

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

TOWN OF KENTLAND  
NEWTON COUNTY, INDIANA

January 1, 2011 to December 31, 2012



**FILED**  
02/12/2014



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Judy M. King	01-01-11 to 12-31-14
President of the Town Council	David P. Smart James A. Sammons	01-01-11 to 12-31-11 01-01-12 to 12-31-13



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF KENTLAND, NEWTON COUNTY, INDIANA

***Report on the Financial Statement***

We have audited the accompanying financial statement of the Town of Kentland (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 the 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 the financial statement based on our audit. Except as stated in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, 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.

***Basis for Qualified Opinion on Regulatory Basis of Accounting***

The Town's financial records included inflated receipts and disbursements due to numerous adjustments posted as negative receipts and negative disbursements, adjusting and correcting entries, and the manner that payroll processing was posted to the individual funds. The Town's records did not provide sufficient competent evidential matter allowing for the auditing of those amounts.

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

In our opinion, except for the effects of the adjustments, if any, as might have been determined to be necessary for the fair presentation of receipts and disbursements, discussed in the *Basis for Qualified Opinion on Regulatory Basis of Accounting* paragraph, 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, on the basis of accounting described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 26, 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***

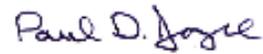
*Supplementary Information*

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*

INDEPENDENT AUDITOR'S REPORT  
(Continued)

*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.

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.

  
Paul D. Joyce, CPA  
State Examiner

November 26, 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 KENTLAND, NEWTON 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 Kentland (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 November 26, 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. The opinion to the financial statement relative to the regulatory basis of accounting was qualified due to numerous adjustments posted as negative receipts and negative disbursements, adjusting and correcting entries, and the way that payroll processing was posted to the individual funds.

***Internal Control Over Financial Reporting***

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

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

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

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

***Compliance and Other Matters***

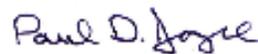
As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

***Town of Kentland'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.

  
Paul D. Joyce, CPA  
State Examiner

November 26, 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 KENTLAND  
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	\$ 348,508	\$ 397,762	\$ 406,624	\$ 339,646	\$ 415,695	\$ 404,129	\$ 351,212
Motor Vehicle Highway	267,095	94,195	261,478	99,812	88,723	135,463	53,072
Local Road And Street	16,370	9,023	2,610	22,783	6,421	1,690	27,514
Aviation	52,277	65,337	117,614	-	379,680	379,680	-
Sanitation	275,433	78,008	47,433	306,008	91,826	64,892	332,942
Law Enforcement Continuing Ed	1,033	320	1,115	238	795	160	873
Riverboat	9,185	11,402	-	20,587	10,355	10,620	20,322
Parks And Recreation	94,428	129,960	149,185	75,203	156,588	111,627	120,164
Rainy Day	4,455	-	4,276	179	-	62	117
Levy Excess	9,276	-	-	9,276	4,677	-	13,953
Cumulative Capital Development	62,670	20,169	36,821	46,018	19,237	-	65,255
Park Nonreverting Capital	2,679	2,250	750	4,179	2,075	-	6,254
Cumulative Capital Improvement	3,181	5,232	-	8,413	4,636	-	13,049
Federal Highway Grant Fund	-	43,552	43,552	-	-	-	-
Aviation Fuel	13,282	38,459	32,633	19,108	52,709	58,615	13,202
CPX Loan	-	846,101	816,250	29,851	92,201	65,000	57,052
Restricted Donations	-	2,775	1,812	963	19,085	10,517	9,531
Park Memorial Fund	-	-	-	-	4,370	3,339	1,031
Sesquicentennial	-	-	-	-	7,701	3,009	4,692
Unrestricted Donations Fund	18,265	82,657	22,414	78,508	121,782	26,023	174,267
Cable TV Franchise	7,791	10,290	12,735	5,346	10,211	-	15,557
Park Deposit	925	2,900	3,500	325	3,200	3,100	425
Building Permit	-	2,376	2,376	-	1,300	1,300	-
Payroll	20,661	397,379	400,789	17,251	432,817	432,746	17,322
Wastewater Utility-Operating	701,118	508,635	486,814	722,939	446,840	523,211	646,568
Storm Drainage Project	-	-	-	-	924,054	883,578	40,476
Water Project (RD)	-	-	-	-	1,084,557	1,084,557	-
USDA Bond & Interest	-	-	-	-	18,652	-	18,652
Water Utility-Operating	906,051	637,388	591,251	952,188	695,964	757,382	890,770
Water Utility-Customer Deposit	15,340	4,050	6,093	13,297	6,750	6,100	13,947
Water Utility-Cash Reserve	3,300	-	-	3,300	-	-	3,300
Water Grant Fund	(4,400)	567,230	562,830	-	199,047	199,047	-
<b>Totals</b>	<b>\$ 2,828,923</b>	<b>\$ 3,957,450</b>	<b>\$ 4,010,955</b>	<b>\$ 2,775,418</b>	<b>\$ 5,301,948</b>	<b>\$ 5,165,847</b>	<b>\$ 2,911,519</b>

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

TOWN OF KENTLAND  
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, aviation, 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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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

TOWN OF KENTLAND  
NOTES TO FINANCIAL STATEMENT  
(Continued)

distributions received from the state, motor vehicle highway distribution received from the state, 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, 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.

Penalties which include fees received for late payments.

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.

TOWN OF KENTLAND  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

*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.

TOWN OF KENTLAND  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 4. *Deposits and Investments***

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

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

**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. *Economic Development Loans***

At a joint meeting of the Newton County Commissioners and the Newton County Council on May 16, 2011, Newton County entered into a loan agreement with the Town for \$800,000 to provide economic development and creation of jobs within the Town. Six hundred fifty thousand dollars of this loan will be paid back to Newton County by the Town in equal quarterly payments over a ten year period without interest. The first payment was due December 15, 2011.

Subsequent to this agreement, on June 14, 2011, the Town entered an agreement with CPX, Inc., a corporation located in the Town. The agreement was for a loan of \$800,000 with 3 percent interest payable in 40 consecutive quarterly payments of \$23,050.28. Each payment is due on the 15<sup>th</sup> day of each quarter commencing September 15, 2011. This loan is secured by the rights, title and interest in certain equipment, and other property listed in the security agreement.

