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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF OOLITIC
LAWRENCE COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
10/25/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Terri Hackler K. James Staley	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	Delvin Nikirk	01-01-11 to 12-31-13



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF OOLITIC, LAWRENCE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Oolitic (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 October 2, 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 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

October 2, 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 OOLITIC, LAWRENCE 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 Oolitic (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 October 2, 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

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)

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 Oolitic'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

October 2, 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 OOLITIC
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	\$ 66,183	\$ 201,057	\$ 190,898	\$ 76,342	\$ 194,008	\$ 190,261	\$ 80,089
Motor Vehicle Highway	11,312	30,672	31,495	10,489	45,281	38,926	16,844
Local Road and Street	25,426	23,581	36,659	12,348	14,815	1,151	26,012
Sanitation	42,044	27,144	31,562	37,626	50,678	47,174	41,130
Law Enforcement Continuing Education	5,957	620	-	6,577	1,015	-	7,592
Parks and Recreation	508	20,180	16,834	3,854	9,606	6,305	7,155
Levy Excess	508	-	-	508	556	-	1,064
Cumulative Capital Development	13,980	7,101	6,008	15,073	4,427	5,500	14,000
Cumulative Capital Improvement	2,559	3,308	12,943	(7,076)	3,141	-	(3,935)
Ordinance Violation Penalty Fund	-	-	-	-	15,017	2,031	12,986
Local Option Income Tax	-	-	-	-	12,123	3,148	8,975
Sewage Construction Fund CFF Grant	500	1,479,434	1,479,851	83	1,430,468	1,430,551	-
Police Donation	250	300	-	550	600	-	1,150
Loan And Interest Payment	54,863	37,320	19,562	72,621	3,109	75,730	-
Payroll	3,774	239,168	236,797	6,145	249,728	254,580	1,293
Sewage Construction Interfund Transfer	-	39,283	-	39,283	80,951	32,950	87,284
Sewer Cash Change	100	-	-	100	-	-	100
Wastewater Utility Operating	14,662	188,570	176,067	27,165	253,080	222,983	57,262
Wastewater Utility Depreciation Improvement	3,583	9,089	5,652	7,020	21,267	-	28,287
Water Utility Depreciation	6,964	-	-	6,964	-	-	6,964
Water Cash Change	100	-	-	100	-	-	100
Water Utility Operating	38,514	203,633	213,883	28,264	273,552	182,361	119,455
Water Utility Customer Deposit	13,699	1,486	938	14,247	1,801	1,388	14,660
Totals	\$ 305,486	\$ 2,511,946	\$ 2,459,149	\$ 358,283	\$ 2,665,223	\$ 2,495,039	\$ 528,467

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

TOWN OF OOLITIC
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, culture and recreation, public improvements, planning and zoning, general administrative services, water, 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 OOLITIC
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.

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.

TOWN OF OOLITIC
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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 OOLITIC
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.

TOWN OF OOLITIC
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 7. Cash Balance Deficits

The financial statement contains a fund with a deficit in cash. This is a result of expenditures exceeding receipts.

Note 8. Subsequent Events

On April 30, 2012, the Town received a Community Development Block Grant for Homeowner Repair and Improvement. The grant amount was for \$173,500. On June 5, 2013, the grant was reduced to \$131,872. The first financial transaction for this grant was August 22, 2013.

