

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF KENDALLVILLE

NOBLE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
05/19/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sheryl J. Hanes	01-01-12 to 12-31-19
Mayor	W. Suzanne Handshoe	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	James Dazey	01-01-14 to 12-31-17
President Pro Tempore of the Common Council	James Dazey Regan Ford James Dazey	01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF THE CITY OF KENDALLVILLE, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Kendallville (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 and Audit Results and Comments 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 and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

February 28, 2017

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CLERK-TREASURER
CITY OF KENDALLVILLE

CLERK-TREASURER
CITY OF KENDALLVILLE
FEDERAL FINDINGS

**FINDING 2014-001 - PREPARATION OF THE 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).

Context

The Clerk-Treasurer prepared and submitted the SEFA without effective controls to ensure its accuracy before submission. This resulted in the following errors on the SEFA presented for audit:

1. Disaster Grants - Public Assistance (Presidentially Declared Disasters) in the amount of \$16,051 was omitted.
2. Public Safety Partnership and Community Policing Grants was underreported by \$18,982.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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. . . ."

CLERK-TREASURER
CITY OF KENDALLVILLE
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Cause

Management had not established a system of internal control that would ensure proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA could have remain undetected. The SEFA contained the errors identified in the *Context*.

Views of Responsible Officials

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

CLERK-TREASURER
CITY OF KENDALLVILLE
FEDERAL FINDINGS
(Continued)

FINDING 2014-002 - INTERNAL CONTROL OVER REPORTING

Federal Agency: Department of Commerce
Federal Program: Investments for Public Works and Economic Development Facilities
CFDA Number: 11.300
Federal Award Number and Year (or Other Identifying Number): 06-01-05583
Pass-Through Entity: Direct Grant

Condition

The City did not have adequate controls in place for segregation of duties to ensure compliance with Reporting requirements related to the grant agreement. The Outlay Report and Request for Reimbursement for Construction Programs had adequate controls in place, however, the Federal Financial Reports did not have any controls in place.

Context

The City hired a Grant Administrator to facilitate compliance with the grant. All Reporting requirements were completed by the Grant Administrator. There was no evidence of internal controls over compliance with the Federal Financial Reports.

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 of the City 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 also have 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.

CLERK-TREASURER
CITY OF KENDALLVILLE
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

City of Kendallville

234 S. Main Street

Kendallville, IN 46755-1795

www.kendallville.in.gov
CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Sheryl Hanes
Contact Phone Number: (260) 347-7025

We concur with the finding.

Description of Corrective Action Plan:

1. **Preparation of the schedule of expenditures of Federal Awards** – The City of Kendallville is aware of the potential risks associated with the lack of internal controls. The City of Kendallville will continue to assess the risks and weigh that against any future improvement in the Schedule of Expenditures of Federal Awards (SEFA). Review of input information into Gateway will be reviewed and verified by multiple staff in regards to the reporting of grant information.

Anticipated Completion Date:

The City of Kendallville anticipates correction to occur by March 1, 2017.

FINDING 2014-002

Contact Person Responsible for Corrective Action: Sheryl Hanes
Contact Phone Number: (260) 347-7025

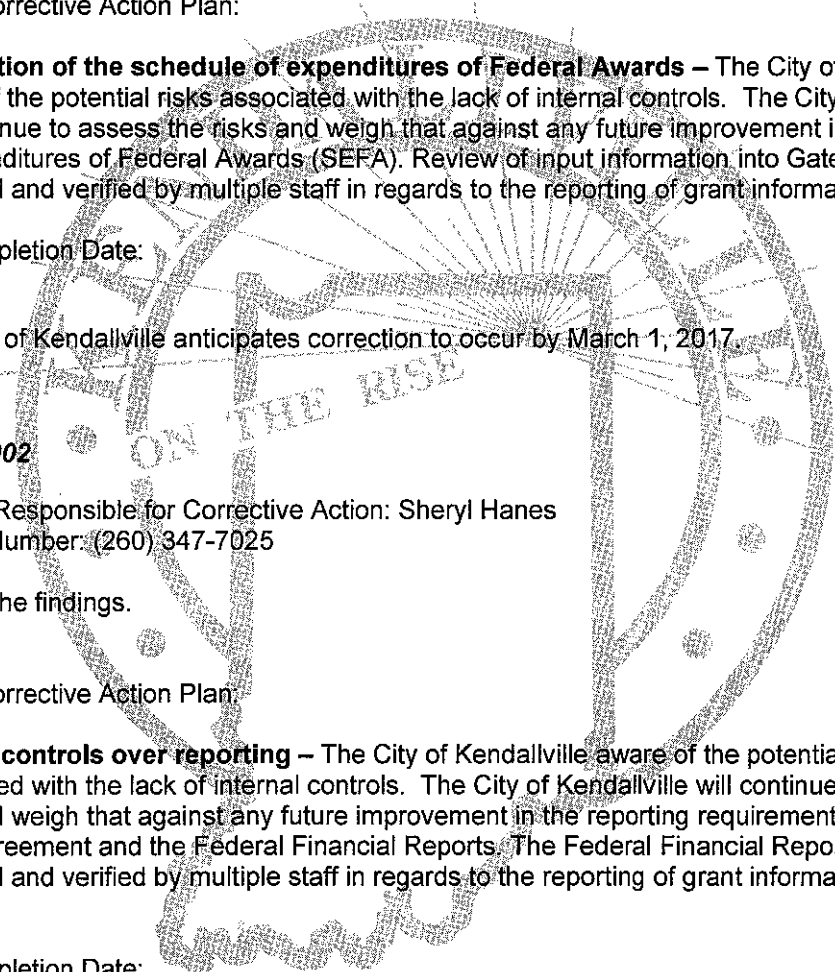
We concur with the findings.

Description of Corrective Action Plan:

1. **Internal controls over reporting** – The City of Kendallville aware of the potential risks associated with the lack of internal controls. The City of Kendallville will continue to assess the risks and weigh that against any future improvement in the reporting requirements related to the grant agreement and the Federal Financial Reports. The Federal Financial Reports will be reviewed and verified by multiple staff in regards to the reporting of grant information.

Anticipated Completion Date:

The City of Kendallville anticipates correction to occur by March 1, 2017.


Sheryl Hanes Clerk-Treasurer
(Title)

02/22/2017
(Date)

CLERK-TREASURER
CITY OF KENDALLVILLE
AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS

Compensation paid to the Street Superintendent in 2014 exceeded the salary per the salary ordinance. This individual was performing both the Street Superintendent's duties and Cemetery Superintendent's duties and was paid an additional amount above the Street Superintendent's salary; however, this adjusted amount was not included in the salary ordinance.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on February 28, 2017, with Sheryl J. Hanes, Clerk-Treasurer; James Dazey, President Pro Tempore of the Common Council; and W. Suzanne Handshoe, Mayor.

COMMON COUNCIL
CITY OF KENDALLVILLE

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AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS

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COMMON COUNCIL
CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on February 28, 2017, with James Dazey, President Pro Tempore of the Common Council, and W. Suzanne Handshoe, Mayor.