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## SUPPLEMENTARY INFORMATION – UNAUDITED

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

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

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

TOWN OF KENTLAND  
 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	Aviation	Sanitation	Law Enforcement Continuing Ed	Riverboat	Parks And Recreation	Rainy Day
Cash and investments - beginning	\$ 348,508	\$ 267,095	\$ 16,370	\$ 52,277	\$ 275,433	\$ 1,033	\$ 9,185	\$ 94,428	\$ 4,455
Receipts:									
Taxes	234,533	42,715	-	-	-	-	-	105,579	-
Licenses and permits	-	-	-	-	-	310	-	-	-
Intergovernmental	119,437	51,480	7,223	21,933	-	-	11,402	9,295	-
Charges for services	20,000	-	-	21,815	76,215	10	-	13,902	-
Fines and forfeits	1,460	-	-	-	1,793	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	22,332	-	1,800	21,589	-	-	-	1,184	-
Total receipts	397,762	94,195	9,023	65,337	78,008	320	11,402	129,960	-
Disbursements:									
Personal services	216,645	33,751	-	-	29,575	-	-	31,811	-
Supplies	52,229	88,405	-	7,860	6,655	-	-	34,819	-
Other services and charges	105,464	43,978	-	39,001	10,536	1,115	-	57,006	4,276
Debt service - principal and interest	-	-	-	-	-	-	-	-	-
Capital outlay	32,286	93,938	2,610	70,753	-	-	-	25,524	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	-	1,406	-	-	667	-	-	25	-
Total disbursements	406,624	261,478	2,610	117,614	47,433	1,115	-	149,185	4,276
Excess (deficiency) of receipts over disbursements	(8,862)	(167,283)	6,413	(52,277)	30,575	(795)	11,402	(19,225)	(4,276)
Cash and investments - ending	\$ 339,646	\$ 99,812	\$ 22,783	\$ -	\$ 306,008	\$ 238	\$ 20,587	\$ 75,203	\$ 179

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

	Levy Excess	Cumulative Capital Development	Park Nonreverting Capital	Cumulative Capital Improvement	Federal Highway Grant Fund	Aviation Fuel	CPX Loan	Restricted Donations
Cash and investments - beginning	\$ 9,276	\$ 62,670	\$ 2,679	\$ 3,181	\$ -	\$ 13,282	\$ -	\$ -
Receipts:								
Taxes	-	18,537	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	1,632	-	5,232	21,138	-	-	-
Charges for services	-	-	2,250	-	-	38,337	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	22,414	122	846,101	2,775
Total receipts	-	20,169	2,250	5,232	43,552	38,459	846,101	2,775
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	1,812
Other services and charges	-	-	350	-	-	29,256	-	-
Debt service - principal and interest	-	-	-	-	-	-	16,250	-
Capital outlay	-	36,821	-	-	43,552	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	400	-	-	3,377	800,000	-
Total disbursements	-	36,821	750	-	43,552	32,633	816,250	1,812
Excess (deficiency) of receipts over disbursements	-	(16,652)	1,500	5,232	-	5,826	29,851	963
Cash and investments - ending	\$ 9,276	\$ 46,018	\$ 4,179	\$ 8,413	\$ -	\$ 19,108	\$ 29,851	\$ 963

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

	Park Memorial Fund	Sesquicentennial	Unrestricted Donations Fund	Cable TV Franchise	Park Deposit	Building Permit	Payroll	Wastewater Utility-Operating
Cash and investments - beginning	\$ -	\$ -	\$ 18,265	\$ 7,791	\$ 925	\$ -	\$ 20,661	\$ 701,118
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	2,376	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	10,290	2,900	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	501,423
Other receipts	-	-	82,657	-	-	-	397,379	7,212
Total receipts	-	-	82,657	10,290	2,900	2,376	397,379	508,635
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	50	2,376	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	400,920
Other disbursements	-	-	22,414	12,735	3,450	-	400,789	85,894
Total disbursements	-	-	22,414	12,735	3,500	2,376	400,789	486,814
Excess (deficiency) of receipts over disbursements	-	-	60,243	(2,445)	(600)	-	(3,410)	21,821
Cash and investments - ending	\$ -	\$ -	\$ 78,508	\$ 5,346	\$ 325	\$ -	\$ 17,251	\$ 722,939

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

	Storm Drainage Project	Water Project (RD)	USDA Bond & Interest	Water Utility-Operating	Water Utility-Customer Deposit	Water Utility-Cash Reserve	Water Grant Fund	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 906,051	\$ 15,340	\$ 3,300	\$ (4,400)	\$ 2,828,923
Receipts:								
Taxes	-	-	-	-	-	-	-	401,364
Licenses and permits	-	-	-	-	-	-	-	2,686
Intergovernmental	-	-	-	-	-	-	483,040	731,812
Charges for services	-	-	-	-	-	-	-	185,719
Fines and forfeits	-	-	-	-	-	-	-	3,253
Utility fees	-	-	-	624,600	4,050	-	-	1,130,073
Other receipts	-	-	-	12,788	-	-	84,190	1,502,543
Total receipts	-	-	-	637,388	4,050	-	567,230	3,957,450
Disbursements:								
Personal services	-	-	-	-	-	-	-	311,782
Supplies	-	-	-	-	-	-	-	191,780
Other services and charges	-	-	-	-	-	-	-	293,408
Debt service - principal and interest	-	-	-	-	-	-	-	16,250
Capital outlay	-	-	-	-	-	-	562,830	868,314
Utility operating expenses	-	-	-	463,527	-	-	-	864,447
Other disbursements	-	-	-	127,724	6,093	-	-	1,464,974
Total disbursements	-	-	-	591,251	6,093	-	562,830	4,010,955
Excess (deficiency) of receipts over disbursements	-	-	-	46,137	(2,043)	-	4,400	(53,505)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ 952,188	\$ 13,297	\$ 3,300	\$ -	\$ 2,775,418

