

**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, 2017 to December 31, 2017



**FILED**  
03/15/2019



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Clerk-Treasurer:	
Federal Finding:	
Finding 2017-001	
Internal Controls over Cash and Investments .....	6-7
Corrective Action Plan .....	8
Exit Conference .....	9
Town Council:	
Federal Finding:	
Finding 2017-001	
Internal Controls over Cash and Investments .....	12-13
Corrective Action Plan .....	14
Exit Conference .....	15
Revolving Loan Department:	
Federal Finding:	
Finding 2017-002	
Economic Adjustment Assistance - Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization .....	18-20
Corrective Action Plan .....	21
Exit Conference .....	22

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Melinda Pendley	01-01-16 to 12-31-19
President of the Town Council	Barry M. Winger	01-01-17 to 12-31-18
Superintendent of the Utilities	Chris Mills	01-01-17 to 12-31-18



**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, 2017 to December 31, 2017. 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

December 20, 2018

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CLERK-TREASURER  
TOWN OF FRENCH LICK

CLERK-TREASURER  
TOWN OF FRENCH LICK  
FEDERAL FINDING

***FINDING 2017-001***

Subject: Internal Controls over Cash and Investments  
Audit Finding: Material Weakness

*Repeat Finding*

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

*Condition*

There were deficiencies in the internal control system of the Town related to cash and investments. The Clerk-Treasurer prepared the monthly bank reconciliations without evidence of an oversight, review, or approval process.

*Context*

The lack of internal controls was a systemic issue 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.

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

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 over cash and investments.

*Effect*

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

*Recommendation*

We recommended that the Town establish a system of internal controls related to cash and investments.

*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**  
7949 W Hunters Run Drive  
French Lick, Indiana 47432-8315

**BOARD OF TRUSTEES**

Barry Winger (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 2017-001 INTERNAL CONTROLS OVER CASH AND INVESTMENTS**

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Clerk-Treasurer will prepare the monthly bank reconciliations and the Business Office Manager will review and approve each month.

Anticipated Completion Date: Begin January 2019

  
\_\_\_\_\_  
(Signature)

*Clerk-Treasurer*  
\_\_\_\_\_  
(Title)

*12-17-18*  
\_\_\_\_\_  
(Date)

CLERK-TREASURER  
TOWN OF FRENCH LICK  
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2018, with Melinda Pendley, Clerk-Treasurer; Tony Watts, Town Council member; and James Stringer, Revolving Loan Executive Director.

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TOWN COUNCIL  
TOWN OF FRENCH LICK

TOWN COUNCIL  
TOWN OF FRENCH LICK  
FEDERAL FINDING

***FINDING 2017-001***

Subject: Internal Controls over Cash and Investments  
Audit Finding: Material Weakness

*Repeat Finding*

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

*Condition*

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*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:

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TOWN COUNCIL  
TOWN OF FRENCH LICK  
FEDERAL FINDING  
(Continued)

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*Cause*

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*Effect*

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

*Recommendation*

We recommended that the Town establish a system of internal controls related to cash and investments.

*Views of Responsible Officials*

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

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**BOARD OF TRUSTEES**

Barry Winger (President)  
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Tony Watts

**CLERK TREASURER**

Melinda Pendley

Incorporated May 2, 1857  
Telephone 812.936.4737  
Fax: 812.936.7006

**CORRECTIVE ACTION PLAN**

**FINDING 2017-001 INTERNAL CONTROLS OVER CASH AND INVESTMENTS**

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Clerk-Treasurer will prepare the monthly bank reconciliations and the Business Office Manager will review and approve each month.

Anticipated Completion Date: Begin January 2019

  
\_\_\_\_\_  
(Signature)

*Clerk-Treasurer*  
\_\_\_\_\_  
(Title)

*12-17-18*  
\_\_\_\_\_  
(Date)

TOWN COUNCIL  
TOWN OF FRENCH LICK  
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2018, with Melinda Pendley, Clerk-Treasurer; Tony Watts, Town Council member; and James Stringer, Revolving Loan Executive Director.

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REVOLVING LOAN DEPARTMENT  
TOWN OF FRENCH LICK

REVOLVING LOAN DEPARTMENT  
TOWN OF FRENCH LICK  
FEDERAL FINDING

***FINDING 2017-002***

Subject: Economic Adjustment Assistance - Special Tests and Provisions -  
Increases to RLF Capital Base and Capital Utilization

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

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

Compliance Requirement: Special Tests and Provisions - Increases to  
RLF Capital Base and Capital Utilization

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-005.

*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 Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement.

The Town had not established an effective internal control system to ensure compliance with the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization requirements. The Director of the Revolving Loan Fund (Director) was aware of the need to continually seek new applicants; however, there were no controls in place to ensure that the appropriate percentage of RLF Capital Base was loaned to qualified applicants, or that the excess funds were properly sequestered.

The Director was responsible for ensuring that a sufficient portion of the Revolving Loan Fund capital base had been loaned to qualifying entities and that the federal portion of sequestered funds was properly remitted to the Economic Development Authority. For the reporting periods ending March 30, 2017, and September 30, 2017, the Town had not loaned out an adequate amount of money as a proportion of the capital base, nor were the excess funds properly sequestered.

*Context*

The lack of controls and noncompliance were systemic issues 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. . . ."

REVOLVING LOAN DEPARTMENT  
TOWN OF FRENCH LICK  
FEDERAL FINDING  
(Continued)

13 CFR 307.16(c) states:

*"Capital utilization standard.*

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

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the Town.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Town's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement.

REVOLVING LOAN DEPARTMENT  
TOWN OF FRENCH LICK  
FEDERAL FINDING  
(Continued)

*Views of Responsible Officials*

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

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**CORRECTIVE ACTION PLAN**

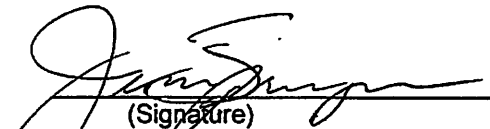
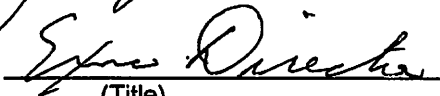
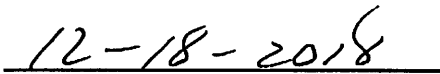
**FINDING 2017-002 SPECIAL TESTS AND PROVISIONS – INCREASES TO RLF CAPITAL BASE AND CAPITAL UTILIZATION**

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Executive Director will be consulting with the French Lick Revolving Loan Fund Board and EDA to work on an addendum to our current plan addressing the issue of excess funds being above the allowed percentage available to loan.

Anticipated Completion Date: June 2019

  
\_\_\_\_\_  
(Signature)  
  
\_\_\_\_\_  
(Title)  
  
\_\_\_\_\_  
(Date)

REVOLVING LOAN DEPARTMENT  
TOWN OF FRENCH LICK  
EXIT CONFERENCE

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