

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF KOKOMO

HOWARD COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**  
12/07/2016



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Milton Beach	01-01-14 to 12-31-15
	Randall J. Morris	01-01-16 to 12-31-16
Mayor	Gregory Goodnight	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Randy McKay	01-01-14 to 12-31-16
President of the Common Council	John M. Kennedy	01-01-14 to 12-31-14
	Robert Hayes, Sr.	01-01-15 to 12-31-16
Department of Development Director	Steve Whikehart	01-01-14 to 02-28-14
	Jennifer L. Jordan	03-01-14 to 12-31-16
Utility Office Manager	Kimberly McKinney	01-01-14 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF THE CITY OF KOKOMO, HOWARD COUNTY, INDIANA

This report is supplemental to our audit report of the City of Kokomo (City), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

October 27, 2016

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DEPARTMENT OF THE CONTROLLER  
CITY OF KOKOMO

DEPARTMENT OF THE CONTROLLER  
CITY OF KOKOMO  
FEDERAL FINDINGS

**FINDING 2014-001 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*Condition*

The City 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).

Although there were controls in place over the preparation and submission of the SEFA, the controls were not effective.

During the audit of the SEFA, we noted that Program Income of \$214,623 from the Community Development Block Grants/Entitlement Grants program was not included on the SEFA.

An audit adjustment was proposed, accepted by the City, and made to the SEFA.

*Criteria*

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 in part:

"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.



DEPARTMENT OF THE CONTROLLER  
CITY OF KOKOMO  
FEDERAL FINDINGS  
(Continued)

- (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. . . ."

*Cause*

Management had established a system of internal control to ensure proper reporting of the SEFA, although this system is not always effective in detecting all errors.

*Effect*

Without a system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2014-002 - WASTEWATER REVENUES**

*Condition*

There were the following deficiencies in the internal control system of the City related to collection of wastewater revenues.

**Lack of Segregation of Duties:** The City had not separated incompatible activities related to the collection of wastewater revenues. The Utility Office Manager was responsible for receiving payments through the mail or at the office counter, balancing cash drawers, making up deposits, posting receipts, making adjustments, approving adjustments for penalty reversals, posting credits or adjustments to accounts receivable, and mailing billing statements.

**Lack of Monitoring of Customer Account Adjustments:** The City's management or governance over the Utility Office Manager position did not routinely review adjustments made to customer accounts.

**Documentation of Controls:** A lack of documentation of controls also prevented a complete audit trail to verify proper segregation of duties among all utility office staff.

*Criteria*

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.

DEPARTMENT OF THE CONTROLLER  
CITY OF KOKOMO  
FEDERAL FINDINGS  
(Continued)

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

*Cause*

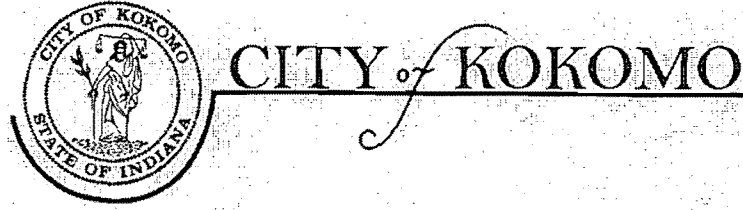
Management of the City had not established a proper system of internal control.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



## CORRECTIVE ACTION PLAN

### ***FINDING 2014-001***

Contact Person Responsible for Corrective Action:  
Contact Phone Number:

Randall J. Morris, Controller  
(765) 456-7450

Description of Corrective Action Plan: The city has been made aware of this requirement and will comply with the federal requirements by including program income in all future SEFA reports.

Anticipated Completion Date: October 15, 2016

### ***FINDING 2014-002***

Contact Person Responsible for Corrective Action:  
Contact Phone Number:

Randall J. Morris, Controller  
(765) 456-7450

Description of Corrective Action Plan: The city has been made aware of this internal control weakness and will make sure that an employee will not handle a transaction from start to finish. Employees are also instructed to initial the deposit ticket to provide documentation of segregation of duties among all utility office staff.

Anticipated Completion Date: October 15, 2016

### ***FINDING 2014-003***

Contact Person Responsible for Corrective Action:  
Contact Phone Number:

Randall J. Morris, Controller  
(765) 456-7450

Description of Corrective Action Plan: The city has been made aware of this internal control weakness and will have control in place to ensure that capital utilization is being properly calculated.

Anticipated Completion Date: October 15, 2016

**FINDING 2014-004**

Contact Person Responsible for Corrective Action:  
Contact Phone Number:

Randall J. Morris, Controller  
(765) 456-7450

The City of Kokomo has implemented an internal control to provide better documentation of management review and oversight responsibilities over the activities of the grant.

Anticipated Completion Date: October 15, 2016.

A handwritten signature in black ink, appearing to read "Randall J. Morris".

Randall J. Morris  
City Controller, City of Kokomo

DEPARTMENT OF THE CONTROLLER  
CITY OF KOKOMO  
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2016, with Gregory Goodnight, Mayor; Randall J. Morris, Controller; Randy McKay, President of the Board of Public Works and Safety; Robert Hayes, Sr., President of the Common Council; and Thu Caven, Deputy Controller.

