

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF MENTONE
KOSCIUSKO COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
09/25/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-5
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	6-7
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	11
Notes to Financial Statement	12-15
Supplementary Information - Unaudited:	
Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	18-23
Schedule of Payables and Receivables	24
Schedule of Leases and Debt	25
Audit Results and Comments:	
Internal Controls Over Financial Transactions and Reporting	26-27
Internal Controls Over Reporting of Expenditures of Federal Awards	27
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance.....	30-31
Schedule of Expenditures of Federal Awards	35
Note to Schedule of Expenditures of Federal Awards.....	36
Schedule of Findings and Questioned Costs	37-39
Auditee Prepared Schedule:	
Corrective Action Plan.....	40-41
Exit Conference.....	42

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Barbara Ross	01-01-08 to 12-31-15
President of the Town Council	Timothy Croy	01-01-11 to 12-31-13



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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MENTONE, KOSCIUSKO COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Mentone (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 September 16, 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 statements. 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 used to prepare the financial statement or to the financial statement itself, and other additional procedures in

INDEPENDENT AUDITOR'S REPORT
(Continued)

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, and Schedule of Leases and Debt, 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

September 16, 2013



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

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 MENTONE, KOSCIUSKO 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 Mentone (Town), which comprise 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 September 16, 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.

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

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)

was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Mentone's Response to Findings

The Town's response to the 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 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

September 16, 2013

(This page intentionally left blank.)

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.

(This page intentionally left blank.)

TOWN OF MENTONE
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	\$ 203,892	\$ 327,809	\$ 359,168	\$ 172,533	\$ 360,462	\$ 379,861	\$ 153,134
Motor Vehicle Highway	21,393	24,885	30,221	16,057	26,159	27,291	14,925
Local Road and Street	26,444	8,084	5,570	28,958	8,614	10,821	26,751
Sanitation	23,144	35,910	27,706	31,348	36,500	27,931	39,917
Local Law Enforcement Continuing Education	1,602	672	-	2,274	205	1,175	1,304
Riverboat	11,240	5,620	-	16,860	5,930	-	22,790
Park Donations	37,437	195	-	37,632	180	200	37,612
Cemetery	45,575	4,833	2,510	47,898	3,800	2,000	49,698
Cemetery Donation	1,897	-	-	1,897	-	-	1,897
Cemetery Endowment	18,600	-	-	18,600	-	-	18,600
Rainy Day	51,442	-	-	51,442	-	-	51,442
Economic Development Income Tax	107,282	117,172	94,941	129,513	63,709	44,271	148,951
Cumulative Capital Improvement	10,314	2,579	6,000	6,893	2,655	6,000	3,548
Cumulative Capital Development	67,190	11,824	-	79,014	11,564	10,200	80,378
Storm Water Grant	-	1,000,000	1,000,000	-	-	-	-
Storm Water Grant Retainage	-	90,000	-	90,000	-	90,000	-
Water Utility Operating	104,005	189,807	188,333	105,479	190,096	161,831	133,744
Water Utility Meter Deposit	19,546	4,400	5,210	18,736	4,200	2,701	20,235
Water Utility Bond and Interest	92,978	74,678	75,650	92,006	27,309	72,150	47,165
Sewage Utility Operating	65,688	214,208	207,660	72,236	223,352	219,634	75,954
Sewage Utility Depreciation	29,483	2,696	-	32,179	1,443	-	33,622
Sewage Utility Grant	-	447,365	447,365	-	-	-	-
Sewage Utility Grant Retainage	6,982	51,183	57,165	1,000	-	1,000	-
Sewage Utility Debt Service Reserve	8,556	17,113	-	25,669	17,113	-	42,782
Sewage Utility Bond and Interest	974,930	78,679	730,938	322,671	81,438	101,150	302,959
Totals	<u>\$ 1,929,620</u>	<u>\$ 2,709,712</u>	<u>\$ 3,238,437</u>	<u>\$ 1,400,895</u>	<u>\$ 1,064,729</u>	<u>\$ 1,158,216</u>	<u>\$ 1,307,408</u>

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

TOWN OF MENTONE
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 some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, 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 statements. 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 MENTONE
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.