TOWN OF KENTLAND  
 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	Aviation	Sanitation	Law Enforcement Continuing Ed	Riverboat	Parks And Recreation	Rainy Day
Cash and investments - beginning	\$ 339,646	\$ 99,812	\$ 22,783	\$ -	\$ 306,008	\$ 238	\$ 20,587	\$ 75,203	\$ 179
Receipts:									
Taxes	214,323	35,203	-	-	-	-	-	135,618	-
Licenses and permits	-	-	-	-	-	770	-	-	-
Intergovernmental	142,990	44,509	6,421	326,556	-	-	10,355	9,576	-
Charges for services	20,300	790	-	26,025	90,113	25	-	9,869	-
Fines and forfeits	1,604	-	-	-	1,713	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-	-
Other receipts	36,478	8,221	-	27,099	-	-	-	1,525	-
Total receipts	<u>415,695</u>	<u>88,723</u>	<u>6,421</u>	<u>379,680</u>	<u>91,826</u>	<u>795</u>	<u>10,355</u>	<u>156,588</u>	<u>-</u>
Disbursements:									
Personal services	221,920	30,624	-	-	40,311	-	-	32,075	-
Supplies	59,019	22,577	-	11,453	18,829	-	-	17,966	62
Other services and charges	85,482	35,840	-	32,262	5,752	160	10,620	36,943	-
Debt service - principal and interest	-	-	-	-	-	-	-	-	-
Capital outlay	32,860	24,008	1,690	333,163	-	-	-	23,723	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	4,848	22,414	-	2,802	-	-	-	920	-
Total disbursements	<u>404,129</u>	<u>135,463</u>	<u>1,690</u>	<u>379,680</u>	<u>64,892</u>	<u>160</u>	<u>10,620</u>	<u>111,627</u>	<u>62</u>
Excess (deficiency) of receipts over disbursements	<u>11,566</u>	<u>(46,740)</u>	<u>4,731</u>	<u>-</u>	<u>26,934</u>	<u>635</u>	<u>(265)</u>	<u>44,961</u>	<u>(62)</u>
Cash and investments - ending	<u>\$ 351,212</u>	<u>\$ 53,072</u>	<u>\$ 27,514</u>	<u>\$ -</u>	<u>\$ 332,942</u>	<u>\$ 873</u>	<u>\$ 20,322</u>	<u>\$ 120,164</u>	<u>\$ 117</u>

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

	Levy Excess	Cumulative Capital Development	Park Nonreverting Capital	Cumulative Capital Improvement	Federal Highway Grant Fund	Aviation Fuel	CPX Loan	Restricted Donations
Cash and investments - beginning	\$ 9,276	\$ 46,018	\$ 4,179	\$ 8,413	\$ -	\$ 19,108	\$ 29,851	\$ 963
Receipts:								
Taxes	-	17,968	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	1,269	-	4,636	-	-	-	-
Charges for services	-	-	-	-	-	52,088	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	4,677	-	2,075	-	-	621	92,201	19,085
Total receipts	<u>4,677</u>	<u>19,237</u>	<u>2,075</u>	<u>4,636</u>	<u>-</u>	<u>52,709</u>	<u>92,201</u>	<u>19,085</u>
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	53,018	-	1,674
Other services and charges	-	-	-	-	-	95	-	8,843
Debt service - principal and interest	-	-	-	-	-	-	65,000	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	5,502	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,615</u>	<u>65,000</u>	<u>10,517</u>
Excess (deficiency) of receipts over disbursements	<u>4,677</u>	<u>19,237</u>	<u>2,075</u>	<u>4,636</u>	<u>-</u>	<u>(5,906)</u>	<u>27,201</u>	<u>8,568</u>
Cash and investments - ending	<u>\$ 13,953</u>	<u>\$ 65,255</u>	<u>\$ 6,254</u>	<u>\$ 13,049</u>	<u>\$ -</u>	<u>\$ 13,202</u>	<u>\$ 57,052</u>	<u>\$ 9,531</u>

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

	Park Memorial Fund	Sesquicentennial	Unrestricted Donations Fund	Cable TV Franchise	Park Deposit	Building Permit	Payroll	Wastewater Utility-Operating
Cash and investments - beginning	\$ -	\$ -	\$ 78,508	\$ 5,346	\$ 325	\$ -	\$ 17,251	\$ 722,939
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	10,211	-	1,300	-	-
Intergovernmental	-	-	20,105	-	-	-	-	-
Charges for services	-	-	-	-	3,200	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	427,306
Penalties	-	-	-	-	-	-	-	5,148
Other receipts	4,370	7,701	101,677	-	-	-	432,817	14,386
Total receipts	4,370	7,701	121,782	10,211	3,200	1,300	432,817	446,840
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	3,339	3,009	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	1,300	-	-
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	46,963
Utility operating expenses	-	-	-	-	-	-	-	476,248
Other disbursements	-	-	26,023	-	3,100	-	432,746	-
Total disbursements	3,339	3,009	26,023	-	3,100	1,300	432,746	523,211
Excess (deficiency) of receipts over disbursements	1,031	4,692	95,759	10,211	100	-	71	(76,371)
Cash and investments - ending	\$ 1,031	\$ 4,692	\$ 174,267	\$ 15,557	\$ 425	\$ -	\$ 17,322	\$ 646,568

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

	Storm Drainage Project	Water Project (RD)	USDA Bond & Interest	Water Utility-Operating	Water Utility-Customer Deposit	Water Utility-Cash Reserve	Water Grant Fund	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 952,188	\$ 13,297	\$ 3,300	\$ -	\$ 2,775,418
Receipts:								
Taxes	-	-	-	-	-	-	-	403,112
Licenses and permits	-	-	-	-	-	-	-	12,281
Intergovernmental	924,054	-	-	-	-	-	147,086	1,637,557
Charges for services	-	-	-	-	-	-	-	202,410
Fines and forfeits	-	-	-	-	-	-	-	3,317
Utility fees	-	-	-	591,386	6,750	-	-	1,025,442
Penalties	-	-	-	904	-	-	-	6,052
Other receipts	-	1,084,557	18,652	103,674	-	-	51,961	2,011,777
<b>Total receipts</b>	<b>924,054</b>	<b>1,084,557</b>	<b>18,652</b>	<b>695,964</b>	<b>6,750</b>	<b>-</b>	<b>199,047</b>	<b>5,301,948</b>
Disbursements:								
Personal services	-	-	-	-	-	-	-	324,930
Supplies	-	-	-	-	-	-	-	190,946
Other services and charges	-	-	-	-	-	-	-	217,297
Debt service - principal and interest	-	-	-	-	-	-	-	65,000
Capital outlay	883,578	1,084,557	-	331,888	-	-	199,047	2,961,477
Utility operating expenses	-	-	-	323,524	-	-	-	799,772
Other disbursements	-	-	-	101,970	6,100	-	-	606,425
<b>Total disbursements</b>	<b>883,578</b>	<b>1,084,557</b>	<b>-</b>	<b>757,382</b>	<b>6,100</b>	<b>-</b>	<b>199,047</b>	<b>5,165,847</b>
Excess (deficiency) of receipts over disbursements	40,476	-	18,652	(61,418)	650	-	-	136,101
Cash and investments - ending	\$ 40,476	\$ -	\$ 18,652	\$ 890,770	\$ 13,947	\$ 3,300	\$ -	\$ 2,911,519

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

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ -	\$ 34,367
Water	-	78,064
Governmental activities	-	7,057
Totals	\$ -	\$ 119,488

