

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF KENTLAND
NEWTON COUNTY, INDIANA

January 1, 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 | Judy M. King | 01-01-11 to 12-31-18 |
| President of the Town Council | James A. Sammons Lowell G. Mitchell | 01-01-13 to 12-31-14 01-01-15 to 12-31-17 |



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Kentland (Town), which comprises the financial position and results of operations for the year ended December 31, 2014, and the related notes to the financial statement as listed in the Table of Contents.

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 from 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 to 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 year ended December 31, 2014.

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 year ended December 31, 2014, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

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.


Other Information

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, and Schedule of Leases and Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 13, 2017, 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.


Paul D. Joyce, CPA
State Examiner

March 13, 2017



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Town of Kentland (Town), which comprises the financial position and results of operations for the year ended December 31, 2014, and the related notes to the financial statement, and have issued our report thereon dated March 13, 2017, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town'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 item 2014-001 to be a material weakness.

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

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Town's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Kentland's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

March 13, 2017

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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.

TOWN OF KENTLAND
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Year Ended December 31, 2014

| Fund | Cash and Investments 01-01-14 | Receipts | Disbursements | Cash and Investments 12-31-14 |
|--------------------------------|-------------------------------------|---------------------|---------------------|-------------------------------------|
| General | \$ 512,346 | \$ 274,579 | \$ 357,063 | \$ 429,862 |
| Motor Vehicle Highway | 93,444 | 319,544 | 279,079 | 133,909 |
| Local Road And Street | 30,480 | 21,498 | 19,520 | 32,458 |
| Aviation | 18,175 | 2,006,366 | 2,021,883 | 2,658 |
| Sanitation | 80,134 | 91,099 | 101,387 | 69,846 |
| Federal - State Highway Grant | - | 2,760 | - | 2,760 |
| Law Enforcement Continuing Ed | 1,663 | 360 | 300 | 1,723 |
| Riverboat | 30,125 | 10,355 | 40,000 | 480 |
| Parks And Recreation | 235,505 | 68,533 | 272,994 | 31,044 |
| Rainy Day | 117 | - | - | 117 |
| Levy Excess | - | 8 | - | 8 |
| Cumulative Capital Development | 13,375 | 19,569 | 2,500 | 30,444 |
| Park Nonreverting Capital | 8,604 | 1,725 | - | 10,329 |
| Cumulative Capital Improvement | 10,414 | 4,624 | 4,171 | 10,867 |
| Aviation Fuel | 14,229 | 55,771 | 47,704 | 22,296 |
| CPX Loan | 84,253 | 92,201 | 165,000 | 11,454 |
| Restricted Donations | 70,480 | 1,082,334 | 1,276,678 | (123,864) |
| Park Memorial Fund | 651 | - | - | 651 |
| Sesquicentennial | 2,962 | 50 | - | 3,012 |
| Unrestricted Donations Fund | 384,758 | 225,746 | 471,050 | 139,454 |
| Cable TV Franchise | 24,581 | 8,702 | 33,000 | 283 |
| Park Deposit | 1,025 | 3,350 | 3,850 | 525 |
| Building Permit | - | 2,944 | 2,400 | 544 |
| Payroll | 17,906 | 517,569 | 519,701 | 15,774 |
| Wastewater Utility-Operating | 604,940 | 382,761 | 462,853 | 524,848 |
| USDA Bond & Interest | 31,425 | 49,170 | 48,390 | 32,205 |
| Water Debt Service Reserve | 8,664 | 4,950 | - | 13,614 |
| Water Utility-Operating | 804,299 | 481,631 | 515,432 | 770,498 |
| Water Utility-Customer Deposit | 15,747 | 7,656 | 8,078 | 15,325 |
| Water Utility- Cash Reserve | 3,300 | - | - | 3,300 |
| Totals | <u>\$ 3,103,602</u> | <u>\$ 5,735,855</u> | <u>\$ 6,653,033</u> | <u>\$ 2,186,424</u> |

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

TOWN OF KENTLAND
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The accompanying financial statement presents the financial information for the Town.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes. Amounts received from one or more of the following: property tax, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeeper's 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. 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 the following: peddler licenses, animal licenses, auctioneer licenses, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

TOWN OF KENTLAND
NOTES TO FINANCIAL STATEMENT
(Continued)

Intergovernmental receipts. Amounts received from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of intergovernmental receipts include, but are not limited to, the following: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distributions received from the state, local road and street distributions 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. Amounts received for services including, but not limited to, the following: planning commission charges, building department charges, copies of public records, copy machines charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable TV receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits. Amounts received from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees. Amounts received from charges for current services.