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 is 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 OOLITIC
 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	Sanitation	Law Enforcement Continuing Education	Parks and Recreation	Levy Excess	Cumulative Capital Development	Cumulative Capital Improvement	Ordinance Violation Penalty Fund	Local Option Income Tax	Sewage Construction Fund CFF Grant
Cash and investments - beginning	\$ 66,183	\$ 11,312	\$ 25,426	\$ 42,044	\$ 5,957	\$ 508	\$ 508	\$ 13,980	\$ 2,559	\$ -	\$ -	\$ 500
Receipts:												
Taxes	168,940	-	23,581	-	-	-	-	3,827	-	-	-	-
Licenses and permits	9,058	-	-	-	570	-	-	-	-	-	-	-
Intergovernmental	11,996	30,672	-	-	-	-	-	3,274	3,308	-	-	-
Charges for services	-	-	-	27,144	-	20,180	-	-	-	-	-	-
Fines and forfeits	10,212	-	-	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-	-	-	-
Other receipts	851	-	-	-	50	-	-	-	-	-	-	1,479,434
Total receipts	201,057	30,672	23,581	27,144	620	20,180	-	7,101	3,308	-	-	1,479,434
Disbursements:												
Personal services	110,115	17,916	-	18,018	-	-	-	-	-	-	-	-
Supplies	8,843	10,090	-	7,266	-	221	-	-	-	-	-	18
Other services and charges	54,739	2,998	-	1,278	-	16,393	-	-	12,943	-	-	314,723
Capital outlay	11,667	-	36,659	5,000	-	-	-	6,008	-	-	-	1,165,110
Utility operating expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other disbursements	5,534	491	-	-	-	220	-	-	-	-	-	-
Total disbursements	190,898	31,495	36,659	31,562	-	16,834	-	6,008	12,943	-	-	1,479,851
Excess (deficiency) of receipts over disbursements	10,159	(823)	(13,078)	(4,418)	620	3,346	-	1,093	(9,635)	-	-	(417)
Cash and investments - ending	\$ 76,342	\$ 10,489	\$ 12,348	\$ 37,626	\$ 6,577	\$ 3,854	\$ 508	\$ 15,073	\$ (7,076)	\$ -	\$ -	\$ 83

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

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	Police Donation	Loan And Interest Payment	Payroll	Sewage Construction Interfund Transfer	Sewer Cash Change	Wastewater Utility Operating	Wastewater Utility Depreciation Improvement	Water Utility Depreciation	Water Cash Change	Water Utility Operating	Water Utility Customer Deposit	Totals
Cash and investments - beginning	\$ 250	\$ 54,863	\$ 3,774	\$ -	\$ 100	\$ 14,662	\$ 3,583	\$ 6,964	\$ 100	\$ 38,514	\$ 13,699	\$ 305,486
Receipts:												
Taxes	-	-	-	-	-	-	-	-	-	-	-	196,348
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-	9,628
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	49,250
Charges for services	-	-	-	-	-	-	-	-	-	-	-	47,324
Fines and forfeits	-	-	-	-	-	-	-	-	-	-	-	10,212
Utility fees	-	-	-	-	-	188,546	-	-	-	203,525	1,486	393,557
Other receipts	300	37,320	239,168	39,283	-	24	9,089	-	-	108	-	1,805,627
Total receipts	300	37,320	239,168	39,283	-	188,570	9,089	-	-	203,633	1,486	2,511,946
Disbursements:												
Personal services	-	-	180,884	-	-	-	-	-	-	-	-	326,933
Supplies	-	-	-	-	-	-	-	-	-	-	-	26,438
Other services and charges	-	-	-	-	-	-	-	-	-	-	-	403,074
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	1,224,444
Utility operating expenses	-	-	-	-	-	123,875	5,652	-	-	170,566	-	300,093
Other disbursements	-	19,562	55,913	-	-	52,192	-	-	-	43,317	938	178,167
Total disbursements	-	19,562	236,797	-	-	176,067	5,652	-	-	213,883	938	2,459,149
Excess (deficiency) of receipts over disbursements	300	17,758	2,371	39,283	-	12,503	3,437	-	-	(10,250)	548	52,797
Cash and investments - ending	\$ 550	\$ 72,621	\$ 6,145	\$ 39,283	\$ 100	\$ 27,165	\$ 7,020	\$ 6,964	\$ 100	\$ 28,264	\$ 14,247	\$ 358,283