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

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Notes and loans payable	CPX Loan	\$ 503,750	\$ 65,000
Water:			
General obligation bonds	WATER REVENUE BONDS - A	747,000	26,880
General obligation bonds	WATER REVENUE BONDS - B	<u>600,000</u>	<u>21,950</u>
Total Water		<u>1,347,000</u>	<u>48,830</u>
Totals		<u>\$ 1,850,750</u>	<u>\$ 113,830</u>

TOWN OF KENTLAND  
OTHER REPORT

The audit report presented herein was prepared in addition to the other official report prepared for the individual Town office listed below:

Clerk-Treasurer

TOWN OF KENTLAND  
AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS OVER ACCOUNTING ACTIVITIES***

Internal controls over the receipting activities were insufficient:

All money received by the Town of Kentland (Town), with the exception of utility receipts, follows the same process. The Utility Clerk is responsible for taking in the majority of all receipts at the Town. If she is unavailable, the Clerk-Treasurer can also take in and write receipts and deposits. During our audit period, for all money received, other than utility receipts, a prenumbered receipt was written for each customer. The customer was then given the carbon copy of the receipt and the original receipt was kept for the Town's records. Proper procedure would require the customer to receive the original.

Utility receipts are handled in a slightly different manner. During the audit period, a receipt was written and given to each customer for each amount received for utility payments. These receipts, however, were not prenumbered.

The Utility Clerk is responsible for maintenance of utility customer accounts, including posting of payments and adjustment. The Clerk-Treasurer maintains the fund ledger. There was no audit evidence provided that the receipt issuance, posting, and depositing process was monitored.

Internal controls over the disbursing activities were insufficient:

All claims for sewer, water, and Town general disbursements must follow the same approval process before claims are paid. All claims are prepared, approved, and posted by the Town's Clerk-Treasurer. At each monthly Board meeting, the Town Council reviews and approves a claims register for all of the checks. There was no audit evidence provided that the processing and posting of the disbursement process was monitored. It was determined during our review of the internal control process that the Town had not sufficiently developed segregation of duties over the disbursing process.

Internal controls over the payroll activities were insufficient:

After each salary ordinance is approved at the end of each year, the Clerk-Treasurer enters all employees' salary rates into the Town's payroll system in the computer system. Any changes in pay or additional hires throughout the year are also added to the system by the Clerk-Treasurer. All Town employees, whether hourly or salaried, are required to fill out time cards detailing any vacation time used, sick time used, or time worked for each payroll period. Each Town employee's time card is reviewed and approved by his or her supervisor before being given to the Clerk-Treasurer to process payroll. The supervisors' time cards are also given to the Clerk-Treasurer for review and approval. All payroll checks are paid through the Town's disbursement process. They are included on the claims register with vendor checks for approval by the Town Council. There was no audit evidence provided that the payroll processing and posting process was monitored. It was determined during our review that the Town had not sufficiently developed segregation of duties over the payroll process.

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

TOWN OF KENTLAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

**CONDITION OF RECORDS**

Financial records presented for audit did not accurately present the receipts and disbursement for each fund. The records presented included numerous adjusting and correcting entries which possibly had the effect of inflating or misstating the receipts and disbursements.

Some of the deficiencies include:

1. Posting errors.
2. Transactions recorded as "negative" receipts and disbursements.
3. Financial statement receipts and disbursement reported in Gateway did not agree with the receipts and disbursement totals in the Town's ledger.
4. General Ledger Report (which functions as a detailed Ledger of Receipts, Disbursements and Balances), in most instances, had beginning balances, receipts and disbursement totals that did not agree with the Financial Report by Fund (which functions as a financial statement by fund).
5. Neither the General Ledger Report nor the Financial Report receipts and disbursements reconciled with the bank transactions.
6. Payroll transactions were not accurately included in the General Ledger Report or the Financial Report by Fund. The amounts reported on W-2s and 941s, as gross payroll, were significantly more than the amounts reported in the financial statements as payroll fund transactions.
7. In some instances operating funds and grant fund transaction accounting were comingled.
8. Some funds, which had separate bank accounts, included transactions from other bank accounts.
9. The Town maintains no capital asset records.
10. Grant accounting was not maintained by each project award.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held responsible for the amount needed to balance the fund.

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 KENTLAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

***PUBLIC RECORDS RETENTION***

The official signed minutes and claims dockets (including payroll disbursements) documenting the Town Council and Clerk-Treasurer's approval for 2011 could not be located.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

***PENALTIES, INTEREST, AND OTHER CHARGES***

The Clerk-Treasurer determined during 2011 that sales tax had been collected by the Aviation Department on aviation fuel sales, but had not been remitted to the Indiana Department of Revenue. Once the issue was discovered, the Indiana Department of Revenue was contacted and payments were brought current. Since February 2012, all payments have been timely and no additional penalties or interest has been incurred.

For the late payments in 2011, the Town paid penalties and interest to the Indiana Department of Revenue in the amount of \$224.83.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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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 KENTLAND, NEWTON COUNTY, INDIANA

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

We have audited the Town of Kentland'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.

***Basis for Qualified Opinion on Water and Waste Program Cluster***

As described in items 2012-4, 2012-5, and 2012-6, in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding Davis-Bacon Act, Equipment and Real Property Management, and Reporting that are applicable to its Water and Waste Program Cluster. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

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

***Basis for Qualified Opinion on CDBG - State-Administered CDBG Cluster***

As described in items 2012-8, 2012-9, and 2012-10, in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding Equipment and Real Property Management, Matching and Reporting that are applicable to its CDBG - State-Administered CDBG Cluster. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

***Basis for Qualified Opinion on Airport Improvement Programs***

As described in items 2012-12, 2012-13, and 2012-14, in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Procurement, Equipment and Real Property Management, and Reporting that are applicable to its Airport Improvement Program grant. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

***Qualified Opinion on Water and Waste Program Cluster, CDBG - State-Administered CDBG Cluster, and Airport Improvement Program***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraphs, 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 Water and Waste Program Cluster, CDBG - State-Administered CDBG Cluster, and Airport Improvement Program for the year ended December 31, 2012.

***Other Matters***

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

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

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, 2012-7, and 2012-11 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.

