

**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, 2015 to December 31, 2015



**FILED**  
08/16/2017



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2015-001	
Internal Controls over Financial Transactions and Reporting .....	6-7
Finding 2015-003	
Preparation of the Schedule of Expenditures of Federal Awards .....	7-8
Corrective Action Plans .....	9-10
Exit Conference .....	11
Revolving Loan:	
Federal Findings:	
Finding 2015-002	
Internal Controls over Revolving Loan Funds .....	14-15
Finding 2015-004	
Allowable Costs/Cost Principles .....	15-16
Finding 2015-005	
Internal Controls over Revolving Loan Program .....	16-18
Finding 2015-006	
Special Tests and Provisions - Loans Requirements .....	18-20
Corrective Action Plans .....	21-24
Exit Conference .....	25

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Melinda Pendley	01-01-14 to 12-31-19
President of the Town Council	Donald L. Renner Barry M. Wininger	01-01-15 to 12-31-15 01-01-16 to 12-31-17
Superintendent of Wastewater Utility	Chris Mills	01-01-15 to 12-31-17



**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](http://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, 2015 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

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

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

June 15, 2017

(This page intentionally left blank.)

CLERK-TREASURER  
TOWN OF FRENCH LICK

CLERK-TREASURER  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS

***FINDING 2015-001***

Subject: Internal Controls over Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediate prior year. The prior year finding number was 2014-001.

*Condition*

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

1. **Lack of Segregation of Duties:** The Town had not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The Clerk-Treasurer wrote receipts, wrote checks, completed bank reconciliations, and posted to the records.
2. **Monitoring of Controls:** The Town had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the Town to monitor and assess the quality of the system of internal control.

*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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

CLERK-TREASURER  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS  
(Continued)

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

*Cause*

Management of the Town had not established a proper system of internal controls over financial transactions and reporting.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-003**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior year finding number was 2014-003.

*Condition*

The Town 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 Clerk-Treasurer entered the financial information into the Indiana Gateway for Government Units financial system, which is the source of the SEFA. Evidence was not presented that would have indicated there was an oversight, review, approval or other compensating controls in place to verify the accuracy of the information and amounts.

*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:

CLERK-TREASURER  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS  
(Continued)

"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. . . ."

*Cause*

Management had not established a system of internal controls over the preparation of the SEFA.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

# Town of French Lick

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

**BOARD OF TRUSTEES**

Barry Wininger (President)  
John H. Harrison  
Marlene Noble  
Don Renner  
Tony Watts

**CLERK TREASURER**

Melinda Pendley

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

## CORRECTIVE ACTION PLAN

**FINDING 2015-001**

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

Description of Corrective Action Plan: Office procedures are reviewed and implementation of additional internal controls are ongoing to avoid any risk of invalid transactions, inaccurate records and financial statements.

Anticipated Completion Date: Immediately

Melinda Pendley  
(Signature)

Clerk-Treasurer  
(Title)

06.05.17  
(Date)

# Town of French Lick

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

**BOARD OF TRUSTEES**

Barry Wininger (President)  
John H. Harrison  
Marlene Noble  
Don Renner  
Tony Watts

**CLERK TREASURER**

Melinda Pendley

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

## CORRECTIVE ACTION PLAN

**FINDING 2015-003**

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

Description of Corrective Action Plan: The Town continues to work on developing a proper system of internal controls to prevent errors on the Schedule of Expenditures of Federal Awards (SEFA) and to accurately report these federal awards.

Anticipated Completion Date: Immediately

Melinda Pendley  
(Signature)

Clerk-Treasurer  
(Title)

06-05-17  
(Date)

CLERK-TREASURER  
TOWN OF FRENCH LICK  
EXIT CONFERENCE

The contents of this report were discussed on June 15, 2017, with Barry M. Winger, President of the Town Council, and Melinda Pendley, Clerk-Treasurer.

(This page intentionally left blank.)

REVOLVING LOAN  
TOWN OF FRENCH LICK

REVOLVING LOAN  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS

***FINDING 2015-002***

Subject: Internal Controls over Revolving Loan Funds  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior year finding number was 2014-002.