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.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

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 MENTONE
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.

TOWN OF MENTONE
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

(This page intentionally left blank.)

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

	General	Motor Vehicle Highway	Local Road and Street	Sanitation	Local Law Enforcement Continuing Education	Riverboat	Park Donations	Cemetery	Cemetery Donation
Cash and investments - beginning	\$ 203,892	\$ 21,393	\$ 26,444	\$ 23,144	\$ 1,602	\$ 11,240	\$ 37,437	\$ 45,575	\$ 1,897
Receipts:									
Taxes	215,938	-	-	-	-	-	-	-	-
Licenses and permits	450	-	-	-	390	-	-	-	-
Intergovernmental	85,059	24,465	7,967	-	-	5,620	-	-	-
Charges for services	13,481	420	-	35,910	282	-	195	4,450	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	12,881	-	117	-	-	-	-	383	-
Total receipts	<u>327,809</u>	<u>24,885</u>	<u>8,084</u>	<u>35,910</u>	<u>672</u>	<u>5,620</u>	<u>195</u>	<u>4,833</u>	<u>-</u>
Disbursements:									
Personal services	154,074	12,000	-	-	-	-	-	1,500	-
Supplies	58,047	2,221	-	-	-	-	-	1,010	-
Other services and charges	106,797	16,000	5,570	27,706	-	-	-	-	-
Debt service principal and interest	-	-	-	-	-	-	-	-	-
Capital outlay	40,250	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-	-
Total disbursements	<u>359,168</u>	<u>30,221</u>	<u>5,570</u>	<u>27,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,510</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(31,359)</u>	<u>(5,336)</u>	<u>2,514</u>	<u>8,204</u>	<u>672</u>	<u>5,620</u>	<u>195</u>	<u>2,323</u>	<u>-</u>
Cash and investments - ending	<u>\$ 172,533</u>	<u>\$ 16,057</u>	<u>\$ 28,958</u>	<u>\$ 31,348</u>	<u>\$ 2,274</u>	<u>\$ 16,860</u>	<u>\$ 37,632</u>	<u>\$ 47,898</u>	<u>\$ 1,897</u>

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

	Cemetery Endowment	Rainy Day	Economic Development Income Tax	Cumulative Capital Improvement	Cumulative Capital Development	Storm Water Grant	Storm Water Grant Retainage	Water Utility Operating	Water Utility Meter Deposit
Cash and investments - beginning	\$ 18,600	\$ 51,442	\$ 107,282	\$ 10,314	\$ 67,190	\$ -	\$ -	\$ 104,005	\$ 19,546
Receipts:									
Taxes	-	-	46,122	-	10,851	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	2,579	973	1,000,000	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	189,807	-
Other receipts	-	-	71,050	-	-	-	90,000	-	4,400
Total receipts	-	-	117,172	2,579	11,824	1,000,000	90,000	189,807	4,400
Disbursements:									
Personal services	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-
Other services and charges	-	-	94,941	-	-	-	-	-	-
Debt service principal and interest	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	6,000	-	1,000,000	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	188,333	-
Other disbursements	-	-	-	-	-	-	-	-	5,210
Total disbursements	-	-	94,941	6,000	-	1,000,000	-	188,333	5,210
Excess (deficiency) of receipts over disbursements	-	-	22,231	(3,421)	11,824	-	90,000	1,474	(810)
Cash and investments - ending	\$ 18,600	\$ 51,442	\$ 129,513	\$ 6,893	\$ 79,014	\$ -	\$ 90,000	\$ 105,479	\$ 18,736