  
Paul D. Joyce, CPA  
State Examiner

November 26, 2013

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	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>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Program Cluster				
Water and Waste Disposal Systems for Rural Communities				
Water System Improvements and Water Storage Tank Rehabilitation Projects	10.760	433090644	\$ -	\$ 1,084,557
Total - U.S. Department of Agriculture			-	1,084,557
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs (OCRA)				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				
Water Tower Project	14.228	DR2-09-156	483,040	147,086
Stormwater Project		DR2-09-188	-	924,054
Total - CDBG - State-Administered CDBG Cluster			483,040	1,071,140
Total - U.S. Department of Housing and Urban Development			483,040	1,071,140
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Indiana Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction				
Bailee Street Project	20.205	PE0501131	7,954	589
Cast Park Project		PE0902322	13,184	19,225
Total - Highway Planning and Construction Cluster			21,138	19,814
Direct Grant				
Airport Improvement Program				
Phase I of Runway 9 Extension Project	20.106	AIP 3-18-0025-04 FY2008	35,625	10,688
Phase II of Runway 9 Extension Project		AIP 3-18-0025-05 FY2009	2,137	224,461
Phase III of Runway 9 Extension Project and Phase I of Runway Rehabilitation Project		AIP 3-18-0025-08 FY2012	-	85,500
Total - Airport Improvement Program			37,762	320,649
Total - U.S. Department of Transportation			58,900	340,463
Total federal awards expended			\$ 541,940	\$ 2,496,160

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

TOWN OF KENTLAND  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

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

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

**Note 2. Loans Outstanding**

The Town had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2011 and 2012. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2011	2012
Water and Waste Disposal Systems for Rural Communities	10.760	\$ -	\$ 1,084,557

TOWN OF KENTLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Financial Statements:

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

CFDA Number	Name of Federal Program or Cluster
20.106	Water and Waste Program Cluster CDBG – State-Administered CDBG Cluster Airport Improvement Program

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 at 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 KENTLAND  
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 AND COMPLIANCE  
OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards. The Town should have proper controls in place over the preparation of the Schedule of Expenditures of Federal Awards to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the Schedule of Expenditures of Federal Awards could remain undetected.

During the audit of the Schedule of Expenditures of Federal Awards, we noted material errors. Audit adjustments were proposed, accepted by the Town, and made to the Schedule of Expenditures of Federal Awards presented in this report. Those adjustments resulted in a presentation of the Schedule of Expenditures of Federal Awards 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 KENTLAND  
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***

Federal Agency: U.S. Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
CFDA Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): 433090644  
Direct Award

TOWN OF KENTLAND  
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 some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Davis-Bacon Act, Equipment and Real Property Management, and Reporting. 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 or 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 remain 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.

***FINDING 2012-4 – DAVIS-BACON ACT COMPLIANCE***

Federal Agency: U.S. Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
CFDA Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): 433090644  
Direct Award

During 2012, the Town used \$1,084,557 in federal funds to rehabilitate an elevated water storage tank located on Wilson Street and for other water system improvements. These federal funds resulted from the placement of Waterworks Revenue Bonds of 2012, Series A and Series B, with Rural Development of the U.S. Department of Agriculture. The projects were not complete as of December 31, 2012.

Compliance with the Davis-Bacon Act requires payment of federal prevailing wage rates for construction, repair, or alteration work funded in whole or in part with Rural Development Loans. It also requires that each contractor provide certified copies of all payrolls, on a weekly basis for each week in which any contract work is performed, to the Town for verification by Town management that the prevailing wage rates are

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

being paid. The Town, as the borrower, must establish controls for monitoring compliance with the Davis-Bacon Act requirements. They must obtain recent and applicable wage rates from the U.S. Department of Labor and incorporate them into the construction contracts. They must also obtain and review certified contractor payrolls submitted weekly, as applicable, for payment of prevailing wages.

Certified payrolls were not submitted to the Town and according to officials at the Town, no one was monitoring compliance with the Davis-Bacon Act, and as a result, the Town was not in compliance with the requirements of the Davis-Bacon Act.

7 CFR 3016.36(i) states in part:

*"Contract provisions.* A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. . . .

- (5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)"

29 CFR 5.5(a)(3) states in part:

"(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the U. S. Department of Agriculture if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the U. S. Department of Agriculture. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i) . . .

(B) Each payroll submitted shall be accompanied by a 'Statement of Compliance,' signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

- (1) That the payroll for the payroll period contains the information required to be provided under § 5.5(a)(3)(ii) of regulations, 29 CFR part 5, the appropriate information is being maintained under § 5.5(a)(3)(i) of Regulations, 29 CFR part 5, and that such information is correct and complete;
- (2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, with rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;
- (3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work permitted, as specified in the applicable wage determination incorporated into the contract. . . .

(D)(iii) The contractor or subcontractor shall make the records required under paragraph (a)(3)(i) of this section available for inspection, copying, or transcription by authorized representatives of the U. S. Department of Agriculture or the Department of Labor, and shall permit

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

such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, the Federal agency may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR 5.12."

The lack of monitoring of compliance with the Davis-Bacon Act could result in cancellation of contracts and/or the repayment of federal funds to the U.S. Department of Agriculture.

We recommended that Town officials ensure that federal prevailing wage rates are paid on construction contracts to be in compliance with the Davis-Bacon Act.

***FINDING 2012-5 - EQUIPMENT AND REAL PROPERTY MANAGEMENT COMPLIANCE***

Federal Agency: U.S. Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
CFDA Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): 433090644  
Direct Award

The Town has no capital asset records for equipment, buildings, real estate, infrastructure, and improvements, including construction in progress, regardless of the funding used to purchase or construct. As a result, the Town did not conduct a physical inventory as required.

During 2012, the Town used \$1,084,557 in federal funds to rehabilitate an elevated water storage tank located on Wilson Street and for other water system improvements. These federal funds resulted from the placement of Waterworks Revenue Bonds of 2012, Series A and Series B, with Rural Development of the U.S. Department of Agriculture. The projects were not complete as of December 31, 2012; however, completion of both projects is anticipated in 2013.

7 CFR 3016.32(d) states:

*"Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

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

- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Failure to comply with federal compliance requirements that have a direct and material effect on a federally funded program, including equipment and real property management, could impact the Town's ability to procure future federal funding.

We recommended that the Town develop capital assets records, including construction in progress, which comply with the federal requirements and conduct a physical inventory at least every two years.

**FINDING 2012-6 - REPORTING COMPLIANCE**

Federal Agency: U.S. Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
CFDA Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): 433090644  
Direct Award

During 2012, the Town used \$1,084,557 in federal funds to rehabilitate an elevated water storage tank located on Wilson Street and for other water system improvements. These federal funds resulted from the placement of Waterworks Revenue Bonds of 2012, Series A and Series B, with Rural Development of the U.S. Department of Agriculture. The projects were not complete as of December 31, 2012.

As a borrower of federal funds, the Town was required to meet certain reporting requirements. The Town filed none of the required reports in 2012.

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

USDA letter of October 1, 2012, states in part:

"This letter serves as a notice for an important reporting requirement date for Rural Development Loans.

The 2013 Proposed Budget Statements are requested on or before November 2, 2012.

