

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, 2018 to December 31, 2018



FILED
08/23/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Finding:	
Finding 2018-001	
Internal Controls over Cash and Investments	6-7
Corrective Action Plan	8
Exit Conference	9
Town Council:	
Federal Finding:	
2018-001	
Internal Controls over Cash and Investments	12-13
Corrective Action Plan	14
Exit Conference	15
Revolving Loan Department:	
Federal Findings:	
Finding 2018-002	
Economic Adjustment Assistance - Internal Controls	18-19
Finding 2018-003	
Economic Adjustment Assistance - Special Tests and	
Provisions - Loan Requirements	20-21
Finding 2018-004	
Economic Adjustment Assistance - Reporting	21-22
Corrective Action Plan	23-25
Exit Conference	26

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	01-01-18 to 12-31-19
Superintendent of the Utilities	Chris Mills	01-01-18 to 12-31-19



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, 2018 to December 31, 2018. 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/.

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

August 6, 2019

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF FRENCH LICK

CLERK-TREASURER
TOWN OF FRENCH LICK
FEDERAL FINDING

FINDING 2018-001

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2017-001.

Condition

There were deficiencies in the internal control system of the Town related to cash and investments. The Clerk-Treasurer prepared the bank reconciliations on a monthly basis. There was no indication of a review, oversight, 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 occur and 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 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 2018-001


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

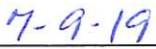
Views of Responsible Official: We agree with the finding.

Description of Corrective Plan: The Clerk-Treasurer prepares the monthly bank reconciliations and the Business Office Manager reviews and approves each month.

Anticipated Completion Date: Effective January 2019



(Signature)


(Title)


(Date)

CLERK-TREASURER
TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2019, with Melinda Pendley, Clerk-Treasurer; Barry M. Winger, President of the Town Council; and Jim Springer, Revolving Loan Executive Director.

(This page intentionally left blank.)

TOWN COUNCIL
TOWN OF FRENCH LICK

TOWN COUNCIL
TOWN OF FRENCH LICK
FEDERAL FINDING

FINDING 2018-001

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2017-001.

Condition

There were deficiencies in the internal control system of the Town related to cash and investments. The Clerk-Treasurer prepared the bank reconciliations on a monthly basis. There was no indication of a review, oversight, 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.

TOWN COUNCIL
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 occur and 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 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 2018-001


Contact Person Responsible for Corrective Action: Melinda Pendley, Clerk-Treasurer


Contact Phone Number: (812) 936-4737


Views of Responsible Official: We agree with the finding.

Description of Corrective Plan: The Clerk-Treasurer prepares the monthly bank reconciliations and the Business Office Manager reviews and approves each month.

Anticipated Completion Date: Effective January 2019



(Signature)


(Title)


(Date)

TOWN COUNCIL
TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2019, with Melinda Pendley, Clerk-Treasurer; Barry M. Winger, President of the Town Council; and Jim Springer, Revolving Loan Executive Director.

(This page intentionally left blank.)

REVOLVING LOAN DEPARTMENT
TOWN OF FRENCH LICK

REVOLVING LOAN DEPARTMENT
TOWN OF FRENCH LICK
FEDERAL FINDINGS

FINDING 2018-002

Subject: Economic Adjustment Assistance - Internal Controls

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: Activities Allowed or Unallowed, Allowable Costs/Cost Principles,
Special Tests and Provisions - Increases to RLF
Capital Base and Capital Utilization

Audit Finding: Material Weakness

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: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization.

Activities Allowed or Unallowed

The control procedures in place to ensure activities were allowable, which consisted of a review by the Revolving Loan Board, were not properly implemented. No evidence of the control procedure was presented for audit for one of six claim vouchers examined.

Allowable Costs/Cost Principles

The key control procedures in place to ensure costs were allowable, which consisted of a review by the Revolving Loan Board, were not properly implemented. No evidence of the control procedure was presented for audit for one of six claim vouchers examined.

Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization

One employee was responsible for monitoring compliance with the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement. The responsibility of issuing receipts, posting the loan payments (principle and interest), depositing payments, and access to outstanding loans documents to make adjustments is performed primarily by one employee. There were no control procedures in place, such as an oversight, review, or approval process, to ensure compliance with the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement.

Context

The lack of controls was limited to one of six items for activities allowed or unallowed and for allowable costs/cost principles.

The lack of controls for special tests and provisions - increases to RLF capital base and capital utilization was a systemic issue throughout the audit period.

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

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 . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The Town's management had not implemented an adequate system of internal controls that would have ensured compliance with the compliance requirements listed above.

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.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish and implement control procedures 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.

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

FINDING 2018-003

Subject: Economic Adjustment Assistance - 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 Matters

Condition

An effective internal control system was not in place at the Town in order to assure compliance with requirements related to Special Tests and Provisions - Loan Requirements during the audit period. The compliance attributes for Special Tests and Provisions - Loan Requirements were not met in one of three RLF Recipient loans granted during the audit period. The granted RLF Recipient's loan documentation did not include the standard loan documentation of the loan application and Board of Directors' meeting minutes approving the RLF loan.

