

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF SUNMAN
RIPLEY COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
03/07/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kristina S. Schneider (Vacant) Chelsea Eckstein	01-01-11 to 11-21-13 11-22-13 to 11-30-13 12-01-13 to 12-31-15
President of the Town Council	Wayne Jenner	01-01-11 to 12-31-14
Utility Manager	Terry Knueven	01-01-11 to 12-31-14



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF SUNMAN, RIPLEY COUNTY, INDIANA

Report on the Financial Statement

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 15, 2014, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis 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

January 15, 2014



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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 SUNMAN, RIPLEY 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 Sunman (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 January 15, 2014, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01, 2012-02, and 2012-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

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

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-03.

Town of Sunman'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

January 15, 2014

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

Fund	Cash and Investments			Cash and Investments			Cash and Investments
	01-01-11	Receipts	Disbursements	12-31-11	Receipts	Disbursements	
General	\$ 71,285	\$ 227,426	\$ 242,970	\$ 55,741	\$ 261,422	\$ 247,673	\$ 69,490
Motor Vehicle Highway	45,676	21,200	37,636	29,240	24,652	22,480	31,412
Local Road And Street	9,551	3,776	1,504	11,823	3,928	2,223	13,528
Law Enforcement Continuing Ed	3,675	195	-	3,870	500	-	4,370
Riverboat	216,783	1,178,672	1,237,894	157,561	292,965	376,025	74,501
Parks And Recreation	(5,338)	32,298	20,271	6,689	12,156	14,960	3,885
Rainy Day	17,991	-	-	17,991	-	500	17,491
Cumulative Capital Development	69,241	19,705	38,226	50,720	17,908	39,471	29,157
Cumulative Capital Improvement	22,951	2,312	-	25,263	2,782	11,375	16,670
Economic Development-Other	19,354	18,008	22,921	14,441	22,171	14,438	22,174
Softball	593	480	373	700	360	354	706
Money Market	36,032	101,562	77,500	60,094	19,034	-	79,128
Payroll	8,333	304,121	300,643	11,811	300,784	295,187	17,408
Utility Clearance	21	465,227	465,054	194	463,402	463,133	463
Wastewater Utility-Operating	68,373	250,936	236,221	83,088	248,662	258,206	73,544
Wastewater Util-Bond And Interest	83,978	38,040	38,850	83,168	38,040	38,200	83,008
Wastewater Utility-Deprec/Improve	13,459	2,350	5,179	10,630	2,800	-	13,430
Water Utility-Operating	50,569	195,573	171,283	74,859	197,187	185,734	86,312
Water Utility-Bond And Interest	17,050	38,160	38,700	16,510	38,160	38,450	16,220
Water Utility-Depreciation/Improve	39,050	-	-	39,050	-	-	39,050
Water Utility-Customer Deposit	36,836	3,350	4,645	35,541	3,525	5,450	33,616
Water Utility-Construction	5,322	14,400	17,014	2,708	6,850	9,558	-
Totals	<u>\$ 830,785</u>	<u>\$ 2,917,791</u>	<u>\$ 2,956,884</u>	<u>\$ 791,692</u>	<u>\$ 1,957,288</u>	<u>\$ 2,023,417</u>	<u>\$ 725,563</u>

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

TOWN OF SUNMAN
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water, and wastewater.

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.

TOWN OF SUNMAN
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

E. Disbursements

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

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

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

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

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

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

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

TOWN OF SUNMAN
NOTES TO FINANCIAL STATEMENT
(Continued)

F. Interfund Transfers

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

G. Fund Accounting

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

Note 2. Budgets

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

Note 3. Property Taxes

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

Note 4. Deposits and Investments

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

TOWN OF SUNMAN
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Note 5. Risk Management

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

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

Note 6. Restatements

For the year ended December 31, 2011, certain changes have been made to some of the beginning balances of the financial statement to more appropriately reflect financial activity of the Town. The following schedule presents a summary of restated beginning balances.