Penalties. Amounts received from late payment fees.

Other receipts. Amounts received from various sources, including, but 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. Amounts disbursed 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. Amounts disbursed for 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, but are not limited to, the following: office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges. Amounts disbursed for services including, but not limited to, the following: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service - principal and interest. Amounts disbursed for fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

TOWN OF KENTLAND
NOTES TO FINANCIAL STATEMENT
(Continued)

Capital outlay. Amounts disbursed for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses. Amounts disbursed for operating the utilities.

Other disbursements. Amounts disbursed for various other purposes including, but not limited to, the following: interfund loan payments; loans made to other funds; internal service disbursements; and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Town may, from time to time, make transfers 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 amounts 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 amounts accounted for in a specific fund may only be available for use for certain, legally-restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and, therefore, the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

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

Note 3. Property Taxes

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

TOWN OF KENTLAND
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

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

State statutes authorize the Town to invest in securities including, but not limited to, the following: 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. Cash Balance Deficits

The financial statement contains the Restricted Donations fund with a deficit in cash. This is a result of donations and loans that the Town was waiting on to balance out the account.

Note 7. Subsequent Events

Sewage Plant Upgrades

Upgrades to the Sewage Plant for Phosphorus Compliance will begin in 2017. The projected amount for the upgrades is approximately \$1.2 million with funding from grants and possibly the State Revolving Fund.

Loan Receivable

In September 2016, CPX closed its doors unexpectedly. The Company had a loan from the Town in which a loan payment of \$23,050 was received on September 14, 2016, for the quarterly payment. In October 2016, the Town Board met with Mr. Sanders (CPX) who presented the Town Board with a check for \$250,000 for the sale of two pieces of equipment from Choice Plastic Machinery. An agreement was made with Mr. Sanders for one more payment in the amount of \$23,050 within the next year to fulfill his agreement with the Town.

OTHER INFORMATION - UNAUDITED

The Town's Annual Financial 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 Town's Annual Financial Report 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 other information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF KENTLAND
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014

| | General | Motor Vehicle Highway | Local Road And Street | Aviation | Sanitation | Federal - State Highway Grant |
|--|-------------------|-----------------------------|--------------------------------|------------------|------------------|--|
| Cash and investments - beginning | \$ 512,346 | \$ 93,444 | \$ 30,480 | \$ 18,175 | \$ 80,134 | \$ - |
| Receipts: | | | | | | |
| Taxes | 106,443 | 249,748 | - | 16,869 | - | - |
| Licenses and permits | 18 | - | - | - | - | - |
| Intergovernmental receipts | 133,404 | 64,657 | 21,498 | 24,602 | - | - |
| Charges for services | 24,200 | 4,013 | - | 26,604 | 91,099 | 2,760 |
| Fines and forfeits | 140 | - | - | - | - | - |
| Utility fees | - | - | - | - | - | - |
| Penalties | - | - | - | - | - | - |
| Other receipts | 10,374 | 1,126 | - | 1,938,291 | - | - |
| Total receipts | <u>274,579</u> | <u>319,544</u> | <u>21,498</u> | <u>2,006,366</u> | <u>91,099</u> | <u>2,760</u> |
| Disbursements: | | | | | | |
| Personal services | 233,943 | 28,512 | - | 8,710 | 58,462 | - |
| Supplies | 39,486 | 43,589 | - | 6,599 | 16,925 | - |
| Other services and charges | 60,491 | 36,356 | - | 36,574 | 1,500 | - |
| Debt service - principal and interest | - | - | - | - | - | - |
| Capital outlay | 6,856 | 170,622 | 19,520 | 1,970,000 | 24,500 | - |
| Utility operating expenses | - | - | - | - | - | - |
| Other disbursements | 16,287 | - | - | - | - | - |
| Total disbursements | <u>357,063</u> | <u>279,079</u> | <u>19,520</u> | <u>2,021,883</u> | <u>101,387</u> | <u>-</u> |
| Excess (deficiency) of receipts over disbursements | <u>(82,484)</u> | <u>40,465</u> | <u>1,978</u> | <u>(15,517)</u> | <u>(10,288)</u> | <u>2,760</u> |
| Cash and investments - ending | <u>\$ 429,862</u> | <u>\$ 133,909</u> | <u>\$ 32,458</u> | <u>\$ 2,658</u> | <u>\$ 69,846</u> | <u>\$ 2,760</u> |