Context

The lack of controls and noncompliance was limited to the one RLF Recipient loan as described above in the condition.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

13 CFR 307.11(a) states in part:

". . . (ii) The RLF Recipient's certification that standard RLF loan documents reasonably necessary or advisable for lending are in place and a certification from the RLF Recipient's legal counsel that the loan documents are adequate and comply with the terms and conditions of the RLF Grant, RLF Plan, and applicable State and local law. The standard loan documentation must include, at a minimum, the following:

(A) loan application;

(B) loan agreement;

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

- (C) board of directors' meeting minutes approving the RLF loan;
- (D) promissory note;
- (E) security agreement(s);
- (F) deed of trust or mortgage (as applicable);
- (G) agreement of prior lien holder (as applicable); and
- (H) evidence demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. . . ."

Cause

Town's management had not implemented an adequate system of internal controls that would have ensured compliance with Special Tests and Provisions - Loan Requirements.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls related to the grant agreement and the compliance requirement 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 2018-004

Subject: Economic Adjustment Assistance - 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
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matters

REVOLVING LOAN DEPARTMENT
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 requirement: Reporting. The Annual Report contained an overstatement of RLF Cash Available for Lending of \$10,841 on the report ending December 31, 2018, as compared to the ledger.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

13 CFR 307.14(b) states: "Report contents. RLF Recipients must certify as part of the RLF report to EDA that the RLF is operating in accordance with the applicable RLF Plan and that the information provided is complete and accurate."

Cause

Town's management had not implemented an adequate system of internal controls that would have ensured compliance with reporting requirements.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls related to the grant agreement and the compliance requirement listed above.

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 2018-002

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


Contact Phone Number: (812) 936-4885

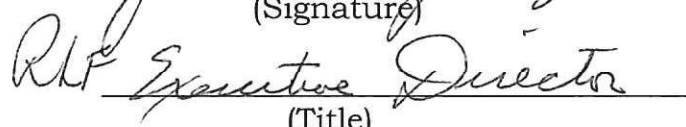
Views of Responsible Official: We concur with the finding.

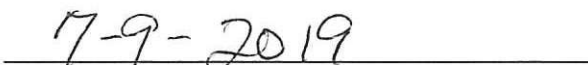
Description of Corrective Action Plan: All claim vouchers prepared will be reviewed and approved by the French Lick Revolving Loan Fund Board to ensure compliance requirements.

Duties have been segregated so that one employee is not solely responsible for all financial transactions. All transactions are reviewed and approved by the FLRLF Board.

Anticipated Completion Date: Immediately



(Signature)


(Title)


(Date)

Town of French Lick
7949 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 2018-003

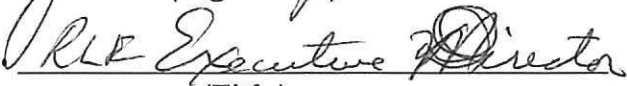
Contact Person Responsible for Corrective Action: James Springer, Executive Director
Contact Phone Number: (812) 936-4885

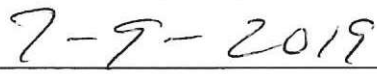
Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Executive Director advises internal controls are in place to ensure that all loan documents required are obtained in the applicant file. All loan documents will be reviewed and approved by the French Lick Revolving Loan Fund Board.

Anticipated Completion Date: July 1, 2019



(Signature)


(Title)


(Date)

Town of French Lick
7949 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

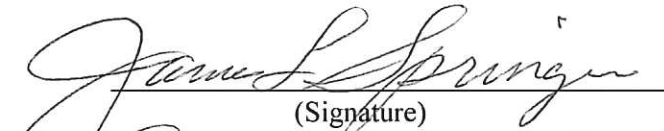
FINDING 2018-004

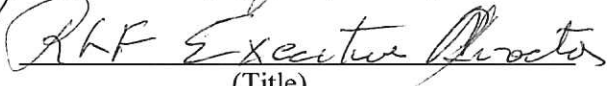
Contact Person Responsible for Corrective Action: James Springer, Executive Director
Contact Phone Number: (812) 936-4885

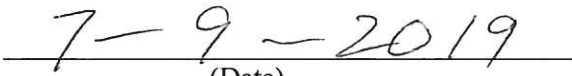
Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Executive Director will ensure accurate information is reported on future reports. Revolving Loan Secretary will review for accuracy and the FLRLF Board President will approve the information.

Anticipated Completion Date: July 1, 2019



(Signature)


(Title)


(Date)

REVOLVING LOAN DEPARTMENT
TOWN OF FRENCH LICK
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2019, with Melinda Pendley, Clerk-Treasurer; Barry M. Winger, President of the Town Council; and Jim Springer, Revolving Loan Executive Director.