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

	Water Utility Bond and Interest	Sewage Utility Operating	Sewage Utility Depreciation	Sewage Utility Grant	Sewage Utility Grant Retainage	Sewage Utility Debt Service Reserve	Sewage Utility Bond and Interest	Totals
Cash and investments - beginning	\$ 92,978	\$ 65,688	\$ 29,483	\$ -	\$ 6,982	\$ 8,556	\$ 974,930	\$ 1,929,620
Receipts:								
Taxes	-	-	-	-	-	-	-	272,911
Licenses and permits	-	-	-	-	-	-	-	840
Intergovernmental	-	-	-	447,365	-	-	-	1,574,028
Charges for services	-	-	-	-	-	-	-	54,738
Utility fees	-	214,208	-	-	-	-	-	404,015
Other receipts	74,678	-	2,696	-	51,183	17,113	78,679	403,180
Total receipts	<u>74,678</u>	<u>214,208</u>	<u>2,696</u>	<u>447,365</u>	<u>51,183</u>	<u>17,113</u>	<u>78,679</u>	<u>2,709,712</u>
Disbursements:								
Personal services	-	-	-	-	-	-	-	167,574
Supplies	-	-	-	-	-	-	-	61,278
Other services and charges	-	-	-	-	-	-	-	251,014
Debt service principal and interest	75,650	-	-	-	-	-	77,350	153,000
Capital outlay	-	-	-	447,365	-	-	653,588	2,147,203
Utility operating expenses	-	207,660	-	-	-	-	-	395,993
Other disbursements	-	-	-	-	57,165	-	-	62,375
Total disbursements	<u>75,650</u>	<u>207,660</u>	<u>-</u>	<u>447,365</u>	<u>57,165</u>	<u>-</u>	<u>730,938</u>	<u>3,238,437</u>
Excess (deficiency) of receipts over disbursements	<u>(972)</u>	<u>6,548</u>	<u>2,696</u>	<u>-</u>	<u>(5,982)</u>	<u>17,113</u>	<u>(652,259)</u>	<u>(528,725)</u>
Cash and investments - ending	<u>\$ 92,006</u>	<u>\$ 72,236</u>	<u>\$ 32,179</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 25,669</u>	<u>\$ 322,671</u>	<u>\$ 1,400,895</u>

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

	General	Motor Vehicle Highway	Local Road and Street	Sanitation	Local Law Enforcement Continuing Education	Riverboat	Park Donations	Cemetery
Cash and investments - beginning	\$ 172,533	\$ 16,057	\$ 28,958	\$ 31,348	\$ 2,274	\$ 16,860	\$ 37,632	\$ 47,898
Receipts:								
Taxes	225,033	-	-	-	-	-	-	-
Licenses and permits	750	-	-	-	150	-	-	-
Intergovernmental	109,069	25,739	8,534	-	-	5,930	-	-
Charges for services	13,944	420	-	36,500	55	-	180	3,650
Utility fees	-	-	-	-	-	-	-	-
Other receipts	11,666	-	80	-	-	-	-	150
Total receipts	<u>360,462</u>	<u>26,159</u>	<u>8,614</u>	<u>36,500</u>	<u>205</u>	<u>5,930</u>	<u>180</u>	<u>3,800</u>
Disbursements:								
Personal services	145,873	12,729	-	-	-	-	200	2,000
Supplies	69,685	3,502	-	-	-	-	-	-
Other services and charges	107,489	11,060	10,821	27,931	1,175	-	-	-
Debt service principal and interest	-	-	-	-	-	-	-	-
Capital outlay	56,814	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	<u>379,861</u>	<u>27,291</u>	<u>10,821</u>	<u>27,931</u>	<u>1,175</u>	<u>-</u>	<u>200</u>	<u>2,000</u>
Excess (deficiency) of receipts over disbursements	<u>(19,399)</u>	<u>(1,132)</u>	<u>(2,207)</u>	<u>8,569</u>	<u>(970)</u>	<u>5,930</u>	<u>(20)</u>	<u>1,800</u>
Cash and investments - ending	<u>\$ 153,134</u>	<u>\$ 14,925</u>	<u>\$ 26,751</u>	<u>\$ 39,917</u>	<u>\$ 1,304</u>	<u>\$ 22,790</u>	<u>\$ 37,612</u>	<u>\$ 49,698</u>