Fund Name	Balance as of December 31, 2010	New Fund	Prior Period Adjustment	Balance as of January 1, 2011
Payroll	\$ 8,478		\$ (145)	\$ 8,333
Utility Clearance	24		(3)	21
Water Utility-Debt Reserve	39,050	Water Utility-Depreciation/Improve	-	39,050
Water Utility-Customer Deposit	36,936		(100)	36,836

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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 SUNMAN
 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	Law Enforcement Continuing Ed	Riverboat	Parks And Recreation
Cash and investments - beginning	\$ 71,285	\$ 45,676	\$ 9,551	\$ 3,675	\$ 216,783	\$ (5,338)
Receipts:						
Taxes	175,014	-	-	-	-	18,199
Licenses and permits	40	-	-	185	-	-
Intergovernmental	14,605	21,200	3,656	-	75,243	1,448
Charges for services	31,759	-	-	10	-	10,743
Utility fees	-	-	-	-	-	-
Other receipts	6,008	-	120	-	1,103,429	1,908
Total receipts	<u>227,426</u>	<u>21,200</u>	<u>3,776</u>	<u>195</u>	<u>1,178,672</u>	<u>32,298</u>
Disbursements:						
Personal services	45,483	25,012	-	-	-	10,441
Supplies	20,604	6,155	1,504	-	17,770	2,484
Other services and charges	162,880	3,362	-	-	-	2,146
Capital outlay	14,003	3,107	-	-	9,450	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	1,210,674	5,200
Total disbursements	<u>242,970</u>	<u>37,636</u>	<u>1,504</u>	<u>-</u>	<u>1,237,894</u>	<u>20,271</u>
Excess (deficiency) of receipts over disbursements	<u>(15,544)</u>	<u>(16,436)</u>	<u>2,272</u>	<u>195</u>	<u>(59,222)</u>	<u>12,027</u>
Cash and investments - ending	<u>\$ 55,741</u>	<u>\$ 29,240</u>	<u>\$ 11,823</u>	<u>\$ 3,870</u>	<u>\$ 157,561</u>	<u>\$ 6,689</u>

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

	Rainy Day	Cumulative Capital Development	Cumulative Capital Improvement	Economic Development-Other	Softball	Money Market
Cash and investments - beginning	\$ 17,991	\$ 69,241	\$ 22,951	\$ 19,354	\$ 593	\$ 36,032
Receipts:						
Taxes	-	18,253	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	1,452	2,312	18,008	-	-
Charges for services	-	-	-	-	-	5,000
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	480	96,562
Total receipts	-	19,705	2,312	18,008	480	101,562
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	2,161	373	-
Capital outlay	-	38,226	-	20,760	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	77,500
Total disbursements	-	38,226	-	22,921	373	77,500
Excess (deficiency) of receipts over disbursements	-	(18,521)	2,312	(4,913)	107	24,062
Cash and investments - ending	<u>\$ 17,991</u>	<u>\$ 50,720</u>	<u>\$ 25,263</u>	<u>\$ 14,441</u>	<u>\$ 700</u>	<u>\$ 60,094</u>

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

	Payroll	Utility Clearance	Wastewater Utility-Operating	Wastewater Util-Bond And Interest	Wastewater Utility-Deprec/Improve	Water Utility-Operating
Cash and investments - beginning	\$ 8,333	\$ 21	\$ 68,373	\$ 83,978	\$ 13,459	\$ 50,569
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Utility fees	-	-	250,693	-	-	188,171
Other receipts	304,121	465,227	243	38,040	2,350	7,402
Total receipts	<u>304,121</u>	<u>465,227</u>	<u>250,936</u>	<u>38,040</u>	<u>2,350</u>	<u>195,573</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	198,181	-	5,179	121,123
Other disbursements	300,643	465,054	38,040	38,850	-	50,160
Total disbursements	<u>300,643</u>	<u>465,054</u>	<u>236,221</u>	<u>38,850</u>	<u>5,179</u>	<u>171,283</u>
Excess (deficiency) of receipts over disbursements	<u>3,478</u>	<u>173</u>	<u>14,715</u>	<u>(810)</u>	<u>(2,829)</u>	<u>24,290</u>
Cash and investments - ending	<u>\$ 11,811</u>	<u>\$ 194</u>	<u>\$ 83,088</u>	<u>\$ 83,168</u>	<u>\$ 10,630</u>	<u>\$ 74,859</u>

