

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

TOWN OF MARENGO  
CRAWFORD COUNTY, INDIANA

January 1, 2011 to December 31, 2012



**FILED**  
09/16/2013



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Michael Haverstock Anthony Jones	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	Tonia Jones-Elliott Michael Haverstock	01-01-11 to 12-31-11 01-01-12 to 12-31-13
Town Supervisor	Kenneth Hunt	01-01-11 to 12-31-13



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MARENGO, CRAWFORD COUNTY, INDIANA

***Report on the Financial Statement***

We have audited the accompanying financial statement of the Town of Marengo (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note 1 of the financial statement, the Town prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated August 13, 2013, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

***Accompanying Information***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records

INDEPENDENT AUDITOR'S REPORT  
(Continued)

used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman  
State Examiner

August 13, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF MARENGO, CRAWFORD COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Town of Marengo (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated August 13, 2013, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2.

***Town of Marengo's Response to Findings***

The Town's response to the findings identified in our audit is described in the Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman  
State Examiner

August 13, 2013

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## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Town. The financial statement and notes are presented as intended by the Town.

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TOWN OF MARENGO  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
GENERAL FUND	\$ (15,128)	\$ 82,230	\$ 38,623	\$ 28,479	\$ 103,821	\$ 49,233	\$ 83,067
MOTOR VEHICLE HIGHWAY	1,440	21,726	19,989	3,177	21,279	4,970	19,486
LOCAL ROAD AND STREET	2,315	3,248	3,242	2,321	3,219	2,853	2,687
PARK DONATION	215	-	-	215	-	215	-
TRASH	2,339	50,629	48,951	4,017	48,935	47,458	5,494
IND. HOUSING AND COM. DEV. AUT.	-	12,132	12,132	-	-	-	-
LOCAL LAW ENFORCEMENT CONTINUING EDUCATION	2,649	965	866	2,748	1,477	1,157	3,068
RIVERBOAT	115,740	89,766	125,831	79,675	90,729	117,919	52,485
PARK AND RECREATION	2,144	-	1,000	1,144	-	1,144	-
TRASH DEPOSITS	-	202	-	202	101	101	202
RAINY DAY	10,838	1,454	6,010	6,282	-	6,282	-
CEDIT	16,839	24,768	31,191	10,416	26,495	26,978	9,933
LEVY EXCESS	139	-	-	139	-	139	-
CUMULATIVE CAPITAL IMPROVEMENT	4,969	2,381	-	7,350	2,196	8,385	1,161
INDUSTRIAL PARK (CONST)	53	-	-	53	-	53	-
FIRE/STATE OPERATING GRANT	-	-	-	-	137,943	137,943	-
STORM DRAINAGE GRANT	-	552,175	552,175	-	391,896	391,896	-
DONATIONS 4TH OF JULY	2,354	5,222	5,404	2,172	5,056	7,118	110
DONATIONS CHRISTMAS	711	1,936	602	2,045	1,550	1,353	2,242
DONATION CEMETERY	844	1,282	-	2,126	754	2,880	-
PAYROLL	3,627	112,545	112,895	3,277	111,920	113,027	2,170
SEWER OPERATING	42,483	178,483	226,192	(5,226)	179,410	154,573	19,611
SEWER DEPOSITS	6,774	4,153	1,903	9,024	2,100	2,225	8,899
SEWER BOND	17,743	58,000	58,436	17,307	60,000	57,473	19,834
SEWER DEBT FUND	17,550	-	-	17,550	490	17,760	280
Totals	<u>\$ 236,638</u>	<u>\$ 1,203,297</u>	<u>\$ 1,245,442</u>	<u>\$ 194,493</u>	<u>\$ 1,189,371</u>	<u>\$ 1,153,135</u>	<u>\$ 230,729</u>

The notes to the financial statement are an integral part of this statement.

TOWN OF MARENGO  
NOTES TO FINANCIAL STATEMENT

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides the following services: public safety (police), highways and streets, culture and recreation, public improvements, general administrative services, wastewater, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the Town.

