

**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, 2017 to December 31, 2017



**FILED**  
02/27/2019



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SCHEDULE OF OFFICIALS

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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2017 to December 31, 2017. 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 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 21, 2018

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CLERK-TREASURER  
TOWN OF REDKEY

CLERK-TREASURER  
TOWN OF REDKEY  
FEDERAL FINDINGS

***FINDING 2017-001***

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-002.

*Condition*

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, and financial close and reporting.

*Cash and Investments (Bank Reconciliations)*

The Town had not established controls to ensure that reconciled cash and investment balances agreed to the ledgers or the financial statement. The Clerk-Treasurer completed monthly bank reconciliations without any documented oversight or review procedures in place to ensure their accuracy. At December 31, 2017, the bank reconciliation exceeded the financial statement by \$42,881.

*Receipts*

The Town had not established controls or separated incompatible activities related to receipts to ensure that collections were recorded timely and to the correct funds.

The internal control system related to the Redkey Economic Development Inc fund held by the Redkey Economic Development Corporation (REDC) in a fiscal agent capacity was not effective in relation to receipts. The REDC did not issue receipts for several of the items selected for testing.

*Financial Close and Reporting*

The Clerk-Treasurer entered the Town's financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Town's financial statement; however, the process was completed without a documented oversight, review, or approval process, or other compensating control in place to ensure that information was submitted accurately. The following errors were noted in the financial statement presented for audit:

1. The beginning balance for the General Fund, Motor Vehicle Highway fund, Sanitation User Fee fund, Payroll fund, Sewage Utility Operating fund, and Water Utility Operating fund were overstated in the aggregate in the amount of \$156,751.
2. The beginning balance for the Redkey Fire Station Project fund, Redkey Economic Development Inc fund, and the Waterworks B&I Sinking fund were understated in the aggregate in the amount of \$133,011.

CLERK-TREASURER  
TOWN OF REDKEY  
FEDERAL FINDINGS  
(Continued)

3. The disbursements for the Waterworks B&I Sinking fund did not report a debt payment of \$49,410.

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

*Context*

The lack of internal controls and noncompliance were systemic issues, which occurred throughout the audit period.

*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. . . ."

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."

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 had not established a proper system of internal control that segregated key functions related to cash and investments, receipts, and the financial close and reporting process.

*Effect*

The failure to establish controls enabled misstatements of the financial statement to remain undetected. The financial statement contained the errors identified in the *Condition*.

CLERK-TREASURER  
TOWN OF REDKEY  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the Town's management establish a system of internal controls, including segregation of duties, related to cash and investments, receipts, and the financial close and reporting process.

*Views of Responsible Officials*

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

**FINDING 2017-002**

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-001.

*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 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 and was the source of the Town's SEFA. The Clerk-Treasurer prepared the federal award information entered into the Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

*Context*

The SEFA presented for audit contained the following errors:

1. The Water and Waste Disposal Systems for Rural Communities expenditures were overstated by \$6,556,456.
2. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures of \$800,000 were improperly included.
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.

CLERK-TREASURER  
TOWN OF REDKEY  
FEDERAL FINDINGS  
(Continued)

*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. . . ."

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.

CLERK-TREASURER  
TOWN OF REDKEY  
FEDERAL FINDINGS  
(Continued)

- (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*.

*Recommendation*

We recommended that the Town's management establish controls related to the preparation of the SEFA.

*Views of Responsible Officials*

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

TOWN OF REDKEY  
8922 WEST STATE ROAD 67 P O BOX 21  
REDKEY, IN 47373  
OFFICE: 765/369/2711 FAX: 765/369/8282  
Email: redkeyct007@gmail.com

CORRECTIVE ACTION PLAN

Finding 2017-001 – Financial Transactions and Reporting

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: The Bank Reconciliations, The Disbursements, The Receipts, and the Annual Report will be looked at by myself and Mary Eley, Deputy Clerk. Mary will sign off on making sure everything is correct before I enter the amounts in the correct forms.

Anticipated Completion Date: December 21, 2018

Finding 2017-002 – Preparation of SEFA

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

Views of Responsible Official: I concur with the finding

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. Mary Eley, Deputy Clerk, will review my figures before forms are submitted.

Anticipated Completion Date: December 21, 2018

Signature: Debbie James

Title: Clerk Treasurer

Date: December 21, 2018

CLERK-TREASURER  
TOWN OF REDKEY  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The same comment also appeared in prior Report B49636.

The Payroll fund was overdrawn at December 31, 2017, in the amount of \$17,461.

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)

**BANK ACCOUNT RECONCILIATIONS**

The same comment also appeared in prior Report B49636.

Depository reconcilements of the fund balances to the bank account balances were conducted; however, the reconciliations contained variances each month that were not identified. The Town had not been able to reconcile the ledger to the bank due to correcting adjustments related to various posting errors. These errors resulted in an unidentified cash long variance of \$42,881.

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**COMPENSATION AND BENEFITS**

The same comment also appeared in prior Report B49636.

Five out of seven time cards tested were not approved by the appropriate official or department head. The Town had installed time clocks and the policies in place 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)

**RECORD OF HOURS WORKED**

The Water Utility Operator was paid a weekly wage, but detailed documentation of the hours and days worked by this employee was not maintained.

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

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record  
General Form 99B, Employee's Earnings Record  
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

### **CONDITION OF RECORDS**

The following issues were identified with the condition of the Town's records:

1. A debt payment was transmitted via an Electronic Funds Transfer (EFT) from the Town's bank account for \$49,410, but could not be verified as posted to the records.
2. A state distribution of \$44,096 for a Local Road and Bridge Matching distribution was posted to the General Fund, which should have been posted to the Local Road & Street fund.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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OFFICE 765/369/2711 FAX 765/369/8282  
Email: redkeyct007@gmail.com

December 21, 2018

To Whom It May Concern:

During my recent audit, there were some mistakes found. I will do my best to correct the mistakes.

Overdrawn Cash Balances - Myself and my deputy clerk will reviewing all procedures before anything is posted to help prevent the cash balances from being overdrawn.

Bank Account Reconciliations – Myself and my deputy clerk will be checking all the bank reconciliations as they are balanced.

Compensation and Benefits – All employees will be properly filling out time cards and having them signed.

I greatly appreciate the help the auditors have shown me and for future years I will try and be more efficient with my work to prevent these things from happening again.

Sincerely,

Debbie James  
Clerk Treasurer  
Town of Redkey

CLERK-TREASURER  
TOWN OF REDKEY  
EXIT CONFERENCE

The contents of this report were discussed on December 21, 2018, with Debbie James, Clerk-Treasurer.