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

	Water Utility-Bond And Interest	Water Utility-Depreciation/Improve	Water Utility-Customer Deposit	Water Utility-Construction	Totals
Cash and investments - beginning	\$ 17,050	\$ 39,050	\$ 36,836	\$ 5,322	\$ 830,785
Receipts:					
Taxes	-	-	-	-	211,466
Licenses and permits	-	-	-	-	225
Intergovernmental	-	-	-	-	137,924
Charges for services	-	-	-	-	47,512
Utility fees	-	-	-	-	438,864
Other receipts	38,160	-	3,350	14,400	2,081,800
Total receipts	<u>38,160</u>	<u>-</u>	<u>3,350</u>	<u>14,400</u>	<u>2,917,791</u>
Disbursements:					
Personal services	-	-	-	-	80,936
Supplies	-	-	-	-	48,517
Other services and charges	-	-	-	-	170,922
Capital outlay	-	-	-	-	85,546
Utility operating expenses	-	-	-	-	324,483
Other disbursements	38,700	-	4,645	17,014	2,246,480
Total disbursements	<u>38,700</u>	<u>-</u>	<u>4,645</u>	<u>17,014</u>	<u>2,956,884</u>
Excess (deficiency) of receipts over disbursements	<u>(540)</u>	<u>-</u>	<u>(1,295)</u>	<u>(2,614)</u>	<u>(39,093)</u>
Cash and investments - ending	<u>\$ 16,510</u>	<u>\$ 39,050</u>	<u>\$ 35,541</u>	<u>\$ 2,708</u>	<u>\$ 791,692</u>

TOWN OF SUNMAN
 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	Law Enforcement Continuing Ed	Riverboat	Parks And Recreation
Cash and investments - beginning	\$ 55,741	\$ 29,240	\$ 11,823	\$ 3,870	\$ 157,561	\$ 6,689
Receipts:						
Taxes	134,109	-	-	-	-	-
Licenses and permits	71	-	-	250	-	-
Intergovernmental	88,040	24,652	3,928	-	292,332	-
Charges for services	32,752	-	-	5	-	11,156
Utility fees	-	-	-	-	-	-
Other receipts	6,450	-	-	245	633	1,000
Total receipts	<u>261,422</u>	<u>24,652</u>	<u>3,928</u>	<u>500</u>	<u>292,965</u>	<u>12,156</u>
Disbursements:						
Personal services	51,660	7,395	-	-	-	6,001
Supplies	18,796	6,506	-	-	237	828
Other services and charges	127,053	2,254	2,223	-	180,307	2,376
Capital outlay	2,503	6,325	-	-	166,721	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	47,661	-	-	-	28,760	5,755
Total disbursements	<u>247,673</u>	<u>22,480</u>	<u>2,223</u>	<u>-</u>	<u>376,025</u>	<u>14,960</u>
Excess (deficiency) of receipts over disbursements	<u>13,749</u>	<u>2,172</u>	<u>1,705</u>	<u>500</u>	<u>(83,060)</u>	<u>(2,804)</u>
Cash and investments - ending	<u>\$ 69,490</u>	<u>\$ 31,412</u>	<u>\$ 13,528</u>	<u>\$ 4,370</u>	<u>\$ 74,501</u>	<u>\$ 3,885</u>

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

	Rainy Day	Cumulative Capital Development	Cumulative Capital Improvement	Economic Development-Other	Softball	Money Market
Cash and investments - beginning	\$ 17,991	\$ 50,720	\$ 25,263	\$ 14,441	\$ 700	\$ 60,094
Receipts:						
Taxes	-	16,383	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	1,525	2,782	22,171	-	18,775
Charges for services	-	-	-	-	360	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	-	259
Total receipts	<u>-</u>	<u>17,908</u>	<u>2,782</u>	<u>22,171</u>	<u>360</u>	<u>19,034</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	500	-	-	2,245	354	-
Capital outlay	-	39,471	11,375	7,193	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	5,000	-	-
Total disbursements	<u>500</u>	<u>39,471</u>	<u>11,375</u>	<u>14,438</u>	<u>354</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(500)</u>	<u>(21,563)</u>	<u>(8,593)</u>	<u>7,733</u>	<u>6</u>	<u>19,034</u>
Cash and investments - ending	<u>\$ 17,491</u>	<u>\$ 29,157</u>	<u>\$ 16,670</u>	<u>\$ 22,174</u>	<u>\$ 706</u>	<u>\$ 79,128</u>