*B. Basis of Accounting*

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

*C. Cash and Investments*

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

TOWN OF MARENGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

TOWN OF MARENGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*F. Interfund Transfers*

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

**Note 4. Deposits and Investments**

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TOWN OF MARENGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 5. Risk Management**

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

**Note 6. Cash Balance Deficits**

The financial statement contains some funds with deficits in cash. This is a result of expenditures exceeding estimated revenues.

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## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Town which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF MARENGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011

	GENERAL FUND	MOTOR VEHICLE HIGHWAY	LOCAL ROAD AND STREET	PARK DONATION	TRASH	IND. HOUSING AND COM. DEV. AUT.	LOCAL LAW ENFORCEMENT CONTINUING EDUCATION	RIVERBOAT	PARK AND RECREATION
Cash and investments - beginning	\$ (15,128)	\$ 1,440	\$ 2,315	\$ 215	\$ 2,339	\$ -	\$ 2,649	\$ 115,740	\$ 2,144
Receipts:									
Taxes	42,234	-	-	-	-	-	-	-	-
Licenses and permits	1,403	-	-	-	-	-	190	-	-
Intergovernmental	17,280	21,726	3,248	-	-	12,132	-	89,766	-
Charges for services	3,001	-	-	-	50,629	-	10	-	-
Fines and forfeits	1,585	-	-	-	-	-	765	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	16,727	-	-	-	-	-	-	-	-
Total receipts	82,230	21,726	3,248	-	50,629	12,132	965	89,766	-
Disbursements:									
Personal services	34,148	-	-	-	-	-	-	41,819	-
Supplies	131	19,989	-	-	-	-	866	-	-
Other services and charges	4,203	-	3,242	-	48,951	12,132	-	84,012	-
Capital outlay	-	-	-	-	-	-	-	-	1,000
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	141	-	-	-	-	-	-	-	-
Total disbursements	38,623	19,989	3,242	-	48,951	12,132	866	125,831	1,000
Excess (deficiency) of receipts over disbursements	43,607	1,737	6	-	1,678	-	99	(36,065)	(1,000)
Cash and investments - ending	\$ 28,479	\$ 3,177	\$ 2,321	\$ 215	\$ 4,017	\$ -	\$ 2,748	\$ 79,675	\$ 1,144

TOWN OF MARENGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

	TRASH DEPOSITS	RAINY DAY	CEDIT	LEVY EXCESS	CUMULATIVE CAPITAL IMPROVEMENT	INDUSTRIAL PARK (CONST)	FIRE/STATE OPERATING GRANT	STORM DRAINAGE GRANT	DONATIONS 4TH OF JULY
Cash and investments - beginning	\$ -	\$ 10,838	\$ 16,839	\$ 139	\$ 4,969	\$ 53	\$ -	\$ -	\$ 2,354
Receipts:									
Taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	1,454	24,768	-	2,381	-	552,175	-	-
Charges for services	202	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	5,222
Total receipts	202	1,454	24,768	-	2,381	-	-	552,175	5,222
Disbursements:									
Personal services	-	-	19,823	-	-	-	-	-	-
Supplies	-	-	8,234	-	-	-	-	-	-
Other services and charges	-	6,010	2,469	-	-	-	552,175	-	5,404
Capital outlay	-	-	665	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-	-
Total disbursements	-	6,010	31,191	-	-	-	-	552,175	5,404
Excess (deficiency) of receipts over disbursements	202	(4,556)	(6,423)	-	2,381	-	-	-	(182)
Cash and investments - ending	\$ 202	\$ 6,282	\$ 10,416	\$ 139	\$ 7,350	\$ 53	\$ -	\$ -	\$ 2,172