TOWN OF KENTLAND
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

| | Law Enforcement Continuing Ed | Riverboat | Parks And Recreation | Rainy Day | Levy Excess |
|--|--|-----------------|----------------------------|---------------|----------------|
| Cash and investments - beginning | \$ 1,663 | \$ 30,125 | \$ 235,505 | \$ 117 | \$ - |
| Receipts: | | | | | |
| Taxes | - | - | 58,753 | - | 8 |
| Licenses and permits | 360 | - | - | - | - |
| Intergovernmental receipts | - | 10,355 | 4,036 | - | - |
| Charges for services | - | - | 4,228 | - | - |
| Fines and forfeits | - | - | - | - | - |
| Utility fees | - | - | - | - | - |
| Penalties | - | - | - | - | - |
| Other receipts | - | - | 1,516 | - | - |
| Total receipts | <u>360</u> | <u>10,355</u> | <u>68,533</u> | <u>-</u> | <u>8</u> |
| Disbursements: | | | | | |
| Personal services | - | - | 12,777 | - | - |
| Supplies | - | - | 27,755 | - | - |
| Other services and charges | 300 | - | 53,494 | - | - |
| Debt service - principal and interest | - | - | - | - | - |
| Capital outlay | - | - | 178,968 | - | - |
| Utility operating expenses | - | - | - | - | - |
| Other disbursements | - | 40,000 | - | - | - |
| Total disbursements | <u>300</u> | <u>40,000</u> | <u>272,994</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts over disbursements | <u>60</u> | <u>(29,645)</u> | <u>(204,461)</u> | <u>-</u> | <u>8</u> |
| Cash and investments - ending | <u>\$ 1,723</u> | <u>\$ 480</u> | <u>\$ 31,044</u> | <u>\$ 117</u> | <u>\$ 8</u> |

TOWN OF KENTLAND
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

| | Cumulative Capital Development | Park Nonreverting Capital | Cumulative Capital Improvement | Aviation Fuel | CPX Loan |
|--|--------------------------------------|---------------------------------|--------------------------------------|------------------|------------------|
| Cash and investments - beginning | \$ 13,375 | \$ 8,604 | \$ 10,414 | \$ 14,229 | \$ 84,253 |
| Receipts: | | | | | |
| Taxes | 7,960 | - | - | - | - |
| Licenses and permits | - | - | - | - | - |
| Intergovernmental receipts | 11,609 | - | 4,624 | - | - |
| Charges for services | - | - | - | 55,771 | 37,513 |
| Fines and forfeits | - | - | - | - | - |
| Utility fees | - | - | - | - | - |
| Penalties | - | - | - | - | - |
| Other receipts | - | 1,725 | - | - | 54,688 |
| Total receipts | <u>19,569</u> | <u>1,725</u> | <u>4,624</u> | <u>55,771</u> | <u>92,201</u> |
| Disbursements: | | | | | |
| Personal services | - | - | - | - | - |
| Supplies | - | - | - | 47,704 | - |
| Other services and charges | - | - | - | - | - |
| Debt service - principal and interest | - | - | - | - | 65,000 |
| Capital outlay | 2,500 | - | 4,171 | - | - |
| Utility operating expenses | - | - | - | - | - |
| Other disbursements | - | - | - | - | 100,000 |
| Total disbursements | <u>2,500</u> | <u>-</u> | <u>4,171</u> | <u>47,704</u> | <u>165,000</u> |
| Excess (deficiency) of receipts over disbursements | <u>17,069</u> | <u>1,725</u> | <u>453</u> | <u>8,067</u> | <u>(72,799)</u> |
| Cash and investments - ending | <u>\$ 30,444</u> | <u>\$ 10,329</u> | <u>\$ 10,867</u> | <u>\$ 22,296</u> | <u>\$ 11,454</u> |