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

	Payroll	Utility Clearance	Wastewater Utility-Operating	Wastewater Util-Bond And Interest	Wastewater Utility-Deprec/Improve	Water Utility-Operating
Cash and investments - beginning	\$ 11,811	\$ 194	\$ 83,088	\$ 83,168	\$ 10,630	\$ 74,859
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Utility fees	-	-	248,470	-	-	196,972
Other receipts	300,784	463,402	192	38,040	2,800	215
Total receipts	<u>300,784</u>	<u>463,402</u>	<u>248,662</u>	<u>38,040</u>	<u>2,800</u>	<u>197,187</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	220,167	-	-	140,715
Other disbursements	295,187	463,133	38,039	38,200	-	45,019
Total disbursements	<u>295,187</u>	<u>463,133</u>	<u>258,206</u>	<u>38,200</u>	<u>-</u>	<u>185,734</u>
Excess (deficiency) of receipts over disbursements	<u>5,597</u>	<u>269</u>	<u>(9,544)</u>	<u>(160)</u>	<u>2,800</u>	<u>11,453</u>
Cash and investments - ending	<u>\$ 17,408</u>	<u>\$ 463</u>	<u>\$ 73,544</u>	<u>\$ 83,008</u>	<u>\$ 13,430</u>	<u>\$ 86,312</u>

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

	Water Utility-Bond And Interest	Water Utility-Depreciation/Improve	Water Utility-Customer Deposit	Water Utility-Construction	Totals
Cash and investments - beginning	\$ 16,510	\$ 39,050	\$ 35,541	\$ 2,708	\$ 791,692
Receipts:					
Taxes	-	-	-	-	150,492
Licenses and permits	-	-	-	-	321
Intergovernmental	-	-	-	-	454,205
Charges for services	-	-	-	-	44,273
Utility fees	-	-	-	-	445,442
Other receipts	38,160	-	3,525	6,850	862,555
Total receipts	<u>38,160</u>	<u>-</u>	<u>3,525</u>	<u>6,850</u>	<u>1,957,288</u>
Disbursements:					
Personal services	-	-	-	-	65,056
Supplies	-	-	-	-	26,367
Other services and charges	-	-	-	-	317,312
Capital outlay	-	-	-	-	233,588
Utility operating expenses	-	-	-	-	360,882
Other disbursements	38,450	-	5,450	9,558	1,020,212
Total disbursements	<u>38,450</u>	<u>-</u>	<u>5,450</u>	<u>9,558</u>	<u>2,023,417</u>
Excess (deficiency) of receipts over disbursements	<u>(290)</u>	<u>-</u>	<u>(1,925)</u>	<u>(2,708)</u>	<u>(66,129)</u>
Cash and investments - ending	<u>\$ 16,220</u>	<u>\$ 39,050</u>	<u>\$ 33,616</u>	<u>\$ -</u>	<u>\$ 725,563</u>

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

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Notes and loans payable	Loan with FCN Bank for purchase of town hall	\$ 156,517	\$ 14,385
Notes and loans payable	Loan with FCN Bank for Eastern Ave. Project	<u>125,278</u>	<u>12,750</u>
Total governmental activities		<u>281,795</u>	<u>27,135</u>
Wastewater:			
Notes and loans payable	Wastewater improvement loan with rural development	491,000	38,550
Water:			
Notes and loans payable	Wellfield improvements with Berkadia	<u>223,000</u>	<u>38,150</u>
Totals		<u>\$ 995,795</u>	<u>\$ 103,835</u>

TOWN OF SUNMAN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER VENDED WATER SALES

Internal controls over receipting, recording, and accounting for vended water sales were insufficient. The Water Utility received \$8,910 from vended water sales during the year 2012. Water is sold at the water tower utilizing a vending-type machine called a Water Salesman. Customers deposit quarters in the machine which opens a valve and releases water for a fixed period of time. Terry Knueven, Utility Manager, stated the actual number of gallons sold per quarter inserted in the vending machine varies because of variable tower water pressure. Mr. Knueven stated between 45 and 55 gallons of water are released for each quarter deposited in the machine.

Two Utility employees remove coins from the machine weekly. They count the coins and submit the collection to the Clerk-Treasurer's Office for deposit. We noted the following internal control deficiencies regarding the accounting of vended water sales:

1. The Town has not adopted procedures to document segregation of duties in accounting for the vended water sale proceeds. The two Utility employees, who emptied the machine and counted the cash, were not required to prepare a Report of Collections (Form 362) to accompany the coins submitted for deposit.
2. Weekly reports from the Water Salesman machine were not retained for audit.
3. The Clerk-Treasurer's Office did not issue a receipt for the collections submitted by the two Utility employees.
4. The Clerk-Treasurer did not deposit the vended water sales proceeds daily. We noted two instances where some weekly collections were held for over two months before they were deposited.

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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations contained errors and did not balance.