TOWN OF MARENGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

	<u>DONATIONS CHRISTMAS</u>	<u>DONATION CEMETERY</u>	<u>PAYROLL</u>	<u>SEWER OPERATING</u>	<u>SEWER DEPOSITS</u>	<u>SEWER BOND</u>	<u>SEWER DEBT FUND</u>	<u>TOTALS</u>
Cash and investments - beginning	\$ 711	\$ 844	\$ 3,627	\$ 42,483	\$ 6,774	\$ 17,743	\$ 17,550	\$ 236,638
Receipts:								
Taxes	-	-	-	-	-	-	-	42,234
Licenses and permits	-	-	-	-	-	-	-	1,593
Intergovernmental	-	-	-	-	-	-	-	724,930
Charges for services	-	-	-	-	-	-	-	53,842
Fines and forfeits	-	-	-	-	-	-	-	2,350
Utility fees	-	-	-	178,279	4,153	-	-	182,432
Other receipts	<u>1,936</u>	<u>1,282</u>	<u>112,545</u>	<u>204</u>	<u>-</u>	<u>58,000</u>	<u>-</u>	<u>195,916</u>
Total receipts	<u>1,936</u>	<u>1,282</u>	<u>112,545</u>	<u>178,483</u>	<u>4,153</u>	<u>58,000</u>	<u>-</u>	<u>1,203,297</u>
Disbursements:								
Personal services	-	-	85,585	-	-	-	-	181,375
Supplies	-	-	-	-	-	-	-	29,220
Other services and charges	602	-	-	-	-	-	-	719,200
Capital outlay	-	-	-	-	-	-	-	1,665
Utility operating expenses	-	-	-	226,192	1,903	58,436	-	286,531
Other disbursements	<u>-</u>	<u>-</u>	<u>27,310</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,451</u>
Total disbursements	<u>602</u>	<u>-</u>	<u>112,895</u>	<u>226,192</u>	<u>1,903</u>	<u>58,436</u>	<u>-</u>	<u>1,245,442</u>
Excess (deficiency) of receipts over disbursements	<u>1,334</u>	<u>1,282</u>	<u>(350)</u>	<u>(47,709)</u>	<u>2,250</u>	<u>(436)</u>	<u>-</u>	<u>(42,145)</u>
Cash and investments - ending	<u>\$ 2,045</u>	<u>\$ 2,126</u>	<u>\$ 3,277</u>	<u>\$ (5,226)</u>	<u>\$ 9,024</u>	<u>\$ 17,307</u>	<u>\$ 17,550</u>	<u>\$ 194,493</u>

TOWN OF MARENGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012

	GENERAL FUND	MOTOR VEHICLE HIGHWAY	LOCAL ROAD AND STREET	PARK DONATION	TRASH	IND. HOUSING AND COM. DEV. AUT.	LOCAL LAW ENFORCEMENT CONTINUING EDUCATION	RIVERBOAT	PARK AND RECREATION
Cash and investments - beginning	\$ 28,479	\$ 3,177	\$ 2,321	\$ 215	\$ 4,017	\$ -	\$ 2,748	\$ 79,675	\$ 1,144
Receipts:									
Taxes	56,128	-	-	-	-	-	-	-	-
Licenses and permits	1,792	-	-	-	-	-	100	-	-
Intergovernmental	18,682	21,279	3,219	-	-	-	-	89,320	-
Charges for services	-	-	-	-	48,935	-	5	-	-
Fines and forfeits	27	-	-	-	-	-	1,372	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	27,192	-	-	-	-	-	-	1,409	-
Total receipts	103,821	21,279	3,219	-	48,935	-	1,477	90,729	-
Disbursements:									
Personal services	49,233	-	-	-	-	-	-	46,232	-
Supplies	-	-	-	-	-	-	67	-	-
Other services and charges	-	4,970	2,853	-	47,458	-	-	71,687	-
Capital outlay	-	-	-	-	-	-	1,090	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	215	-	-	-	-	1,144
Total disbursements	49,233	4,970	2,853	215	47,458	-	1,157	117,919	1,144
Excess (deficiency) of receipts over disbursements	54,588	16,309	366	(215)	1,477	-	320	(27,190)	(1,144)
Cash and investments - ending	\$ 83,067	\$ 19,486	\$ 2,687	\$ -	\$ 5,494	\$ -	\$ 3,068	\$ 52,485	\$ -

