

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF REDKEY

JAY COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
03/08/2018



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2016-001	
Preparation of the Schedule of Expenditures of Federal Awards .....	6-8
Finding 2016-002	
Internal Controls over Financial Transactions and Reporting .....	8-9
Corrective Action Plan .....	10-11
Audit Results and Comments:	
Bank Reconciliations .....	12
Compensation and Benefits .....	12
Overdrawn Cash Balances .....	12
Exit Conference .....	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Debbie James	01-01-13 to 12-31-20
President of the Town Council	Ted Friddle	01-01-16 to 12-31-16
	Doug Stanley	01-01-17 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF THE TOWN OF REDKEY, JAY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Redkey (Town), for the period from January 1, 2016 to December 31, 2016. 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/](http://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 or 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

January 22, 2018

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CLERK-TREASURER  
TOWN OF REDKEY

CLERK-TREASURER  
TOWN OF REDKEY  
FEDERAL FINDINGS

**FINDING 2016-001**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Condition*

The Town had not established effective internal controls over the federal award information entered into the Indiana Gateway for government units (Gateway), which is a financial reporting system used to compile the Schedule of Expenditures of Federal Awards (SEFA). One employee prepared the federal award information entered into the Gateway without a control process in place to ensure its accuracy before submission.

*Context*

Due to the lack of controls, the following errors occurred on the SEFA:

1. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii were overstated by \$375,357.
2. The Water and Waste Disposal Systems for Rural Communities was overstated by \$8,800,000.
3. Information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were either incorrectly reported or omitted.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

CLERK-TREASURER  
TOWN OF REDKEY  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

*"Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

*Cause*

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

CLERK-TREASURER  
TOWN OF REDKEY  
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 2016-002**

Subject: Internal Controls over Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*Condition*

The following deficiency in the internal control system of the Town related to financial transactions and reporting.

The Town had not separated incompatible activities related to Economic Development Income Tax funds held by the Redkey Economic Development Corporation in a fiscal agent capacity. These funds were not included in the financial statement.

*Context*

Due to the lack of internal controls over the Economic Development Income Tax funds, the financial statement was understated by \$280,615.

Audit adjustments were proposed, accepted by the Town, and are included in the financial statement presented.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

CLERK-TREASURER  
TOWN OF REDKEY  
FEDERAL FINDINGS  
(Continued)

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."

*Cause*

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

*Effect*

The failure to establish controls 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.



P.O. Box 21  
Redkey, IN 47373  
PH. (765) 369-2711 Fax (765) 369-8282

CORRECTIVE ACTION PLAN

**FINDING 2016-001**

Contact Person Responsible for Corrective Action: Debbie James, Clerk Treasurer  
Contact Phone Number: Office 765-369-2711

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan: I will do the expenditures only and will not include the insurance in the future. I will review the CFDA.com grant files to make sure I am entering all information correctly.

Trenda Gilbert, Deputy Clerk, will review my figures before forms are submitted. Our office has implemented internal controls with myself and Trenda, we now check each other on a daily basis and sign off each day on our work. We are keeping the sign off sheets on file at the office.

Anticipated Completion Date: March 30, 2018

Debbie James  
(Signature)

Clerk Treasurer  
(Title)

1/22/18  
(Date)



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### CORRECTIVE ACTION PLAN

***FINDING 2016-002***

Contact Person Responsible for Corrective Action: Debbie James  
Contact Phone Number: 765-369-2711

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan: I will be in contact with Redkey Economic Development Corporation each year to acquire the information needed for the Town of Redkey's Annual Report. Once the figures are received from the Redkey Economic Development Corporation, the figures will be entered into Gateway on the Town of Redkey's Annual Financial Report. Before figures are entered into Gateway they will be checked by Trendera also.

Anticipated Completion Date: March 30, 2018

Debbie James  
(Signature)

Club Treasurer  
(Title)

1/22/18  
(Date)

CLERK-TREASURER  
TOWN OF REDKEY  
AUDIT RESULTS AND COMMENTS

***BANK ACCOUNT RECONCILIATIONS***

A similar comment also appeared in prior Report B49634, entitled *BANK ACCOUNT RECONCILIATIONS*.

The Town had not been able to reconcile the ledger to the bank due to various posting errors, including interest and bank fees not being posted. Total posting errors caused cash to be understated by \$95,727. Adjustments were proposed, accepted by the Town, and were included in the financial statement presented for audit.

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."

***COMPENSATION AND BENEFITS***

Three out of ten time cards tested were not approved by the appropriate official or department head. The Town had installed time clocks and it was required that department heads sign time cards noting approval of time worked.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

***OVERDRAWN CASH BALANCES***

A similar comment also appeared in prior Report B49634, entitled *OVERDRAWN CASH BALANCES*.

The Economic Development Income Tax fund and the Payroll fund were overdrawn at December 31, 2016, in the amount of \$9,515 and \$4,159, respectively. Both funds are used as clearing accounts and additional claims were paid in error making the ending balance negative.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER  
TOWN OF REDKEY  
EXIT CONFERENCE

The contents of this report were discussed on January 22, 2018, with Doug Stanley, President of the Town Council, and Debbie James, Clerk-Treasurer.