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DEPARTMENT OF DEVELOPMENT  
CITY OF KOKOMO

DEPARTMENT OF DEVELOPMENT  
CITY OF KOKOMO  
FEDERAL FINDINGS

**FINDING 2014-003 - SPECIAL TESTS AND PROVISIONS - INCREASES  
TO RLF CAPITAL BASE AND CAPITAL UTILIZATION**

Federal Agency: Department of Commerce  
Federal Program: Economic Adjustment Assistance  
CFDA Number: 11.307  
Federal Award Number and Year (or Other Identifying Number): FY 2014  
Pass-Through Entity: Direct Grant

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and Special Tests and Provisions Increases to RLF Capital Base and Capital Utilization compliance requirement. There were no controls in place to ensure that capital utilization was being properly calculated.

*Context*

The City was allowed to sequester 25 percent of the Revolving Loan Fund capital base. The City had sequestered an additional \$80,343 and \$30,044 at March 31, 2014, and September 30, 2014, respectively.

*Criteria*

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. . . ."

13 CFR 307.16(c) states in part:

- (1) During the Revolving Phase, RLF Recipients must manage their repayment and lending schedules to provide that at all times at least 75 percent of the RLF Capital is loaned or committed. The following exceptions apply: . . .
  - (ii) EDA may require an RLF Recipient with an RLF Capital base in excess of \$4 million to adopt a plan that maintains a proportionately higher percentage of its funds loaned.
- (2) When the percentage of loaned RLF Capital falls below the capital utilization standard, the dollar amount of the RLF funds equivalent to the difference between the actual percentage of RLF Capital loaned and the capital utilization standard is referred to as 'excess funds.'
  - (i) *Sequestration of excess funds.* If the RLF Recipient fails to satisfy the capital utilization standard for two (2) consecutive Reporting Periods, EDA may require the RLF Recipient to deposit excess funds in an interest-bearing account. The portion of interest earned on the account holding excess funds attributable to the Federal Share (as defined in § 314.5 of this chapter) of the RLF Grant shall be remitted to the U.S. Treasury. The RLF Recipient must obtain EDA's written authorization to withdraw any sequestered funds."



DEPARTMENT OF DEVELOPMENT  
CITY OF KOKOMO  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

We recommended that the City comply with the Special Tests and Provisions - Increases to RLF Capital Base and Capital Utilization compliance requirement listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2014-004 - REPORTING***

Federal Agency: Department of Commerce

Federal Program: Economic Adjustment Assistance

CFDA Number: 11.307

Federal Award Number and Year (or Other Identifying Number): FY 2014

Pass-Through Entity: Direct Grant

*Condition*

An effective internal control system, which would have included segregation of duties, was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement. There were no control procedures in place to ensure the accuracy of the semiannual reports prior to being submitted to the Economic Development Administration.

*Context*

Internal control issues were systemic, occurring throughout the audit period.

DEPARTMENT OF DEVELOPMENT  
CITY OF KOKOMO  
FEDERAL FINDINGS  
(Continued)

*Criteria*

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. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish an effective internal control system placed the city at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

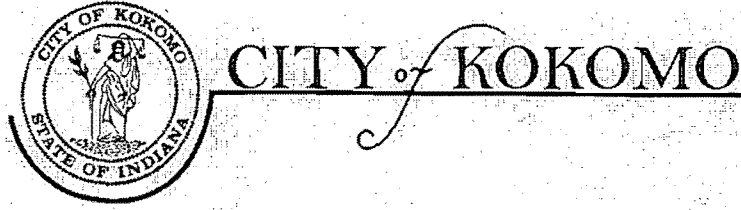
There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



## CORRECTIVE ACTION PLAN

### ***FINDING 2014-001***

Contact Person Responsible for Corrective Action:  
Contact Phone Number:

Randall J. Morris, Controller  
(765) 456-7450

Description of Corrective Action Plan: The city has been made aware of this requirement and will comply with the federal requirements by including program income in all future SEFA reports.

Anticipated Completion Date: October 15, 2016

### ***FINDING 2014-002***

Contact Person Responsible for Corrective Action:  
Contact Phone Number:

Randall J. Morris, Controller  
(765) 456-7450

Description of Corrective Action Plan: The city has been made aware of this internal control weakness and will make sure that an employee will not handle a transaction from start to finish. Employees are also instructed to initial the deposit ticket to provide documentation of segregation of duties among all utility office staff.

Anticipated Completion Date: October 15, 2016

### ***FINDING 2014-003***

Contact Person Responsible for Corrective Action:  
Contact Phone Number:

Randall J. Morris, Controller  
(765) 456-7450

Description of Corrective Action Plan: The city has been made aware of this internal control weakness and will have control in place to ensure that capital utilization is being properly calculated.

Anticipated Completion Date: October 15, 2016

**FINDING 2014-004**

Contact Person Responsible for Corrective Action:  
Contact Phone Number:

Randall J. Morris, Controller  
(765) 456-7450

The City of Kokomo has implemented an internal control to provide better documentation of management review and oversight responsibilities over the activities of the grant.

Anticipated Completion Date: October 15, 2016.

A handwritten signature in black ink, appearing to read "Randall J. Morris". The signature is fluid and cursive, with a large initial "R" and "M".

Randall J. Morris  
City Controller, City of Kokomo

DEPARTMENT OF DEVELOPMENT  
CITY OF KOKOMO  
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2016, with Gregory Goodnight, Mayor; Randall J. Morris, Controller; Randy McKay, President of the Board of Public Works and Safety; Robert Hayes, Sr., President of the Common Council; Jennifer L. Jordan, Department of Development Director; and Thu Caven, Deputy Controller.