7006
www.townoffrenchlick.com

CORRECTIVE ACTION PLAN

FINDING: 2014-009- CASH MANAGEMENT

Contact Persons Responsible for Corrective Action: Mindy Pendley, Clerk- Treasurer and Zachary Brown, Airport Manager

Contact Phone Number: Clerk- (812)936-4737 Airport Manager- (812)936-2222

Office procedures are being reviewed and a process is being implemented in order for disbursements of funding to become disbursed to the vendor before federal funding is received on all grants in relation to the Airport Improvement Program and all Capital Improvement Projects outlined within.

Anticipated Completion Date: Immediately

FINDING 2014-010- DAVIS BACON, EQUIPMENT AND REAL PROPERTY MANAGEMENT, AND PERIOD OF AVAILABILITY

Contact Persons Responsible for Corrective Action: Mindy Pendley, Clerk- Treasurer and Zachary Brown, Airport Manager

Contact Phone Number: Clerk- (812)936-4737 Airport Manager- (812)936-2222

Authorized airport personnel will retain copies of Davis Bacon Certified Payroll records for the various projects. NGC will provide training to Airport personnel so that the Airport Personnel can verify the accuracy of the payroll records as well. NGC will attach a form to each record submittal for Airport Personnel documentation. For the Period of Availability monitoring, NGC will provide the quarterly FAA reports to the Airport as a part of the reports to the Board of Commissioners. The review and acceptance of the reports will be recorded in the meeting minutes. The Airport Manager currently obtains a working log of all airport assets to include all equipment, structures and projects performed. All AIP Projects for the last twenty years have been added to the list. This log has been forwarded to the Clerk Treasurer for review. Newly acquired assets will be added to the

list upon receipt of the asset and final payment to the vendors. The Clerk Treasurer and Airport Manager are working to implement a process for which assets will be added to a group report to further internal control systems.

Anticipated Completion Date: 03/31/16

Zachary J Brown
Signature

AIRPORT MANAGER
Title

12/17/15
Date

BOARD OF AVIATION
TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2015, with Mark B. Jones and Thomas J. Willett, members of the Board of Aviation Commissioners, and Zachary D. Brown, Airport Manager.

The contents of this report were discussed on December 17, 2015, with Donald L. Renner, President of the Town Council.

REDEVELOPMENT COMMISSION
TOWN OF FRENCH LICK

REDEVELOPMENT COMMISSION
TOWN OF FRENCH LICK
AUDIT RESULT AND COMMENT

USE OF TAX INCREMENT FINANCING (TIF) FUNDS

The Town established a TIF allocation fund (Redevelopment Commission TIF Checking) as authorized by Indiana Code 36-7-4-39. A review of expenditures paid from the TIF allocation fund during 2013 and 2014 noted disbursements that were considered unallowable, such as repairs and/or maintenance of facilities and structures, and operating type expenses. Specifically, TIF funds were used to pay for electric bills for downtown street lights; town green space maintenance, tree replacement, and landscaping; gazebo fountain repair; Christmas lights; and other operating expenses of the Commission. These disbursements totaled \$5,465 and \$8,464 for the years 2013 and 2014, respectively.

In addition to the above disbursements from the TIF allocation fund, during 2014 the Redevelopment Commission agreed to provide \$260,000 of assistance for redevelopment purposes to three businesses. One of the businesses received \$27,000 as of December 31, 2014, but these monies were paid directly to the business and did not go through a neighborhood development corporation.

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.
- (D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.
- (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.
- (G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.
- (H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.

REDEVELOPMENT COMMISSION
TOWN OF FRENCH LICK
AUDIT RESULT AND COMMENT
(Continued)

- (I) For property taxes first due and payable before January 1, 2009, . . .
- (J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.
- (K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located: (i) in the allocation area; and (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .
- (L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. . . .

The allocation fund may not be used for operating expenses of the commission."

Indiana Code 36-7-14-12.2 states in part:

- "(a) The redevelopment commission may do the following: . . .
 - (25) Provide financial assistance (including grants and loans) to neighborhood development corporations to permit them to:
 - (A) provide financial assistance for the purposes described in subdivision (24); or
 - (B) construct, rehabilitate, or repair commercial property within the district. . . ."

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

The uses of TIF funds are limited to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

REDEVELOPMENT COMMISSION
TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2015, with Barry Winger, President of the Redevelopment Commission.

The contents of this report were discussed on December 17, 2015, with Donald L. Renner, President of the Town Council.