TOWN OF KENTLAND
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

| | Restricted Donations | Park Memorial Fund | Sesquicentennial | Unrestricted Donations Fund | Cable TV Franchise |
|---|-------------------------|--------------------------|------------------|-----------------------------------|--------------------------|
| Cash and investments - beginning | \$ 70,480 | \$ 651 | \$ 2,962 | \$ 384,758 | \$ 24,581 |
| Receipts: | | | | | |
| Taxes | - | - | - | - | - |
| Licenses and permits | - | - | - | - | 8,702 |
| Intergovernmental receipts | - | - | - | - | - |
| Charges for services | - | - | 50 | 225,746 | - |
| Fines and forfeits | - | - | - | - | - |
| Utility fees | - | - | - | - | - |
| Penalties | - | - | - | - | - |
| Other receipts | 1,082,334 | - | - | - | - |
| Total receipts | <u>1,082,334</u> | <u>-</u> | <u>50</u> | <u>225,746</u> | <u>8,702</u> |
| Disbursements: | | | | | |
| Personal services | - | - | - | - | - |
| Supplies | - | - | - | - | - |
| Other services and charges | - | - | - | - | - |
| Debt service - principal and interest | - | - | - | - | - |
| Capital outlay | 1,276,678 | - | - | 444,050 | - |
| Utility operating expenses | - | - | - | - | - |
| Other disbursements | - | - | - | 27,000 | 33,000 |
| Total disbursements | <u>1,276,678</u> | <u>-</u> | <u>-</u> | <u>471,050</u> | <u>33,000</u> |
| Excess (deficiency) of receipts over disbursements | <u>(194,344)</u> | <u>-</u> | <u>50</u> | <u>(245,304)</u> | <u>(24,298)</u> |
| Cash and investments - ending | <u>\$ (123,864)</u> | <u>\$ 651</u> | <u>\$ 3,012</u> | <u>\$ 139,454</u> | <u>\$ 283</u> |

TOWN OF KENTLAND
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

| | Park Deposit | Building Permit | Payroll | Wastewater Utility-Operating | USDA Bond & Interest |
|--|-----------------|--------------------|------------------|---------------------------------|----------------------------|
| Cash and investments - beginning | \$ 1,025 | \$ - | \$ 17,906 | \$ 604,940 | \$ 31,425 |
| Receipts: | | | | | |
| Taxes | - | - | - | - | - |
| Licenses and permits | - | 2,944 | - | - | - |
| Intergovernmental receipts | - | - | - | - | - |
| Charges for services | 3,350 | - | - | - | - |
| Fines and forfeits | - | - | - | - | - |
| Utility fees | - | - | - | 373,371 | - |
| Penalties | - | - | - | 5,925 | - |
| Other receipts | - | - | 517,569 | 3,465 | 49,170 |
| Total receipts | <u>3,350</u> | <u>2,944</u> | <u>517,569</u> | <u>382,761</u> | <u>49,170</u> |
| Disbursements: | | | | | |
| Personal services | - | - | - | 155,944 | - |
| Supplies | - | - | - | - | - |
| Other services and charges | 3,850 | 2,400 | - | 10,200 | - |
| Debt service - principal and interest | - | - | - | - | 48,390 |
| Capital outlay | - | - | - | 5,465 | - |
| Utility operating expenses | - | - | - | 291,244 | - |
| Other disbursements | - | - | 519,701 | - | - |
| Total disbursements | <u>3,850</u> | <u>2,400</u> | <u>519,701</u> | <u>462,853</u> | <u>48,390</u> |
| Excess (deficiency) of receipts over disbursements | <u>(500)</u> | <u>544</u> | <u>(2,132)</u> | <u>(80,092)</u> | <u>780</u> |
| Cash and investments - ending | <u>\$ 525</u> | <u>\$ 544</u> | <u>\$ 15,774</u> | <u>\$ 524,848</u> | <u>\$ 32,205</u> |