TOWN OF MARENGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	TRASH DEPOSITS	RAINY DAY	CEDIT	LEVY EXCESS	CUMULATIVE CAPITAL IMPROVEMENT	INDUSTRIAL PARK (CONST)	FIRE/STATE OPERATING GRANT	STORM DRAINAGE GRANT	DONATIONS 4TH OF JULY
Cash and investments - beginning	\$ 202	\$ 6,282	\$ 10,416	\$ 139	\$ 7,350	\$ 53	\$ -	\$ -	\$ 2,172
Receipts:									
Taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	26,495	-	2,196	-	137,943	391,896	-
Charges for services	101	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	5,056
Total receipts	101	-	26,495	-	2,196	-	137,943	391,896	5,056
Disbursements:									
Personal services	-	-	16,455	-	-	-	-	-	-
Supplies	-	-	4,969	-	-	-	-	-	-
Other services and charges	-	-	3,059	-	-	-	-	391,896	7,118
Capital outlay	-	-	2,495	-	-	-	137,943	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	101	6,282	-	139	8,385	53	-	-	-
Total disbursements	101	6,282	26,978	139	8,385	53	137,943	391,896	7,118
Excess (deficiency) of receipts over disbursements	-	(6,282)	(483)	(139)	(6,189)	(53)	-	-	(2,062)
Cash and investments - ending	\$ 202	\$ -	\$ 9,933	\$ -	\$ 1,161	\$ -	\$ -	\$ -	\$ 110

TOWN OF MARENGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	<u>DONATIONS CHRISTMAS</u>	<u>DONATION CEMETERY</u>	<u>PAYROLL</u>	<u>SEWER OPERATING</u>	<u>SEWER DEPOSITS</u>	<u>SEWER BOND</u>	<u>SEWER DEBT FUND</u>	<u>TOTALS</u>
Cash and investments - beginning	\$ 2,045	\$ 2,126	\$ 3,277	\$ (5,226)	\$ 9,024	\$ 17,307	\$ 17,550	\$ 194,493
Receipts:								
Taxes	-	-	-	-	-	-	-	56,128
Licenses and permits	-	-	-	-	-	-	-	1,892
Intergovernmental	-	-	-	-	-	-	-	691,030
Charges for services	-	-	-	-	-	-	-	49,041
Fines and forfeits	-	-	-	-	-	-	-	1,399
Utility fees	-	-	-	179,381	2,100	-	-	181,481
Other receipts	1,550	754	111,920	29	-	60,000	490	208,400
Total receipts	1,550	754	111,920	179,410	2,100	60,000	490	1,189,371
Disbursements:								
Personal services	-	-	85,398	-	-	-	-	197,318
Supplies	-	-	-	-	-	-	-	5,036
Other services and charges	1,353	-	-	-	-	-	-	530,394
Capital outlay	-	-	-	-	-	-	-	141,528
Utility operating expenses	-	-	-	112,308	-	-	-	112,308
Other disbursements	-	2,880	27,629	42,265	2,225	57,473	17,760	166,551
Total disbursements	1,353	2,880	113,027	154,573	2,225	57,473	17,760	1,153,135
Excess (deficiency) of receipts over disbursements	197	(2,126)	(1,107)	24,837	(125)	2,527	(17,270)	36,236
Cash and investments - ending	\$ 2,242	\$ -	\$ 2,170	\$ 19,611	\$ 8,899	\$ 19,834	\$ 280	\$ 230,729

TOWN OF MARENGO  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ -	\$ 2,245
Wastewater	-	5,328
Totals	\$ -	\$ 7,573

TOWN OF MARENGO  
 SCHEDULE OF LEASES AND DEBT  
 December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
Revenue bonds	1981 Wastewater Revenue Bonds	\$ 190,000	\$ 26,500
Notes and loans payable	Holding Tank at Sewage Plant	39,375	6,685
Notes and loans payable	Sewage Plant	<u>122,491</u>	<u>24,324</u>
Total Wastewater		<u>\$ 351,866</u>	<u>\$ 57,509</u>

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TOWN OF MARENGO  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 67,450
Buildings	221,072
Improvements other than buildings	993,952
Machinery, equipment, and vehicles	129,593
Total governmental activities	1,412,067
Wastewater:	
Land	22,308
Buildings	1,342,729
Improvements other than buildings	3,557,143
Machinery, equipment, and vehicles	60,630
Total Wastewater	4,982,810
Total capital assets	\$ 6,394,877

TOWN OF MARENGO  
AUDIT RESULTS AND COMMENTS

**ANNUAL REPORTS**

The Annual Reports for 2011 and 2012 contained a number of errors and did not properly reflect all of the Town's Federal grant activity in the Schedule of Expenditures of Federal Awards (SEFA).