TOWN OF OOLITIC
 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	Sanitation	Law Enforcement Continuing Education	Parks and Recreation	Levy Excess	Cumulative Capital Development	Cumulative Capital Improvement	Ordinance Violation Penalty Fund	Local Option Income Tax	Sewage Construction Fund CFF Grant
Cash and investments - beginning	\$ 76,342	\$ 10,489	\$ 12,348	\$ 37,626	\$ 6,577	\$ 3,854	\$ 508	\$ 15,073	\$ (7,076)	\$ -	\$ -	\$ 83
Receipts:												
Taxes	165,773	15,481	14,815	-	-	-	-	4,427	-	-	-	-
Licenses and permits	9,456	-	-	-	940	-	-	-	-	-	-	-
Intergovernmental	18,682	27,300	-	-	-	-	556	-	3,141	-	12,123	-
Charges for services	-	-	-	28,758	75	9,412	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-	4,805	-	-
Utility fees	-	-	-	-	-	-	-	-	-	-	-	-
Other receipts	97	2,500	-	21,920	-	194	-	-	-	10,212	-	1,430,468
Total receipts	194,008	45,281	14,815	50,678	1,015	9,606	556	4,427	3,141	15,017	12,123	1,430,468
Disbursements:												
Personal services	93,404	18,232	-	18,907	-	-	-	-	-	-	3,148	-
Supplies	9,823	10,546	-	3,291	-	393	-	-	-	-	-	18
Other services and charges	67,490	6,773	-	3,056	-	4,733	-	-	-	2,031	-	182,713
Debt service - principal and interest	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	7,528	3,162	1,151	-	-	770	-	5,500	-	-	-	1,247,820
Utility operating expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other disbursements	12,016	213	-	21,920	-	409	-	-	-	-	-	-
Total disbursements	190,261	38,926	1,151	47,174	-	6,305	-	5,500	-	2,031	3,148	1,430,551
Excess (deficiency) of receipts over disbursements	3,747	6,355	13,664	3,504	1,015	3,301	556	(1,073)	3,141	12,986	8,975	(83)
Cash and investments - ending	\$ 80,089	\$ 16,844	\$ 26,012	\$ 41,130	\$ 7,592	\$ 7,155	\$ 1,064	\$ 14,000	\$ (3,935)	\$ 12,986	\$ 8,975	\$ -

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

	Police Donation	Loan And Interest Payment	Payroll	Sewage Construction Interfund Transfer	Sewer Cash Change	Wastewater Utility Operating	Wastewater Utility Depreciation Improvement	Water Utility Depreciation	Water Cash Change	Water Utility Operating	Water Utility Customer Deposit	Totals
Cash and investments - beginning	\$ 550	\$ 72,621	\$ 6,145	\$ 39,283	\$ 100	\$ 27,165	\$ 7,020	\$ 6,964	\$ 100	\$ 28,264	\$ 14,247	\$ 358,283
Receipts:												
Taxes	-	-	-	-	-	-	-	-	-	-	-	200,496
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-	10,396
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	61,802
Charges for services	-	-	-	-	-	-	-	-	-	-	-	38,245
Fines and forfeits	-	-	-	-	-	-	-	-	-	-	-	4,805
Utility fees	-	-	-	-	-	253,064	-	-	-	202,795	1,801	457,660
Other receipts	600	3,109	249,728	80,951	-	16	21,267	-	-	70,757	-	1,891,819
Total receipts	600	3,109	249,728	80,951	-	253,080	21,267	-	-	273,552	1,801	2,665,223
Disbursements:												
Personal services	-	-	184,220	-	-	-	-	-	-	-	-	317,911
Supplies	-	-	-	-	-	-	-	-	-	-	-	24,071
Other services and charges	-	-	-	-	-	-	-	-	-	-	-	266,796
Debt service - principal and interest	-	4,997	-	-	-	-	-	-	-	-	-	4,997
Capital outlay	-	-	-	-	-	1,271	-	-	-	-	-	1,267,202
Utility operating expenses	-	-	-	-	-	119,495	-	-	-	164,719	-	284,214
Other disbursements	-	70,733	70,360	32,950	-	102,217	-	-	-	17,642	1,388	329,848
Total disbursements	-	75,730	254,580	32,950	-	222,983	-	-	-	182,361	1,388	2,495,039
Excess (deficiency) of receipts over disbursements	600	(72,621)	(4,852)	48,001	-	30,097	21,267	-	-	91,191	413	170,184
Cash and investments - ending	\$ 1,150	\$ -	\$ 1,293	\$ 87,284	\$ 100	\$ 57,262	\$ 28,287	\$ 6,964	\$ 100	\$ 119,455	\$ 14,660	\$ 528,467