*Condition*

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

The Revolving Loan Department had not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The Revolving Loan Director wrote receipts, wrote checks, completed the bank reconciliation, and posted to the records. There was no indication of a review, oversight, or approval process.

*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. . . ."

*Cause*

Management of the Town had not established a proper system of internal control.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

REVOLVING LOAN  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS  
(Continued)

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-004**

Subject: 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  
Compliance Requirement: Allowable Costs/Cost Principles  
Audit Findings: Material Weakness, Other Matter

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior year finding number was 2014-005.

*Condition*

Officials of the Revolving Loan Board had not established an effective internal control system related to the grant agreement and the requirements related to Allowable Costs/Cost Principles.

The Clerk-Treasurer received \$125 per month from January to April 2015, and \$200 per month thereafter, for assistance with the administrative functions of the Revolving Loan Program. However, these costs were not supported by proper documentation as records were not maintained for the Clerk-Treasurer's actual time spent on the Revolving Loan Program.

*Context*

The lack of proper documentation for the portion of the Clerk-Treasurer's salary that was paid from the Revolving Loan Program was a pervasive problem throughout audit period.

*Criteria*

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. . . ."

OMB Circular A-87, Attachment B, item 8h(4) states:

"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. Such documentary support will be required where employees work on:

REVOLVING LOAN  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS  
(Continued)

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity."

*Cause*

Management of the Town had not designed or implemented internal control procedures to ensure compliance with requirements related to Allowable Costs/Cost Principles.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance with the compliance requirement of the grant to remain undetected.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Town establish internal controls and implement procedures to ensure that Personal Activity Reports are maintained for requirements pertaining to Allowable Costs/Cost Principles.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2015-005***

Subject: Internal Controls over Revolving Loan Program  
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  
Compliance Requirements: Program Income, Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior year finding numbers were 2014-006 and 2014-007.

REVOLVING LOAN  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS  
(Continued)

*Condition*

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Program Income and Reporting.

*Program Income*

The Town had not established effective internal controls to ensure compliance with Program Income requirements. The Revolving Loan Director was solely responsible for computing program income and transferring funds when appropriate.

*Reporting*

The Town had not established an effective internal control system to ensure compliance with Reporting requirements. The Revolving Loan Director was solely responsible for completing and submitting the required semiannual reports.

*Context*

The lack of controls over Program Income and Reporting was a systemic problem throughout the audit period.

*Criteria*

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. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

REVOLVING LOAN  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

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

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-006**

Subject: Special Tests and Provisions - Loan Requirements  
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  
Compliance Requirement: Special Tests and Provisions - Loan Requirements  
Audit Findings: Material Weakness, Other Matter

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior year finding number was 2014-008.

*Condition*

Officials of the Revolving Loan Board had not established an effective internal control system related to the grant agreement and the following compliance requirement: Special Tests and Provisions - Loan Requirements.

*Context*

The Director of the Revolving Loan Board were responsible for maintaining the loan files and acquiring all necessary documentation required of loan applicants. Two new loans were issued during the audit period, and the loan files for each were incomplete.

The loan application was not present in one file. The Director indicated an application was not obtained because the borrower had an application on file from previous loans. The signed bank turn-down letters were never obtained for either of the new loan applicants.

*Criteria*

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. . . ."

REVOLVING LOAN  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS  
(Continued)

13 CFR 307.15(b) states in part:

"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); 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."

*Cause*

There was not an adequate internal control system in place to ensure compliance with the Special Test and Provisions - Loan Requirements compliance requirement.

*Effect*

Incomplete loans files resulted in noncompliance with the Special Tests and Provision - Loan Requirements of the grant. Failure to comply with the loan documentation requirements for loan recipients could have caused the Town to lose federal funds.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirement listed above and implement procedures to ensure acquisition of all documentation that is required as part of the loan application process and that this documentation is retained in the recipients' loan files.

