

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, 2018 to December 31, 2018



FILED
08/27/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2018-001	
Financial Transactions and Reporting	6-8
Finding 2018-002	
Preparation of the Schedule of Expenditures of Federal Awards	8-10
Corrective Action Plan	11-12
Audit Results and Comments:	
Training and Certification on Internal Control Standards	13
Overdrawn Cash Balance	13
Exit Conference	14

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 Terri Taylor	01-01-18 to 12-31-18 01-01-19 to 12-31-19



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, 2018 to December 31, 2018. 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/.

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

August 6, 2019

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CLERK-TREASURER
TOWN OF REDKEY

CLERK-TREASURER
TOWN OF REDKEY
FEDERAL FINDINGS

FINDING 2018-001

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 2017-001.

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, payroll disbursements, 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.

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.

Payroll Disbursements

The Town had not established controls or separated incompatible activities related to payroll disbursements. One individual prepared payroll transactions, recorded the payroll entries to the Town ledger, and issued the payroll disbursements. Payroll disbursements were approved by the Town Council after disbursements were made. However, the detail provided to the Town Council was not sufficient to detect or prevent material errors from occurring.

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 General Fund required adjustments in the amount of \$(132,677) for disbursements - Other Charges and Services due to an adjustment that affected the prior period.

CLERK-TREASURER
TOWN OF REDKEY
FEDERAL FINDINGS
(Continued)

2. The Redkey Economic Development Inc fund, had an adjustment in the amount of \$(150,000) for disbursements due to a transfer that was included as a disbursement.
3. The remaining funds on the financial statement had aggregated adjustments in the amount of \$5,024 for receipts and \$(20,068) for disbursements.

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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 that segregated key functions related to cash and investments, receipts, payroll disbursements, and the financial close and reporting process.

CLERK-TREASURER
TOWN OF REDKEY
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish a system of internal controls enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, misstatements in a timely manner. The financial statement contained the errors identified in the *Condition*.

Recommendation

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

Views of Responsible Officials

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

FINDING 2018-002

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 2017-002.

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

The SEFA contained the following errors:

1. The Water and Waste Disposal Systems for Rural Communities expenditures were overstated by \$8,002,627.
2. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures were understated by \$30,000.
3. The Highway Planning and Construction grant expenditures were understated by \$4,152.

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

CLERK-TREASURER
TOWN OF REDKEY
FEDERAL FINDINGS
(Continued)

Context

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

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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 section 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule must:

CLERK-TREASURER
TOWN OF REDKEY
FEDERAL FINDINGS
(Continued)

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a 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 section 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 section 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, material misstatements of the SEFA remained undetected.

Views of Responsible Officials

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



Corrective Action Plan

Finding 2018-001

Debbie James
765-369-2711

Views of Responsible Official

We are in agreement with the finding.

Description of Corrective Action Plan

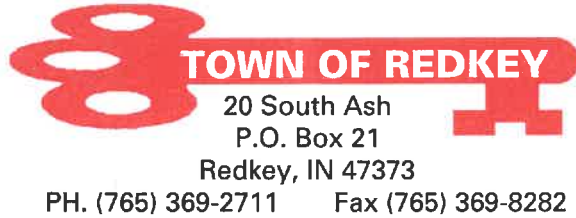
Cash and Investments – Deputy Clerk, Mary Eley, will review bank reconcilements.
Anticipated Completion Date: July 31, 2019

Receipts – Deputy Clerk, Mary Eley, will review receipt postings.
REDC Receipts – Clerk Treasurer, Debbie James, will review REDC receipts postings during
reconcilement process.
Anticipated Completion Date: July 31, 2019

Payroll Disbursements – Clerk Treasurer, Debbie James, will provide additional payroll detail to
Council Members.
Anticipated completion Date: August 22, 2019

Financial Close and Reporting – Deputy Clerk, Mary Eley, will review Gateway Submission of The
Annual Report.
Anticipated Completion Date: December 31, 2019

Clerk Treasurer: *Debbie James*
Date: *08/06/2019*



Corrective Action Plan

Finding 2018-002

Debbie James
765-369-2711

Views of Responsible Official

We are in agreement with the finding.

Description of Corrective Action Plan

Preparation of SEFA – Deputy Clerk, Mary Eley, will review Gateway Submission of The Annual Report.

Anticipated Completion Date: December 31, 2019

Clerk Treasurer: *Debbie James*

Date: *08/06/2019*

CLERK-TREASURER
TOWN OF REDKEY
AUDIT RESULTS AND COMMENTS

TRAINING AND CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer answered "Yes" to the Certification of Internal Control Standards in the Indiana Gateway Government Units financial reporting system; however, the Town had not provided the training to the required personnel. The Deputy Clerk-Treasurer, who was hired on June 4, 2018, did not receive the required internal control training.

Criteria

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](#)."

OVERDRAWN CASH BALANCE

The same comment also appeared in the immediately prior Report B52241.

Condition and Context

The Payroll fund was overdrawn at December 31, 2018, in the amount of \$8,979.

Criteria

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 August 6, 2019, with Debbie James, Clerk-Treasurer, and Terri Taylor, President of the Town Council.