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

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental Activities	\$ 3,801	\$ -
Wastewater	-	12,539
Water	-	6,211
Totals	\$ -	\$ 18,750

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
Notes and loans payable	Wastewater Improvement Loan	\$ 1,998,000	\$ 80,950

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TOWN OF OOLITIC
 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	\$ 20,000
Buildings	220,213
Improvements other than buildings	66,507
Machinery, equipment, and vehicles	477,273
Total governmental activities	783,993
Wastewater:	
Land	1,500
Buildings	86,486
Improvements other than buildings	2,912,989
Machinery, equipment, and vehicles	541,318
Total Wastewater	3,542,293
Water:	
Land	4,000
Improvements other than buildings	814,715
Machinery, equipment, and vehicles	97,917
Total Water	916,632
Total capital assets	\$ 5,242,918

TOWN OF OOLITIC
OTHER REPORT

The report presented herein was prepared in addition to an official report prepared for the Clerk-Treasurer.

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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 COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE TOWN OF OOLITIC, LAWRENCE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Oolitic'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 each of its major federal programs for the period of January 1, 2011 to December 31, 2012. The Town's major federal programs are 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 each of the Town's major federal programs 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 each 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 each of its major federal programs for the period of January 1, 2011 to December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-4. Our opinion on each major federal program is not modified with respect to these matters.

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

The Town's response to the noncompliance 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.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the 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 types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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 items 2012-3 and 2012-5 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

October 2, 2013

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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.

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TOWN OF OOLITIC
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>					
Water and Waste Program Cluster ARRA - Water and Waste Disposal Systems for Rural Communities - ARRA	Direct	10.781	15-047***7032	\$ 892,100	\$ 1,115,900
<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 Oolitic Wastewater System Improvements	Indiana Office of Community and Rural Affairs	14.228	DR2-09-091	775,056	126,846
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster Highway Planning and Construction Safe Routes to School	Indiana Department of Transportation	20.205	DES#0902318	3,274	21,920
Total federal awards expended				<u>\$ 1,670,430</u>	<u>\$ 1,264,666</u>

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

TOWN OF OOLITIC
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 Oolitic 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.

TOWN OF OOLITIC
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 programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	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 Programs:

Name of Federal Program or Cluster

Water and Waste Program 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 of Oolitic 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 OOLITIC
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 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)

FINDING 2012-2 - INTERNAL CONTROLS OVER 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: The schedule omitted two programs: Water and Waste Disposal Systems for Rural Communities – ARRA, and Safe Routes to School.

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.

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 OOLITIC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (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 subrecipients 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."

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES – ARRA

Federal Agency: Department of Agriculture

Federal Program: ARRA - Water and Waste Disposal Systems for Rural Communities - ARRA

CFDA Number: 10.781

Federal Award Number and Year (or Other Identifying Number): 15-047***7032

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

Management of the Town 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 Cost/Cost Principles, Cash Management, Davis-Bacon Act, Equipment and Real Property Management, Matching, Period of Availability, Procurement, Suspension and Debarment, Reporting, and Special Tests and Provisions. 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. 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 all compliance requirements that have a direct and material effect to the program.

FINDING 2012-4 - ALLOWABLE COST

Federal Agency: Department of Agriculture
Federal Program: ARRA - Water And Waste Disposal Systems For Rural Communities - ARRA
CFDA Number: 10.781
Federal Award Number and Year (or Other Identifying Number): 15-047***7032
Direct Grant

Commonwealth Engineers had a contractual agreement in the amount of \$435,000. The work was completed under budget and the total amount billed was \$428,040.25. The total payments made to Commonwealth Engineers from grant and loan funds were \$431,359.03. This caused an overpayment of \$3,318.78.