TOWN OF KENTLAND
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

| | Water Debt Service Reserve | Water Utility-Operating | Water Utility-Customer Deposit | Water Utility- Cash Reserve | Totals |
|--|-------------------------------------|----------------------------|--------------------------------------|--------------------------------------|--------------|
| Cash and investments - beginning | \$ 8,664 | \$ 804,299 | \$ 15,747 | \$ 3,300 | \$ 3,103,602 |
| Receipts: | | | | | |
| Taxes | - | - | - | - | 439,781 |
| Licenses and permits | - | - | - | - | 12,024 |
| Intergovernmental receipts | - | - | - | - | 274,785 |
| Charges for services | - | - | - | - | 475,334 |
| Fines and forfeits | - | - | - | - | 140 |
| Utility fees | - | 473,957 | - | - | 847,328 |
| Penalties | - | 4,321 | - | - | 10,246 |
| Other receipts | 4,950 | 3,353 | 7,656 | - | 3,676,217 |
| Total receipts | 4,950 | 481,631 | 7,656 | - | 5,735,855 |
| Disbursements: | | | | | |
| Personal services | - | 118,807 | - | - | 617,155 |
| Supplies | - | - | - | - | 182,058 |
| Other services and charges | - | 7,223 | - | - | 212,388 |
| Debt service - principal and interest | - | - | - | - | 113,390 |
| Capital outlay | - | 17,903 | - | - | 4,121,233 |
| Utility operating expenses | - | 317,378 | - | - | 608,622 |
| Other disbursements | - | 54,121 | 8,078 | - | 798,187 |
| Total disbursements | - | 515,432 | 8,078 | - | 6,653,033 |
| Excess (deficiency) of receipts over disbursements | 4,950 | (33,801) | (422) | - | (917,178) |
| Cash and investments - ending | \$ 13,614 | \$ 770,498 | \$ 15,325 | \$ 3,300 | \$ 2,186,424 |

TOWN OF KENTLAND
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2014

| Government or Enterprise | Accounts Payable | Accounts Receivable |
|--------------------------|---------------------|------------------------|
| Wastewater | \$ - | \$ 17,620 |
| Water | - | 3,225 |
| Governmental activities | - | 116,720 |
| Totals | \$ - | \$ 137,565 |

TOWN OF KENTLAND
SCHEDULE OF LEASES AND DEBT
December 31, 2014

| Description of Debt | | Ending Principal Balance | Principal and Interest Due Within One Year |
|-------------------------------|-------------------------|--------------------------------|---|
| Type | Purpose | | |
| Governmental activities: | | | |
| General obligation bonds | Pool Loan | \$ 390,000 | \$ 28,849 |
| General obligation bonds | Pool Loan | 210,000 | 15,747 |
| Notes and loans payable | CPX Loan | <u>438,750</u> | <u>65,000</u> |
| Total governmental activities | | <u>1,038,750</u> | <u>109,596</u> |
| Water: | | | |
| Revenue bonds | Water Revenue Bonds - A | 723,000 | 28,390 |
| Revenue bonds | Water Revenue Bonds - B | <u>580,000</u> | <u>21,550</u> |
| Total Water | | <u>1,303,000</u> | <u>49,940</u> |
| Totals | | <u>\$ 2,341,750</u> | <u>\$ 159,536</u> |

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for the Major Federal Program

We have audited the Town of Kentland's (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2014. 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 the 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 year ended December 31, 2014.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 items 2014-003 and 2014-004. Our opinion on the major federal program is not modified with respect to these matters.

The Town's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance


Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002, 2014-003, and 2014-004 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

March 13, 2017

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

TOWN OF KENTLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

| 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 | Pass-Through To Subrecipient | Total Federal Awards Expended |
|---|-------------------------------------|---------------------------|--|---------------------------------|-------------------------------------|
| <u>Department of Transportation</u> | | | | | |
| Airport Improvement Program | Direct Grant | | | | |
| Power Line Relocation | | 20.106 | 3-18-0025-005-2009 | \$ - | \$ 8,965 |
| Runway 9-27 Rehabilitation | | 20.106 | 3-18-0025-009-2013 | - | 1,745,534 |
| Land Acquisition | | 20.106 | 3-18-0025-010-2014 | - | 128,283 |
| Total - Airport Improvement Program | | | | - | 1,882,782 |
| Total - Department of Transportation | | | | - | 1,882,782 |
| Total federal awards expended | | | | \$ - | \$ 1,882,782 |

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

TOWN OF KENTLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. *Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Town under programs of the federal government for the year ended December 31, 2014. The information in the SEFA is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the SEFA presents only a select portion of the operations of the Town, it is not intended to and does not present the financial position of the Town.