Depository reconciliations of the fund balance to the bank account balances were not conducted in a timely manner. Once the reconciliation was performed, the Clerk-Treasurer made no effort to identify reconciling items but simply showed the total unidentified amount. At December 31, 2012, the cumulative effect of uncorrected differences from prior months shows \$1,268 of unidentified reconciling items.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

TOWN OF SUNMAN
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid penalties, interest, and other charges to the Internal Revenue Service in the amount of \$134.84 because the Town did not remit some payments on a timely basis.

The Town paid penalties, interest, and other charges to the Indiana Department of Revenue in the amount of \$74.65 because the Town did not remit some payments on a timely basis.

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)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
Riverboat	2011	\$ 1,237,894
Riverboat	2012	211,025
Rainy Day	2012	500

A similar comment appeared in prior Report B40880.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

ORDINANCES AND RESOLUTIONS

Town Ordinances 2006-2 and 2006-3 establish Wastewater and Water Utility rates, respectively. No subsequent ordinances have changed the rates in these ordinances. The Town did not comply with its ordinances. The 3 percent rate increases effective August 1, 2008, in the respective ordinances were not applied to customer billings in 2008, 2009, 2010, 2011, and 2012.

A similar comment appeared in prior Report B40880.

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

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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 SUNMAN, RIPLEY COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-05. Our opinion on each major federal program is not modified with respect to this matter.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-04 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

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

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

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii					
Disaster Recovery Grant					
	Indiana Office of Community and Rural Affairs	14.228	B11DC180001 DR2-09-171	\$ 547,115	\$ 185,844
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction Project #9069001					
	Indiana Department of Transportation	20.205	DES #9381740	52,348	97,086
Total federal awards expended				<u>\$ 599,463</u>	<u>\$ 282,930</u>

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

TOWN OF SUNMAN
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

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

TOWN OF SUNMAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

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

Federal Awards:

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

Identification of Major Program:

_____ Name of Federal Program or Cluster _____

CDBG – State-Administered CDBG Cluster

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-01 - 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 deficiency constitutes a material weakness:

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

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

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

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

FINDING 2012-02 - INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENT

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the financial statement. The Town should have proper controls in place over the preparation of the financial statement to ensure accurate reporting of cash and investments and financial activity. Without a proper system of internal control in place that operates effectively, material misstatements of the financial statement could remain undetected.

The following errors were noted regarding the preparation of the financial statement:

1. The beginning balances for some funds reported in the 2011 Annual Report did not agree with the ending balances reported in the previous Annual Report.
2. The receipts, disbursements, and ending balances reported in the 2012 Annual Report did not agree with the Town's records.

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 2012-03 INTERNAL CONTROLS OVER THE PREPARATION 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 (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

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

The following errors were noted regarding the preparation of the SEFA:

1. Expenditures from CFDA #14.228 were understated in both 2011 and 2012.
2. CFDA# 20.205 was not reported on the SEFA.

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

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

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

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.

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

- (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 2012-04 - 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
Other Identifying Number: B11DC18001 DR2-09-171
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Management of the Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis Bacon; Matching, Level of Effort, and Earmarking; Period of Availability; Procurement, Suspension, and Debarment; Reporting; and Special Tests and Provisions. 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.

Activities Allowed or Unallowed/Allowable Cost

Controls over activities allowed or unallowed and allowable cost were not working effectively. We found one instance in which the contractor's application for payment was not signed by the Town Council President and another instance in which a payment was paid to the engineer without going through the proper claims process. Effective controls are necessary to ensure grant expenditures are properly paid.

Cash Management

Controls were not in place to ensuring that cash drawdowns were disbursed to the contractors and vendors within five days of receiving the drawdown. We found two instances in which the Clerk-Treasurer held the checks for payment after receiving the drawdown amounts. The checks were written in March 2012 and did not clear the bank until June 2012. Effective controls are necessary to ensure that upon receiving cash drawdowns for grant expenditures that it is disbursed within five days of receipt.

Davis-Bacon

The Town has not established controls, including segregation of duties, to ensure that prevailing wages were paid to the contractors and that required weekly payrolls were being monitored properly by the grant administrator.

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

Matching, Level of Effort, Earmarking

Controls over matching, level of effort, and earmarking were not working effectively. We found one instance in which the amount reported as the matching total did not agree with the amount shown in the ledger. Effective controls are necessary to ensure that amounts reported as the local match to the grant agrees with the Town's records.