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

On June 28, 2012, the Town requested a drawdown of federal funds for \$237,100. The documentation supporting this drawdown indicated \$53,040 was due to Commonwealth Engineers, and the funds were disbursed on July 10, 2012. During the review of the drawdown, it was found that no invoices were attached to the drawdown request. Commonwealth Engineers was contacted and they provided the following list of invoices to support the drawdown:

Invoice Number	Invoice Date	Invoice Amount	Information on Invoice
30363	06-29-12	\$ 8,340.00	For Basic Services rendered through May 31, 2012
30364	06-29-12	10,706.98	For Basic Services rendered through May 31, 2012
30365	06-29-12	1,790.69	For Basic Services rendered through May 31, 2012
30366	06-29-12	<u>282.03</u>	For Basic Services rendered through May 31, 2012
		<u>21,119.70</u>	Total Invoiced Before Payment Received
30471	07-31-12	337.00	For Basic Services rendered through June 30, 2012, Prepayment Applied
30472	07-31-12	5,777.00	For Basic Services rendered through June 30, 2012, Prepayment Applied
30473	07-31-12	9,435.54	For Basic Services rendered through June 30, 2012, Prepayment Applied
30474	07-31-12	1,581.87	For Basic Services rendered through June 30, 2012, Prepayment Applied
30475	07-31-12	3,880.35	For Basic Services rendered through June 30, 2012, Prepayment Applied
30664	08-29-12	4,938.88	For Basic Services rendered through July 31, 2012
30790	09-27-12	225.00	For Basic Services rendered through August 31, 2012
30791	09-27-12	2,206.34	For Basic Services rendered through August 31, 2012
31045	11-16-12	<u>219.54</u>	For Basic Services rendered through October 31, 2012
		<u>28,601.52</u>	Total Invoiced After Payment Received
		49,721.22	Total Invoices
		<u>53,040.00</u>	Total Disbursed July 10, 2012
		<u>\$ (3,318.78)</u>	Payment in Excess of Invoices

On June 10, 2012, \$1,490 of Loan funds were disbursed to pay Southern Indiana Development Commission. This was the grant administrator for the CDBG grant. This was a payment in error and was returned on December 14, 2012. The construction project had been completed and the grant and loan programs were already closed. The refund was deposited in the Oolitic Wastewater Utility Operating Fund.

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states in part: "1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following criteria: . . . c. Be authorized or not prohibited under State or local laws and regulations. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The payment of \$3,318.78 in excess of invoices to Commonwealth Engineers is considered a questioned cost.

Failure to comply with federal guidelines regarding allowable costs could result in the loss of federal funds to the Town.

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

We recommended that Town officials establish proper procedures and controls to account for federal funds received and disbursed. Such procedures and controls should ensure that proper documentation is received and maintained for all disbursements pertaining to the grant. Furthermore, Town officials should request repayment of the \$3,318.78 from Commonwealth Engineers. They should also contact the Department of Agriculture to determine how the repayments of \$4,808.78 from Commonwealth Engineers and Southern Indiana Development Commission should be handled.

FINDING 2012-5 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

Federal Agency: 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): DR2-09-091
Pass-Through Entity: Indiana Office of Rural and Community Affairs

Management of the Town 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 Allowable and Unallowed, Allowable Costs/Cost Principles, Cash Management, Davis-Bacon Act, Matching, Period of Availability, Procurement, Suspension and Debarment, Reporting, and Special Tests and Provisions. The failure to establish an effective internal control system places the Town at risk of non-compliance 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 Oolitic

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RESPONSE TO FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

1. Lack of Segregation of Duties: The Town of Oolitic has only two office personnel, a Clerk-Treasurer and a Utility Clerk. During sickness or vacations there is only one person in the office and it is necessary to close the office to make the daily bank deposit in the next town, or work overtime to rush to the bank before it closes. It is not possible to totally segregate the responsibilities. Both people in the office currently participate in parts of, if not all, activities in the office. Without adding personnel there is little we can do to improve this situation but we will attempt to do so.
2. Preparing Financial Statements: The Town Board and Clerk-Treasurer will work harder at educating themselves as to the financial reporting requirements, identification and analysis of risks of misstatements, and designing effective controls over the preparation of financial statements.
3. Monitoring of Controls: The Board will evaluate their system of internal controls and develop a process by which they can identify and communicate corrective action to improve controls.