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

	Cemetery Donation	Cemetery Endowment	Rainy Day	Economic Development Income Tax	Cumulative Capital Improvement	Cumulative Capital Development	Storm Water Grant Retainage	Water Utility Operating
Cash and investments - beginning	\$ 1,897	\$ 18,600	\$ 51,442	\$ 129,513	\$ 6,893	\$ 79,014	\$ 90,000	\$ 105,479
Receipts:								
Taxes	-	-	-	-	-	10,512	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	63,709	2,655	1,052	-	-
Charges for services	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	190,096
Other receipts	-	-	-	-	-	-	-	-
Total receipts	-	-	-	63,709	2,655	11,564	-	190,096
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	44,271	-	-	-	-
Debt service principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	6,000	10,200	-	10,550
Utility operating expenses	-	-	-	-	-	-	-	124,031
Other disbursements	-	-	-	-	-	-	90,000	27,250
Total disbursements	-	-	-	44,271	6,000	10,200	90,000	161,831
Excess (deficiency) of receipts over disbursements	-	-	-	19,438	(3,345)	1,364	(90,000)	28,265
Cash and investments - ending	\$ 1,897	\$ 18,600	\$ 51,442	\$ 148,951	\$ 3,548	\$ 80,378	\$ -	\$ 133,744

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

	Water Utility Meter Deposit	Water Utility Bond and Interest	Sewage Utility Operating	Sewage Utility Depreciation	Sewage Utility Grant Retainage	Sewage Utility Debt Service Reserve	Sewage Utility Bond and Interest	Totals
Cash and investments - beginning	\$ 18,736	\$ 92,006	\$ 72,236	\$ 32,179	\$ 1,000	\$ 25,669	\$ 322,671	\$ 1,400,895
Receipts:								
Taxes	-	-	-	-	-	-	-	235,545
Licenses and permits	-	-	-	-	-	-	-	900
Intergovernmental	-	-	-	-	-	-	-	216,688
Charges for services	-	-	-	-	-	-	-	54,749
Utility fees	-	-	223,352	-	-	-	-	413,448
Other receipts	4,200	27,309	-	1,443	-	17,113	81,438	143,399
Total receipts	4,200	27,309	223,352	1,443	-	17,113	81,438	1,064,729
Disbursements:								
Personal services	-	-	-	-	-	-	-	160,802
Supplies	-	-	-	-	-	-	-	73,187
Other services and charges	-	-	-	-	-	-	-	202,747
Debt service principal and interest	-	72,150	-	-	-	-	81,788	153,938
Capital outlay	-	-	-	-	-	-	-	83,564
Utility operating expenses	-	-	122,084	-	-	-	-	246,115
Other disbursements	2,701	-	97,550	-	1,000	-	19,362	237,863
Total disbursements	2,701	72,150	219,634	-	1,000	-	101,150	1,158,216
Excess (deficiency) of receipts over disbursements	1,499	(44,841)	3,718	1,443	(1,000)	17,113	(19,712)	(93,487)
Cash and investments - ending	\$ 20,235	\$ 47,165	\$ 75,954	\$ 33,622	\$ -	\$ 42,782	\$ 302,959	\$ 1,307,408

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

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ -	\$ 6,540
Water	-	10,930
Governmental activities	-	1,410
Totals	\$ -	\$ 18,880

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
Sewage Works Revenue Bonds of 2010	Sewage Utility improvements	<u>\$ 980,000</u>	<u>\$ 80,938</u>

TOWN OF MENTONE
AUDIT RESULTS AND COMMENTS

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, utility billings and collections, 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 statement and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council 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.

TOWN OF MENTONE
AUDIT RESULTS AND COMMENTS
(Continued)

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 REPORTING 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)

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE TOWN OF MENTONE, KOSCIUSKO COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Mentone'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

September 16, 2013

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

(This page intentionally left blank.)