Period of Availability

Controls over period of availability were not working effectively. We found one instance in which a payment to the project engineer was not through the Town's normal claims process. Failure to process a claim through the normal claims process could allow grant expenditures to be paid outside the period of availability. Effective controls are necessary to ensure grant expenditures are paid within the period of availability.

Procurement, Suspension, and Debarment

The Town has not established controls, including segregation of duties, to verify the project engineer's determination that contractors were not suspended or debarred was correct.

Reporting

The Town has not established controls, including segregation of duties, to ensure that the amounts reported by the grant administrator on the project are correct and in agreement with the Town's records.

Special Test and Provisions

The Town has not established controls, including segregation of duties, to ensure that citizen participation reports clearly define who prepared the report and who reviewed the report.

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.

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

FINDING 2012-05 - CASH MANAGEMENT

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: B11DC180001 DR2-09-171
 Pass-Through Entity: Indiana Office of Community and Rural Affairs

Amounts received by the Town were drawn down in advance of disbursement to vendors or contractors.

Grant receipts were received and deposited in the Town's bank account, and checks were issued by the Clerk-Treasurer for the expenses detailed in the drawdown requests. However, the checks were not remitted to the vendor but instead held by the Clerk-Treasurer for a period of over three months as outlined below.

<u>Date Advance Deposited</u>	<u>Check Number</u>	<u>Amount</u>	<u>Date Check Written</u>	<u>Date Check Cleared Bank</u>
March 6, 2012	1392	\$ 2,875	March 7, 2012	June 22, 2012
March 6, 2012	1393	7,000	March 7, 2012	June 29, 2012

34 CFR 80.20(b)(7) states in part:

"Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

The grant agreement required compliance with the Indiana CDBG Handbook (Handbook). In Section 1.9.1 of the Handbook it states in part:

"Financial Management: Throughout project implementation, an accounting of all financial activities is required. Accurate records pertaining to the receipt and disbursement of all funds for the project must be maintained. All federal funds must be accounted for, and it must be clearly documented that no more than \$5,000 in federal funds is held in the Grantee's account for a period longer than five business days."

Noncompliance with the grant agreement or the applicable compliance requirements could result in the loss of federal funds to the Town.

We recommended the Town's management ensure compliance with the requirements related to cash management requirements contained in the grant agreement and grant implementation manual.

TOWN OF SUNMAN

PO Box 147
Sunman, IN 47041

FINDING 2012-01 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person: Wayne Jenner
Title: President of the Town Council
Phone Number: 812 623-2066

Lack of segregation of duties- The Town is a small town. Council has determined the cost associated with hiring additional staff to properly segregate duties would outweigh the benefits. Management acknowledges and assumes the risk inherent with the current internal control system.

FINDING NO. 2012-02 – INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENT

Contact Person: Wayne Jenner
Title: President of the Town Council
Phone Number: 812 623-2066

Future annual reports will begin with the ending balances from the previous annual report.

We hired an outside accounting firm assist us in correcting our records. Future annual reports will be reconciled to the records and receipts, disbursements, and balances in the annual report should agree with the financial records.

FINDING 2012-03 – INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL ASSISTANCE

Contact Person: Wayne Jenner
Title: President of the Town Council
Phone Number: 812 623-2066

The Town will attempt to establish a policy to ensure all federal assistance is reported properly in future annual reports.

FINDING 2012-04– INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

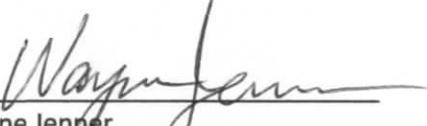
Contact Person: Wayne Jenner
Title: President of the Town Council
Phone Number: 812 623-2066

The Town will review and implement procedures to provide sufficient internal controls over future grants using available resources.

FINDING 2012-5 CASH MANAGEMENT

Contact Person: Wayne Jenner
Title: President of the Town Council
Phone Number: 812 623-2066

We will review future cash management requirements and implement procedures to ensure compliance.



Wayne Jenner
President, Sunman Town Council
Date: 1-15-14



Chelsea Eckstein
Clerk-Treasurer, Town of Sunman
Date: 1/15/14

TOWN OF SUNMAN
EXIT CONFERENCE

The contents of this report were discussed on January 15, 2014, with Chelsea Eckstein, Clerk-Treasurer; Wayne Jenner, President of the Town Council; and Kristina S. Schneider, former Clerk-Treasurer.