Estimated completion date: April 1, 2014

Contact person: Jim Staley 812-275-6813 or kjstaleyct@comcast.net

Signed Delvin Hibbard
Office President Town Council

Date Oct 2, 2013

Town of Oolitic

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RESPONSE TO FINDING 2012-2 - INTERNAL CONTROLS OVER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Town will keep a separate folder for each federal grant, talk to all people involved in the grant process before filing reports to be thorough, and let the people who got the grants review the SEFA before submitting it.

The Town will seek further training for personnel involved to help with the process.

Estimated completion date: January 31, 2014

Contact person: Jim Staley 812-275-6813 or kjstaleyct@comcast.net

Signed *Delvin Heisk*
Office *President Town Council*

Date *Oct. 2, 2013*

Town of Oolitic

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**Response to FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS
THAT HAVE A DIRECT AND MATERIAL EFFECT TO WATER AND WASTE DISPOSAL SYSTEMS
FOR RURAL COMMUNITIES – ARRA**

Federal Agency: United States Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities-ARRA
CFDA Number: 10.781
Federal Award Number and Year (or Other Identifying Number): 15 047 7032
Pass-Through Entity: none

The Town signed a contract with Commonwealth Engineers to manage this project. Town personnel did not adequately monitor Commonwealths' activities to insure all aspects of the contract were fulfilled.

The Town will educate its personnel and establish an effective internal control system and segregate duties as much as possible in dealing with all grants in the future.

This will include any project managed by some other entity.

Estimated completion date: January 1, 2014

Contact person: Jim Staley 812-275-6813 or kjstaleyct@comcast.net

Signed *Robert Mikish*
Office *President Town Council*

Date *Oct 2, 2013*

Town of Oolitic

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Response to FINDING 2012-4 - ALLOWABLE COST

Federal Agency: United States Department of Agriculture
Federal Program: Water And Waste Disposal Systems For Rural Communities – ARRA
CFDA Number: 10.781
Federal Award Number and Year (or Other Identifying Number): 15-047***7032
Direct Grant

1. The payment was made after the approval by Michael Strahl (of Rural Development) of the last drawdown, at the last pay meeting, which included the expense of \$53,040 to Commonwealth Engineers.

By law this money was to be disbursed within five days of receipt, and was, even though invoices were not yet received because it had been approved at the meeting.

The resulting overpayment of \$3,318.78 (when returned) will be used following the loan and grant guidelines.

The Town will not pay any expenses in the future without proper invoices in hand even if someone approves a drawdown. A note will be made as to why the money was held for more than 5 days which is also a violation.

2. The \$1,490 returned by SIDC will be transferred to the proper fund and used based on the loan and grant guidelines after researching those requirements.

Estimated completion date: December 1, 2013

Contact person: Jim Staley 812-275-6813 or kjstaleyct@comcast.net

Signed Michael Strahl
Office President Town Council

Date Oct. 2, 2013

Town of Oolitic

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FINDING 2012-5 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO 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): DR2-09-091

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

The Town signed a contract with Southern Indiana Development Commission (SIDC) to manage this project. Town personnel did not adequately monitor SIDCs' activities to insure all aspects of the contract were fulfilled.

The Town will educate its personnel and establish an effective internal control system and segregate duties as much as possible in dealing with all grants in the future.

This will include any project managed by some other entity.

Estimated completion date: January 1, 2014

Contact person: Jim Staley 812-275-6813 or kjstaleyct@comcast.net

Signed *Debra N. Hibish*
Office *President Town Council*

Date *Oct. 2, 2013*

TOWN OF OOLITIC
EXIT CONFERENCE

The contents of this report were discussed on October 2, 1013, with K. James Staley, Clerk-Treasurer; Jessica Staggs, Utility Clerk; Delvin Nikirk, President of the Town Council; and Pauline Rowe, Town Council member.