TOWN OF MENTONE
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 Housing and Urban Development</u>					
CDBG - State Administered CDBG Cluster Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs	14.228			
			CF-09-212 DR2-09-107	\$ 441,748 1,000,000	\$ - -
Total - Department of Housing and Urban Development				<u>1,441,748</u>	<u>-</u>
<u>Department of Transportation</u>					
Highway Safety Cluster State and Community Highway Safety	Town of Winona Lake	20.600	PT-11-04-04-19 PT-12-11-04-17	1,068 -	- 429
Total - State and Community Highway Safety				<u>1,068</u>	<u>429</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I	Town of Winona Lake	20.601	K8-2011-03-03-16 K8-2012-03-03-17	1,960 -	- 854
Total - Alcohol Impaired Driving Countermeasures Incentive Grants I				<u>1,960</u>	<u>854</u>
Total - Department of Transportation				<u>3,028</u>	<u>1,283</u>
Total federal awards expended				<u>\$ 1,444,776</u>	<u>\$ 1,283</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards

TOWN OF MENTONE
NOTE 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 Mentone and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. 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.

TOWN OF MENTONE
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?	no

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, utility billings and collections, 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 MENTONE
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 statement and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council 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 REPORTING
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)

TOWN OF MENTONE
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 STATE ADMINISTERED CDBG PROGRAM

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grant/State's
Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): CF-09-212, DR2-09-107
Pass-Through Entity: Indiana Office of Community and Rural Affairs (OCRA)

Management of the Town has not established an effective internal control system, related to the grant agreement and some 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/Cost Principles, Cash Management, Davis-Bacon Act, Matching, Period of Availability, Procurement and Suspension and Debarment, Reporting, and Special Tests and Provisions. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements.

An internal control system, 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. 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.

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. Noncompliance 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 the compliance requirements noted above that have a direct and material effect to the program.

Town of Mentone

P.O. Box 562
Mentone, IN 46539

Corrective Action Plans

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

Auditee Contact Person: Barbara Ross
Title of Contact Person: Clerk-Treasurer
Phone Number: 574-353-7198
Expected Completion Date: 12-31-13

Corrective Action:

As it regards internal controls of the Town of Mentone, we will develop controls with an emphasis on separating incompatible activities and preventing and detecting material misstatements where practical. Also, we plan to increase Town Council oversight of our day-to-day operations.

FEDERAL FINDING 2012-2 - INTERNAL CONTROLS OVER REPORTING OF EXPENDITURES OF FEDERAL AWARDS

Auditee Contact Person: Barbara Ross
Title of Contact Person: Clerk-Treasurer
Phone Number: 574-353-7198
Expected Completion Date: 12-31-13

Corrective Action:

As it regards internal controls over reporting on the Schedule of Expenditures of Federal Awards, we will develop controls with an emphasis on preventing and detecting material misstatements where practical.

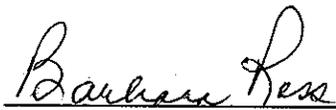
FEDERAL FINDING 2012-3 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE STATE ADMINISTERED CDBG PROGRAM

Federal Agency: DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Federal Program: Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): CF-09-212, DR2-09-107
Pass-Through: Indiana Office of Community and Rural Affairs

Auditee Contact Person: Barbara Ross
Title of Contact Person: Clerk-Treasurer
Phone Number: 574-353-7198
Expected Completion Date: 12-31-13

Corrective Action:

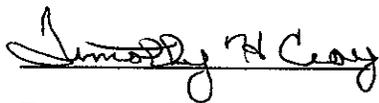
As it regards internal controls over federal compliance requirements, we will develop controls with an emphasis on separating incompatible activities and preventing and detecting material misstatements where practical. Also, we plan to increase Town Council oversight of our day-to-day operations.



Clerk-Treasurer

9-16-13

Date



Town Council President

9-16-13

Date

TOWN OF MENTONE
EXIT CONFERENCE

The contents of this report were discussed on September 16, 2013, with Barbara Ross, Clerk-Treasurer, and Timothy Croy, President of the Town Council. The officials concurred with our audit findings.