REVOLVING LOAN  
TOWN OF FRENCH LICK  
FEDERAL FINDINGS  
(Continued)

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

# French Lick Revolving Loan

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

**Jim Springer, Executive Director**

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

**Board Members:**

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

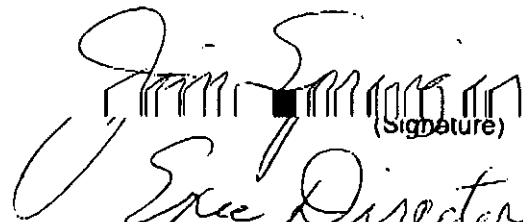
## CORRECTIVE ACTION PLAN

### **FINDING 2015-002**

Contact Person Responsible for Corrective Action: James Springer, Revolving Loan Executive Director  
Contact Phone Number: (812) 936-4885

Description of Corrective Action Plan: Implementation of monthly bank reconciliation of the FLRLF Loan Account commenced on 01-31-16 and continues in a timely fashion. Further action began in 2017 is the addition of board members signing off on the monthly reconciliations.

Anticipated Completion Date: Immediately

  
(Signature)

Exec Director  
(Title)

6-5-2017  
(Date)

# French Lick Revolving Loan

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

**Jim Springer, Executive Director**

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

**Board Members:**

- Peggy Leeho, President**
- Mindy Pendley, Clerk/Treasurer**
- Don Renner**
- Marlene Noble**
- Karen Brosmer**
- Ann Troutman**
- John H. Harrison**

## CORRECTIVE ACTION PLAN

### FINDING 2015-004

Contact Person Responsible for Corrective Action: James Springer, Revolving Loan Executive Director  
Contact Phone Number: (812) 936-4885

Description of Corrective Action Plan: 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: January 2016

Jim Springer  
(Signature)

Exec Director  
(Title)

6-5-2017  
(Date)

# French Lick Revolving Loan

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

**Jim Springer, Executive Director**

**Telephone: (812) 936-4885**

**Fax: (812) 936-7006**

**Board Members:**

**Peggy Leche, President**

**Mindy Pendley, Clerk/Treasurer**

**Don Renner**

**Marlene Noble**

**Karen Brosmer**

**Ann Troutman**

**John H. Harrison**

## CORRECTIVE ACTION PLAN

### **FINDING 2015-005**


Contact Person Responsible for Corrective Action: James Springer, Revolving Loan Executive Director

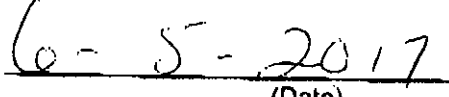
Contact Phone Number: (812) 936-4885

Description of Corrective Action Plan: Transfers from the Administrative Account to the Loan Account will be made every six months. I will consult with SBOA Representative for instruction as to how to document these transfers on my semi-annual reports. I will also have someone else to review reports for accuracy and sign off on them.

Anticipated Completion Date: Immediately

  
(Signature)

  
(Title)

  
(Date)

# French Lick Revolving Loan

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

**Jim Springer, Executive Director**

**Telephone: (812) 936-4885**

**Fax: (812) 936-7006**

**Board Members:**

**Peggy Leehe, President**

**Mindy Pendley, Clerk/Treasurer**

**Don Renner**

**Marlene Noble**

**Karen Brosmer**

**Ann Troutman**

**John H. Harrison**

## CORRECTIVE ACTION PLAN

### FINDING 2015-006

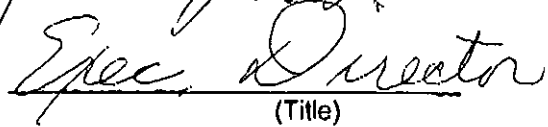
Contact Person Responsible for Corrective Action: James Springer, Revolving Loan Executive Director

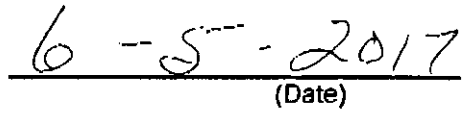
Contact Phone Number: (812) 936-4885

Description of Corrective Action Plan: At some of our loan closings 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: Immediately

  
(Signature)

  
(Title)

  
(Date)

REVOLVING LOAN  
TOWN OF FRENCH LICK  
EXIT CONFERENCE

The contents of this report were discussed on June 15, 2017, with James L. Springer, Executive Director of the Revolving Loan; Peggy A. Leehe, President of the Revolving Loan Board; and Barry M. Winger, President of the Town Council.