Please find attached the RD Form 442-2, Statement of Income, Expenses and Equity, with Schedules 1 and 2 to complete for this requirement. . . .

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

It is very important to maintain a current schedule for Rural Development loan reporting. As a reminder, financial reporting is requested twice a year. The proposed Budgets for the next year are being requested in October and due November 2, 2012. Year-End Actual are requested in January and are due by March 1, 2013."

Failure to comply with federal compliance requirements that have a direct and material effect on a federally funded program could impact the Town's ability to procure future federal funding.

We recommended that the Town file accurate and timely reports as required by the U.S. Department of Agriculture.

***FINDING 2012-7 - 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): DR2-09-156; DR2-09-188

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

Management of the Town has not established an effective internal control system, which would include segregation of duties, 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: Davis-Bacon Act, Equipment and Real Property Management, Matching, 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, or 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.

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

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.

***FINDING 2012-8 - EQUIPMENT AND REAL PROPERTY MANAGEMENT COMPLIANCE***

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): DR2-09-156; DR2-09-188

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

The Town maintains no capital asset records for buildings, real estate, infrastructure, improvements, and/or equipment regardless of the funding used to purchase or construct. As a result, a physical inventory was not conducted as required.

During 2011 and 2012, the Town used \$630,126 in federal funds to construct a new 250,000 gallon elevated water storage tank and \$924,054 to construct a storm water collection and conveyance system.

24 CFR 85.32(d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Per Exhibit C.1 A of the grant agreements: The Grantee will retain title of the CDBG assets acquired, improved or otherwise assisted by CDBG grant funds unless the Grantee, with prior written approval of the State, assigns an interest in the CDBG-assisted assets to a subrecipient or other unit of general local government by means of a lease agreement, subrecipient agreement or interlocal agreement approved in writing by the State. The Grantee shall ensure that the Grantee retains either direct or reversionary control of the CDBG-assisted facilities or assets for a period of five years following the date the State issues a "Certificate of Completion" respective to the subject grant.

Failure to comply with federal compliance requirements that have a direct and material effect on a federally funded program could impact the Town's ability to procure future federal funding.

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

We recommended that the Town develop capital asset records that comply with the federal requirements and conduct a physical inventory at least every two years.

**FINDING 2012-9 - MATCHING COMPLIANCE**

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): DR2-09-156; DR2-09-188

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

The records were not adequately maintained by the Clerk-Treasurer or by the Grant Administrator to monitor compliance with matching requirements. Various subsidiary ledgers were maintained by the grant administrator and the fund ledger was maintained by the Clerk-Treasurer, but no record monitored the compliance with the matching requirement.

Per the grant agreement between the Indiana Office of Community and Rural Affairs and the Town of Kentland, section 7, paragraph 1:

"PROJECT BUDGET AND BUDGET MODIFICATION. The approved Project Budget (the 'Budget') is set forth as Exhibit B of this Grant Agreement. The Grantee shall not spend more than the amount for each line item, as described in the Budget, without the prior written consent of a duly authorized representative of the State, nor shall the Project costs funded by this Grant Agreement and those funded by the local and /or private share be amended or changed without the prior written consent of the State."

Exhibit B of the grant agreement scheduled out the cost sharing as follows: the total project cost of \$880,000 was funded by CDBG funds of \$704,000, 80 percent, and Local Funds of \$176,000, 20 percent. The amount of required matching was underfunded for Project DR2-09-156 by \$28,038.92. Project DR2-09-188 required match was underfunded by \$72,566.52 at December 31, 2012.

Project DR2-09-156 required a 20 percent local match. The total reported project was \$752,608.56 requiring a match of \$150,522; the amount of local match disbursed was \$122,483.00.

Project DR2-09-188 required a 10 percent local match. The total reported project as of December 31, 2012, was \$946,097.54; the match to date should have been \$94,609.75. Local match disbursed to date has been \$22,073.

The failure to meet matching requirements for Project DR2-09-156 did result in a repayment of \$28,038.92 to the Indiana Office of Community and Rural Affairs on February 12, 2013.

The failure to meet the matching requirements for Project DR2-09-188 could also result in a repayment.

We recommended that federal subsidiary accounting be performed in such a manner as to reflect the federal and local portions of project costs at any point in time. This information should be monitored by the individual monitoring compliance, management, and governance.

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

**FINDING 2012-10 - REPORTING COMPLIANCE**

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): DR2-09-156  
Pass-Through Entity: Indiana Office of Community and Rural Affairs (OCRA)

The semiannual report for Project DR2-09-156 for the period ending December 31, 2011, was tested. It contained errors in the amounts of contractual obligations reported, the contractor's ID numbers were not completed for all contractors, and the Leveraging Funds section was inaccurate in the reporting of local match expended to date. The Leveraging Funds section of the report for the period ending June 30, 2012, also erroneously reported the local match expended to date.

Per the grant agreement between the Indiana Office of Community and Rural Affairs and the Town of Kentland Section 4C. Reports, Records & Evaluations: "(1) The Grantee shall submit to the State such records and reports as may be required by the State or HUD, including but not limited to the reports listed in the *Grantee Implementation Manual*. Grantee's signature to this Grant Agreement signifies its confirmation of receipt of the *Grantee Implementation Manual*. (3.) D. Special Reporting Requirements. The Grantee shall continue to provide semi-annual or other reports, as may be required by the State, until the Project and all its objectives are complete. In the event that such reports are not submitted within the time frame allotted by the State, the State shall withhold authorization for drawdown on the approved line of credit until such time as the deficiency is corrected."

The amounts reported as local match for this project were erroneously reported and the end result was that the Town was required to refund \$28,038.92 in federal funding to the Indiana Office of Community and Rural Affairs on February 12, 2013.

We recommended that the officials of the Town review all reports, verifying information provided prior to submission of the report to the state or federal agency, as appropriate.

**FINDING 2012-11 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO AIRPORT IMPROVEMENT PROGRAM**

Federal Agency: U.S. Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0025-04 (FY2008);  
AIP 3-18-0025-05 (FY2009);  
AIP 3-18-0025-08 (FY2012)

Direct Award

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 Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Matching, Procurement, Suspension and Debarment, Real Property Acquisition/Relocation Assistance, 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.

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

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 or 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 2012-12 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, CASH MANAGEMENT, AND PROCUREMENT COMPLIANCE***

Federal Agency: U.S. Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0025-05 (FY2009)  
Direct Award

The Kentland Municipal Airport Board of Aviation Commissioners contracted with the Northern Indiana Public Service Company (NIPSCO) in February 2012 for the relocation of utilities for the runway expansion project. The contract with the NIPSCO required payment in three installments. The first installment of \$105,200 consisted of two-fifths of the estimated cost to be paid prior to any work being performed. The second installment of \$105,200 also consisted of two-fifths of the estimated costs and was to be paid at the beginning of construction. The final payment was to be paid within 30 days after the NIPSCO sent the Airport a final written invoice.