During the audit of the SEFA, we noted the following errors:

1. Some Federal programs were not reported.
2. Federal awards reported did not list the Federal grantor agency.
3. Federal awards reported did not include the Federal program name.
4. Federal awards reported did not include the CFDA number.
5. The amount of Federal awards provided to subrecipients was not reported.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report for the deficiencies noted above. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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."

**INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal

TOWN OF MARENGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

controls. The failure to exercise their oversight responsibility place the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

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 should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***OVERDRAWN CASH BALANCE***

The Sewer Operating Fund was overdrawn by \$5,226 at December 31, 2011.

The 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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MARENGO  
AUDIT RESULTS AND COMMENTS  
(Continued)

***DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS***

Revenue Bond Ordinance 1981-4, which governs the 1981 Wastewater Improvement Revenue Bonds, requires monthly transfers from the Sewer Operating Fund to be made to a Bond and Interest Account (Sewer Bond Fund) so that sufficient amounts are available to pay bond principal and interest payments when they come due. The Revenue Bond Ordinance also requires a certain amount be maintained in a Debt Service Reserve Account (Sewer Debt Fund) as a margin of safety and protection against default should sufficient funds not be available in the Bond and Interest Account to pay principal and interest on the bonds. Should it be necessary to transfer monies from the Debt Service Reserve Account to the Bond and Interest Account to pay principal and interest on bonds, the bond ordinance requires that such depletion of the balance in the Debt Service Reserve Account shall be made up from the next available revenues after credits into the Bond and Interest Account.

On July 9, 2012, the Town Council authorized the monthly transfers from the Sewer Operating Fund to the Sewer Bond Fund (Bond and Interest Account) be suspended for three months due to cash flow problems in the Sewer Operating Fund. In lieu of the monthly transfers from the Sewer Operating Fund, the Town Council authorized the monthly transfers to the Sewer Bond Fund be made from the Sewer Debt Fund (Debt Service Reserve Account). During the three month period, a total of \$17,759.57 was transferred to the Sewer Bond Fund from the Sewer Debt Fund. In accordance with the Revenue Bond Ordinance, a balance of \$27,300 should be maintained in the Sewer Debt Fund. The balance of the Sewer Debt Fund at December 31, 2012, was \$280. As of July 31, 2013, the Utility has not made any transfers into the Sewer Debt Fund to make up for the depleted funds or to bring the balance of the Fund to the required amount per the Revenue Bond Ordinance. As a result the Sewer Debt Fund is under funded by \$27,020.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE TOWN OF MARENGO, CRAWFORD COUNTY, INDIANA

***Report on Compliance for Each Major Federal Program***

We have audited the Town of Marengo's (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2011 to December 31, 2012. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period of January 1, 2011 to December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

***Report on Internal Control Over Compliance***

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the type of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3 to be material weaknesses.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman  
State Examiner

August 13, 2013

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Town. The schedule and notes are presented as intended by the Town.

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TOWN OF MARENGO  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>Department of Agriculture</u>					
Community Facilities Loans and Grants Cluster					
Community Facilities Loans and Grants	Direct grant				
Fire Truck		10.766	97-03	\$ -	\$ 50,000
Total - Community Facilities Loans and Grants Cluster				-	50,000
Total - Department of Agriculture				-	50,000
<u>Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs				
Fire Truck		14.228	CF-09-500	-	87,943
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs				
Storm Drainage Project		14.228	DR2-09-105	552,175	391,896
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Indiana Department of Housing and Community Development Authority				
Home Improvement and Repairs		14.228	HD-008-033	12,132	-
Total - CDBG - State-Administered CDBG Cluster				564,307	479,839
Total - Department of Housing and Urban Development				564,307	479,839
<u>Department of Homeland Security</u>					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Indiana Department of Homeland Security				
2011 Storm		97.036	385PA1997000000	2,909	-
Total - Department of Homeland Security				2,909	-
Total federal awards expended				\$ 567,216	\$ 529,839

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF MARENGO  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Marengo (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

**Note 2. Subrecipients**

Of the federal expenditures presented in the schedule, the Town provided federal awards to subrecipients as follows for the years ended December 31, 2011 and 2012:

