

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, 2015 to December 31, 2015



FILED
12/07/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Milton Beach Randall J. Morris	01-01-14 to 12-31-15 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	01-01-15 to 12-31-16
President of the Common Council	Robert Hayes, Sr.	01-01-15 to 12-31-16
Department of Development Director	Jennifer L. Jordan	01-01-15 to 12-31-16
Department of Aviation Director	Patrick O'Neill	01-01-15 to 12-31-16
Utility Office Manager	Kimberly McKinney	01-01-15 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2015 to December 31, 2015. 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/.

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 FINDING

FINDING 2015-001 - 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 able to receive payments through mail or at the office counter; balance cash drawers; make up deposits; post receipts; had access to the system to make adjustments; approved adjustments for penalty reversals; posted credits or adjustments to accounts receivable and mailed 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.

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

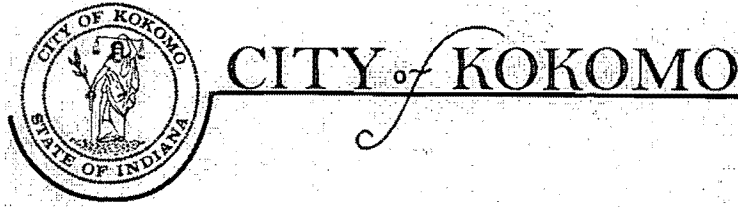
Management of the City had not established a proper system of internal control.

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 2015-001

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 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 2015-002

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 have control in place to ensure that capital utilization is being properly calculated.

Anticipated Completion Date: October 15, 2016

FINDING 2015-003

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 where the consultant has to report to the airport board at its monthly meeting that the consultant was receiving the weekly payrolls from the contractors and that the payrolls are in compliance with the wage rate requirements.

Anticipated Completion Date: October 15, 2016

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.

DEPARTMENT OF DEVELOPMENT
CITY OF KOKOMO

DEPARTMENT OF DEVELOPMENT
CITY OF KOKOMO
FEDERAL FINDING

**FINDING 2015-002 - 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 2015
Pass-Through Entity: Direct Grant

This is a repeat finding from the immediate prior year in Report B47273.

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 \$116,008 and \$70,366 at March 31, 2015, and September 30, 2015, 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. . . ."

2 CFR section 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

DEPARTMENT OF DEVELOPMENT
CITY OF KOKOMO
FEDERAL FINDING
(Continued)

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, except that 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. . . .

(i) *Sequestration of excess funds.* If the RLF Recipient fails to satisfy the capital utilization standard for two 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."

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.

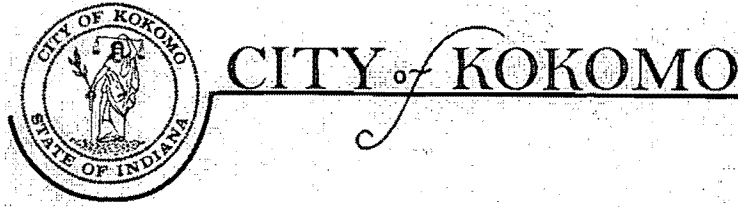
Recommendation

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

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

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 2015-001

Contact Person Responsible for Corrective Action:
Contact Phone Number:

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

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Anticipated Completion Date: October 15, 2016

FINDING 2015-002

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 have control in place to ensure that capital utilization is being properly calculated.

Anticipated Completion Date: October 15, 2016

FINDING 2015-003

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 where the consultant has to report to the airport board at its monthly meeting that the consultant was receiving the weekly payrolls from the contractors and that the payrolls are in compliance with the wage rate requirements.

Anticipated Completion Date: October 15, 2016

Randall J. Morris
City Controller, City of Kokomo

DEPARTMENT OF DEVELOPMENT
CITY OF KOKOMO
EXIT CONFERENCE

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DEPARTMENT OF AVIATION
CITY OF KOKOMO

DEPARTMENT OF AVIATION
CITY OF KOKOMO
FEDERAL FINDING

FINDING 2015-003 - SPECIAL TESTS AND PROVISIONS - WAGE RATE DETERMINATION

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0044-21, 3-18-044-22,
and 3-18-0044-23

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 the Special Tests and Provisions - Wage Rate Determination compliance requirement.

The City relied on a consultant to ensure compliance with the Wage Rate Determination requirements. There were no controls in place to ensure that the City was verifying that the Consultant was receiving weekly payrolls from the contractors working on the airport project.

Context

The City did not monitor the consultant to confirm if the four contractors used during the project were providing weekly payrolls.

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. . . ."

2 CFR section 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

DEPARTMENT OF AVIATION
CITY OF KOKOMO
FEDERAL FINDING
(Continued)

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 requirements 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

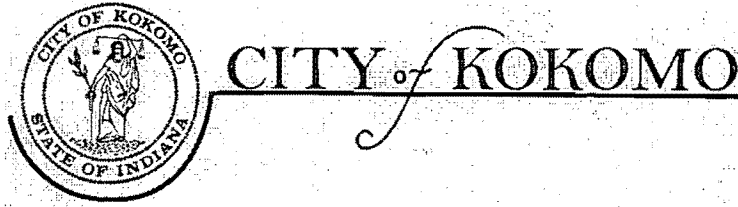
There were no questioned costs identified.

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

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CORRECTIVE ACTION PLAN

FINDING 2015-001

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FINDING 2015-003

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