The first payment was paid March 15, 2012, in the amount of \$105,200 in compliance with the contract. The second payment was made June 12, 2012, in the amount of \$105,200 and was to be paid at the beginning of construction. At that time, the property necessary for the relocation of utilities had not been purchased by the Town, and the required easements had not been negotiated. In fact, the land required for the relocation of utilities was not purchased by the Town until 2013.

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

A claim for reimbursement was filed on April 13, 2012, for NIPSCO invoice GA 63 dated April 13, 2012. The invoice was for \$105,200 and was the second of three payments for utility relocation in connection to the Airport runway extension project. It was paid on June 12, 2012. The second payment, per the contract with the NIPSCO, was to be paid at the beginning of the construction. The second payment of \$105,200 is considered a questioned cost because no construction was started during 2012.

Circular A-87, Attachment A, B, C. Basic Guidelines states in part:

- "1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
  - b. Be allocable to Federal awards under the provisions of this Circular.
  - c. Be authorized or not prohibited under State or local laws or regulations."

49 CFR 18.21 Payment (b) states: " Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205."

49 CFR 18.21 Payment (d) states in part: "Reimbursement shall be the preferred method . . . payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement."

49 CFR 18.36 Procurement (b) states:

- "(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
- (2) Grantees and subgrantees will maintain a contract administration system which ensures that contactors perform in accordance with the terms, conditions, and specification of their contracts or purchase orders."

The failure to comply with all applicable laws and regulations could result in the repayment of federal funds spent fraudulently, wastefully, or in violation of Federal antitrust statutes, or misused in any manner in any project upon which Federal funds have been expended. The failure to comply with all applicable laws and regulations could impact the consideration of future federal funding.

We recommended that the Kentland Municipal Airport Board of Aviation Commissioners comply with all the laws, regulations, and contractual agreements and that contract requirements and their respective payments be monitored to ensure compliance.

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

**FINDING 2012-13 - EQUIPMENT AND REAL PROPERTY MANAGEMENT COMPLIANCE**

Federal Agency: U.S. Department of Transportation  
Federal Program: Airport Improvement Program  
CFDA Number: 20.106  
Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0025-04 (FY2008); AIP 3-18-0025-05 (FY2009); AIP 3-18-0025-08 (FY2012)  
Direct Award

The Town has no capital asset records for buildings, real estate, infrastructure, improvements, and/or equipment regardless of the funding used to purchase or construct. As a result, physical inventories were not conducted as required.

During 2011 and 2012, the Town used \$358,411 in federal funding for the Runway "9" extension project.

49 CFR 18.32(d) states:

*"Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Failure to comply with federal compliance requirements that have a direct and material effect on a federally funded program could impact the Town's ability to procure future federal funding.

We recommend that the Town develop capital asset records that comply with the federal requirements and conduct a physical inventory at least every two years.

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

**FINDING 2012-14 - REPORTING COMPLIANCE**

Federal Agency: U.S. Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0025-04 (FY2008);

AIP 3-18-0025-05 (FY2009);

AIP 3-18-0025-08 (FY2012)

Direct Award

The Kentland Municipal Airport had three active Airport Improvement Program projects during the audit period. All three of these projects were funded by federal, state, and local funds. All operations were accounted for in Fund 360-Aviation. There was no separate accounting maintained for each project.

The Airport used FAA form 5100-60 (recreated) in lieu of form SF-271 Outlay Report and Request for Reimbursement for Construction Programs. The Outlay Report and Request for Reimbursements for Construction Programs requires a certification that "the billed costs of disbursements are in accordance with the terms of the project and that the reimbursement represents the Federal share due which has not been previously requested and that an inspection has been performed and all work is in accordance with the terms of the grant." The form 5100-60 submitted April 13, 2012, the fourth request for project AIP 3-18-0025-05, included reimbursement for NIPSCO payment that contractually was not required until construction had begun. The acquisition of property and easements required for the relocation of utilities had not been completed during 2012.

There was only one 2012 Form 425 Federal Financial Report for AIP 3-18-0025-04 presented for audit. A 2011 Form 425 Federal Financial Report for AIP 3-18-0025-04 and AIP 3-18-0025-05, and a 2012 Form 425 Federal Financial Report for AIP 3-18-0025-05 and AIP 3-18-0025-08 were required to be completed, but were not presented for audit.

49 CFR 18.41 states in part:

"Financial reporting. . . .

(b) *Financial Status Report* . . .

(3) *Frequency*: The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support. . . .

(e) *Outlay report and request for reimbursement for construction programs* –

(1) Grants that support construction activities paid by reimbursement method.

(i) Requests for reimbursement under construction grants will be submitted on Standard Form 271, Outlay Report and Request for Reimbursement for Construction Programs. Federal agencies may, however, prescribe the Request for Advance or Reimbursement form, specified in §18.41(d), instead of this form."

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

49 CFR 18.50 states in part:

"Closeout.

(a) General. The Federal agency will close out the award when it determines that all applicable administrative actions and all required work of the grant has been completed.

(b) Reports. Within 90 days after the expiration or termination of the grant, the grantee must submit all financial, performance, and other reports required as a condition of the grant. Upon request by the grantee, Federal agencies may extend this timeframe. These may include but are not limited to:

- (1) Final performance or progress report.
- (2) Financial Status Report (SF 269) or Outlay Report and Request for Reimbursement for Construction Programs (SF-271) (as applicable).
- (3) Final request for payment (SF-270) (if applicable).
- (4) Invention disclosure (if applicable).
- (5) Federally-owned property report:

In accordance with §18.32(f), a grantee must submit an inventory of all federally owned property (as distinct from property acquired with grant funds) for which it is accountable and request disposition instructions from the Federal agency of property no longer needed."

SF-425 Supplemental Guidelines provided by the FAA Airports Division titled: *Guidance for Completing the Federal Financial Report (SF-425) for the FAA Airport Improvement Program (AIP)* states in part:

"The Office of Management and Budget has consolidated the Financial Status Report (SF-269) and the Federal Cash Transaction Report (SF-272) into a single report now known as the Federal Financial Report (SF-425). This action is consistent with the Federal Financial Assistance Management Improvement Act of 1999 (Pub.L.106-107). The use of the SF-425 provides a uniform, government wide format that standardizes the reporting period dates for the submission of cash management and financial information."