Note 2. *Summary of Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

TOWN OF KENTLAND
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 weakness identified? | yes |
| Significant deficiency identified? | none reported |
| Noncompliance material to financial statement noted? | no |

Federal Awards:

| | |
|---|---------------|
| Internal control over Airport Improvement Program | |
| Material weaknesses identified? | yes |
| Significant deficiency 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:

| CFDA Number | Name of Federal Program or Cluster |
|----------------|------------------------------------|
| 20.106 | Airport Improvement Program |

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

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were deficiencies in the internal control system of the Town related to financial transactions and reporting.

1. Lack of Segregation of Duties: The Town had not separated incompatible activities related to receipts, disbursements, and the Annual Financial Report (AFR), including the Schedule of Expenditures of Federal Awards (SEFA), due to the size of the office. The Clerk-Treasurer was primarily responsible for all areas including reconciling, receipting, disbursing, and preparing the AFR. Another employee was responsible for receiving utility collections, posting to the billing system, preparing the deposits, and sometimes taking the deposit to the bank.

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

2. The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA.

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. . . ."

Cause

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

Effect

The failure to establish controls could have enabled misstatements or irregularities to remain undetected.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-002 - INTERNAL CONTROLS OVER THE AIRPORT IMPROVEMENT PROGRAM

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0025-005-2009,
3-18-0025-009-2013,
3-18-0025-010-2014

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

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements:

Activities Allowed or Unallowable; Allowable Costs/Cost Principles

The Town relied upon its engineer (consultant) to ensure compliance. There was no monitoring or oversight documented by the Town. The Aviation Board approved payments after presentation by the engineer (consultant) for the draw of funds; there was no documentation of a review or oversight process to ensure compliance with the Activities Allowed or Unallowed or the Allowable Costs/Cost Principles compliance requirements.

Davis-Bacon Act; Matching; Period of Availability

The Town relied upon its engineer (consultant) to ensure compliance with the Davis-Bacon Act, Matching, and Period of Availability requirements. There was no monitoring or oversight by the Town to ensure compliance.

Special Tests and Provisions - Revenue Diversion

The Airport reviewed its own estimates of receipt information but did not review what was actually recorded by the Town. There was no monitoring or oversight to ensure compliance.

Context

The lack of controls noted were a systemic problem during the audit period for all compliance requirements listed above. The Town relied on the engineer (consultant) for internal controls; they did not develop controls and did not perform follow-up or review to ensure compliance.

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 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 have also allowed noncompliance with the 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.

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements 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 2014-003 - CASH MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): 3-18-0025-005-2009,
3-18-0025-009-2013,
3-18-0025-010-2014

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the Cash Management compliance requirement.

The Town did not have policies and procedures in place to ensure that program funds were spent within the required time period after the funds' receipt. Based upon the Clerk-Treasurer's experience with other grants and grantor agencies, the Town determined that funds were to be disbursed within five days. When the Clerk-Treasurer was not aware of the grant draw and the related disbursement that was needed, prior to being informed of the draw by the Airport engineer, the disbursement did not occur until the Town Council was informed and authorized the disbursement. In one instance, \$1,507,112 was not disbursed for ten days.

Context

The internal control deficiency noted was a systemic problem during the audit period.

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. . . ."

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

31 CFR 205.12(4) states:

"Cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the day the State issues checks or initiates EFT payments."

Cause

Management had not developed a system of internal controls that segregated key functions and ensured compliance with grant requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance with the grant agreement and the Cash Management compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and the Cash Management compliance requirement. In addition, we recommended that the Town comply with the Cash Management compliance requirement.

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 - PROCUREMENT, SUSPENSION AND DEBARMENT

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): 03-18-0025-009-2013

Condition

An effective internal control system was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements:

Procurement

The Town did not have a procurement policy. The Town also did not have a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. There were no internal controls to ensure compliance with the Procurement requirements.

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

Suspension and Debarment

For services in which bids were not required, there were no controls in place to ensure that vendors were not suspended or debarred from participation in federal programs. The Town did not perform any activities to ensure that these vendors were not suspended or debarred.

Context

This was a systemic problem during the audit period. There were no internal controls related to Procurement and Suspension and Debarment transactions during the audit period.

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. . . ."

49 CFR 18.36(b) states in part:

"Procurement standards.

- (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . .
- (3) Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirements.