Program Title/Subrecipient	Federal CFDA Number	2011	2012
Community Facilities Loans and Grants Marengo Liberty Township Volunteer Fire Association	10.766	\$ -	\$ 50,000
Community Development Block Grants/State's Program and Non- Entitlement Grants in Hawaii Marengo Liberty Township Volunteer Fire Association	14.228	-	87,943

TOWN OF MARENGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

\_\_\_\_\_  
Name of Federal Program or Cluster

CDBG - State-Administered CDBG Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

**Section II – Financial Statement Findings**

**FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

TOWN OF MARENGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FINDING 2012-2 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

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 should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors:

1. Some Federal programs were not reported.
2. Federal awards reported did not list the Federal grantor agency.
3. Federal awards reported did not include the correct Federal program name.
4. Federal awards reported did not include the CFDA number.
5. The amount of Federal awards provided to subrecipients was not reported.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

TOWN OF MARENGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section. 300 states in part: "The auditee shall . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

OMB Circular A-133, Subpart C, section. 310(b) states:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

TOWN OF MARENGO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section III – Federal Award Findings and Questioned Costs**

**FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII**

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): CF-09-500, DR2-09-105

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Federal Award Number and Year (or Other Identifying Number): HD-008-033

Pass-Through Entity: Indiana Department of Housing and Community Development Authority

Management of the Town of Marengo has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements; activities allowed or unallowed; allowable costs/costs principles; cash management; davis-bacon act; matching, level or effort, earmarking; period of availability; procurement, suspension and debarment; reporting; and subrecipient monitoring. The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

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."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

**TOWN OF MARENGO  
117 E. WATER STREET  
P.O. BOX 206  
MARENGO, IN 47150**

**CORRECTIVE ACTION PLAN – 2011-2012 AUDIT FINDINGS**

Auditee Contact Person: Russell Beals  
Title of Contact Person: Deputy Clerk-Treasurer  
Phone Number: (812) 365-2158

Section II – Financial Statement Findings

**FINDING 2012 -1: INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

Lack of Segregation of Duties  
Preparing Financial Statements:  
Monitoring Controls:

The Town of Marengo will review all procedures and will attempt to institute, to some degree, controls as stated in Chapter 7, Accounting and Uniform Compliance Guidelines Manual for Cities and Towns. The Town has determined to attempt to comply with safeguarding controls. The Town estimates a completion date of June 30, 2014.

**FINDING 2012-2: INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

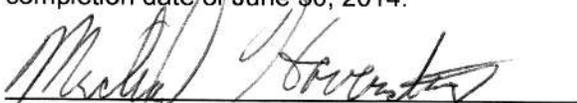
The Town of Marengo will attempt to establish a policy or policies whereby all pertinent information will be listed on the Financial Reports for Federal Programs and Awards and will be reviewed by Town Council and included in the minutes of the Council meeting. Every effort will be made to follow all guidelines required for Federal Programs and Awards. The Town estimates a completion date of June 30, 2014.

Section III – Federal Award Findings and Questioned Costs

**FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE STATE ADMINISTERED CDBG PROGRAM**

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  
CFDA Number: 14.228  
Federal Award Number and Year (or Other Identifying Number): CF-09-500, DR2-09-105  
Pass-Through Entity: Indiana Office of Community Development and Rural Affairs  
Federal Award Number and Year (or Other Identifying Number): HD-008-033  
Pass-Through Entity: Indiana Department of Housing and Community Development Authority

The Town of Marengo will agree to review and attempt to establish controls including segregation of duties related to any future grants by establishing more detailed minutes on the compliance requirements and creating a detailed check list for internal control over Federal Programs that provide reasonable assurance in the managing of Federal Awards. The Town estimates a completion date of June 30, 2014.

  
\_\_\_\_\_  
Michael Haverstock, President

  
\_\_\_\_\_  
Tony Jones, Clerk/Treasurer

  
\_\_\_\_\_  
Russ Beals, Deputy Clerk/Treasurer

TOWN OF MARENGO  
EXIT CONFERENCE

The contents of this report were discussed on August 13, 2013, with Anthony Jones, Clerk-Treasurer; Russell Beals, Deputy Clerk-Treasurer; and Michael Haverstock, President of the Town Council. The officials concurred with our audit findings.