The FAA Office of Airport implemented this revised collection of financial information by issuing Program Guidance Letters PGL.10-1 and PGL 12-10 (Attachment 1- Reporting Requirements). Per current AIP policy, recipients of AIP grants must submit a SF-425 for each open grant as follows:

1. Annually - within 90 days of the end of a federal fiscal year (i.e. September 30)
2. Final Project Closure - In accordance with Title 49 CFR 18.41 and 18.50

Additionally,

- AIP sponsors shall prepare a separate report for each grant. Do not combine the information for multiple grants into one report.

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

- AIP sponsors shall submit their report directly to the project manager by hard copy or email (pdf). Do not use the DELPHI invoicing system to submit this report.

The failure to comply with all applicable laws and regulations could result in the repayment of federal funds spent fraudulently, wastefully, or in violation of federal antitrust statutes, or misused in any manner in any project upon which federal funds have been expended. The failure to comply with all applicable laws and regulations could impact the consideration of future federal funding.

We recommended that the Kentland Municipal Airport Board of Aviation Commissioners comply with all reporting requirements.

# Town of Kentland



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## CORRECTIVE ACTION PLAN

### FINDING 2012-1 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

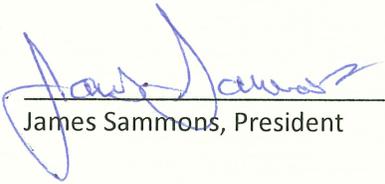
#### Corrective Action Plan

1. Lack of Segregation of Duties: The Town of Kentland does not plan on hiring additional help at this time for the segregation of duties. The town cannot justify the additional cost of hiring an additional person for this purpose. The clerk and utility clerk will TRY and cross train for these duties and will document by signing off and dating the documents.
2. Preparing Financial Statements: The Town of Kentland will work with CompuTrain to insure that all financial information is correct.
3. Monitoring of Controls: The Town Council will become more involved in the monitoring of the financial reports.

### FINDING 2012-2 – INTERNAL CONTROL OVER AND COMPLIANCE OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Clerk will compile a report for all receipts and disbursements for each federal grant. This report will be reviewed and documented by the Town Council.

  
\_\_\_\_\_  
Judy M. King, Clerk/Treasurer

  
\_\_\_\_\_  
James Sammons, President

# Town of Kentland



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## CORRECTIVE ACTION PLAN

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

Federal Agency: U.S. Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): 433090644

Direct Award

The Clerk will compile reports for future awards and will have the Town Council review and document.

FINDING 2012-4 – DAVIS BACON ACT COMPLIANCE

Federal Agency: U.S. Department of Agriculture

Federal Program: Water and Waste Disposal System for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): 433090644

Direct Award

The Clerk will work with the Grant Administrator to insure that payroll is in compliance with payments of federal prevailing wage rates. Payroll records will be kept by the Clerk along with the Grant Administrator.

FINDING 2012-5 – EQUIPMENT AND REAL PROPERTY MANAGEMENT COMPLIANCE

Federal Agency: U.S. Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): 433090644

Direct Award

The Clerk will work with the Town Manager and Council to establish a Capital Asset Report.

FINDING 2012-6 – REPORTING COMPLIANCE

Federal Agency: U.S. Department of Agriculture

Federal Program: Water and Waste Disposal Systems for rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): 433090644

Direct Award

The Clerk will comply and file the proper required reports.

FINDING 2012-7 – 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): DR2-09-156; DR2-09-188

Pass-Through Entity: Indiana Office of Community and rural Affairs (OCRA)

The Clerk will compile reports for future awards and will have the Town Council review and document.

FINDING 2012-8 – EQUIPMENT AND REAL PROPERTY MANAGEMENT COMPLIANCE

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): DR2-09-156; DR2-09-188

Pass-Through Entity: Indiana Office of Community and rural Affairs (OCRA)

The Clerk will work with the Town Manager and Town Council to compile a Capital Asset Report.

FINIDING 2012-9 – MATCHING COMPLIANCE

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): DR2-09-156; DR2-09-188

Pass-Through Entity: Indiana Office of Community and rural Affairs (OCRA)

The Clerk will compile reports and work with the Grant Administrator to insure that the town’s local match has been met.

FINDING 2012-10 – REPORTING COMPLIANCE

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): DR2-09-156; DR2-09-188

Pass-Through Entity: Indiana Office of Community and rural Affairs (OCRA)

The Clerk will work with the Grant Administrator to insure correct information is provided before Council signs the documents.

FINDING 2012-11 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO AIRPORT IMPROVEMENT PROGRAM

Federal Agency: U.S. Department of Transportation

Federal Program: Airport Improvement Program

CFDS Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0025-04 (FY2008; AIP 3-18-0025-05 (FY2009); AIP 3-18-0025-08 (FY2012)

Direct Award

The Clerk will compile reports for future awards and will have the Town Council review and document.

FINDING 2012-12 – ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE CONSTS/COST PRINCIPLES, CASH MANAGEMENT, AND PROCUREMENT COMPLIANCE

Federal Agency: U.S. Department of Transportation

Federal Program: Airport Improvement Program

CFDS Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0025-04 (FY2008; AIP 3-18-0025-05 (FY2009); AIP 3-18-0025-08 (FY2012)

Direct Award

The Clerk will not disburse any payments for the airport until land is acquired or goods are received.

FINDING 2012-13 – EQUIPMENT AND REAL PROPERTY MANAGEMENT COMPLIANCE

Federal Agency: U.S. Department of Transportation

Federal Program: Airport Improvement Program

CFDS Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0025-04 (FY2008; AIP 3-18-0025-05 (FY2009); AIP 3-18-0025-08 (FY2012)

Direct Award

The Clerk will work with the Aviation Board and Town Council to compile a Capital Asset list.

FINDING 2012-14 – REPORTING COMPLIANCE

Federal Agency: U.S. Department of Transportation

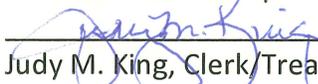
Federal Program: Airport Improvement Program

CFDS Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0025-04 (FY2008; AIP 3-18-0025-05 (FY2009); AIP 3-18-0025-08 (FY2012)

Direct Award

The Clerk will work with the Engineering Company and Administrator to insure proper documents are completed to report correct information and close out documents.

  
\_\_\_\_\_  
Judy M. King, Clerk/Treasurer

  
\_\_\_\_\_  
James Sammons, President

TOWN OF KENTLAND  
EXIT CONFERENCE

The contents of this report were discussed on November 26, 2013, with James A. Sammons, President of the Town Council, and Judy M. King, Clerk-Treasurer. The officials concurred with our audit findings.

The contents of this report were also discussed on November 26, 2013, with James A. Butler, President of Aviation Commissioners.