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and the Procurement and Suspension and Debarment compliance requirements. We also recommended that the Town comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirements.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.

Town of Kentland



CORRECTIVE ACTION PLAN

FINDING 2014-001

Lack of Segregation of Duties:

Judy King, Clerk/Treasurer

219-474-5062


Due to the size of the office, The Town of Kentland will continue to operate as it has been. It is not possible to separate the duties as the State requires when you have a two person office. The Clerk will try and implement a policy for the Town Board to review more reports and documents. But once again, not always possible when this is not a full time position for the board and they also have other duties. The Town of Kentland accepts some of the responsibility and risk for this.

Anticipated Completion Date:

June 2017



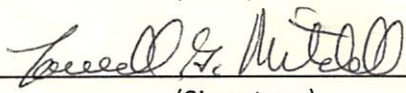
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3/13/17

(Date)



KENTLAND MUNICIPAL AIRPORT
BOARD OF AVIATION COMMISSIONERS
KENTLAND, INDIANA

CORRECTIVE ACTION PLAN

FINDING 2014-002 - INTERNAL CONTROLS OVER THE AIRPORT IMPROVEMENT PROGRAM

Contact Person Responsible for Corrective Action: James Butler
Contact Phone Number: 219-297-4531

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

General

We have started creating a written document titled the "Internal Controls Supplement". This document will be considered a living document and will be updated on an on-going basis. The document shall include individual sections to address specific tasks to ensure that we maintain the specific controls required.

Detailed

This particular finding has three specific areas of concern. These areas all have a reoccurring theme in that there was no process documented that explained the roles, assignments or steps that are being utilized to monitor the AIP program. These areas are as follows:

Activities Allowed or Unallowable; Allowable Costs/Cost Principles

A policy and procedure will be created so that when a pay request is submitted to the Aviation Board for consideration, at that time it will be reviewed and a resolution will be passed acknowledging that the information was properly vetted and approved by the Airport Board. A detailed written procedure will be created that outlines the various steps along with the sample form attached. This process was recently used to review and authorize an FAA pay request at our March meeting.

Davis Bacon Act; Matching; Period of Availability

A policy and procedure will be created for the implementation, review and document control for the Davis Bacon Act and related certified payroll review and verification procedures. An early draft is attached for a preliminary review. Once completed, this procedure will identify the roles of the individuals responsible for completing these tasks, will create a schedule for completing the process on an on-going basis and will include a document that accurately records the actions taken.

A separate policy and procedure will be drafted that provides the necessary oversight on the period of availability. The procedure for monitoring the period of availability will include a review and acceptance of the FAA Grant Quarterly Reports at the regularly scheduled Board meetings. These reports establish a timeline for completion of the grant and will provide a viable method for tracking progress while providing an early warning of potential issues. A copy of a recent Quarterly Report is attached for your review. The procedure will include the review of the Quarterly Reports and a formal acceptance of these reports will be included in the minutes of the Aviation Board meetings.

Special Tests and Provisions (Revenue Diversion)

A policy and procedure will be created that provides the necessary internal controls for the recording of revenue and tax deposits. This section will require close coordination with the Town of Kentland as actions beyond the Aviation Board's control will also be required to create this procedure. This coordination will be necessary to finalize the language. The following is a brief understanding of what may be implemented:

The Town of Kentland Clerk/Treasurer will establish a separate account that is independent from the Aviation General Fund. Then a plan will be implemented that will determine which account various funds are deposited into upon receipt. Once this account and this plan are established, a monthly report indicating the cash flows for these accounts will be provided to the Aviation Board at its regular monthly meeting by the Clerk/Treasurer. The Aviation Board will then review deposits and expenditures and if acceptable will vote to accept the Treasurer's Report. This vote will get recorded into the minutes of the Aviation Board.

Anticipated Completion Date:

It is anticipated that the creation and implementation of these policies and procedures, along with the review of the Aviation Board, the Clerk/Treasurer and the Kentland Town Council will take up to two regular meetings to finalize and adopt. The target date for the final adoption by the Aviation Board will be May 1, 2017 and adoption by the Kentland Town Council will be May 8, 2017.

[Handwritten signature]

3/13/17

Luella G. Nitchell
pres council

3/13/17

James A. Butler

(Signature)

PRESIDENT

(Title)

3 / 13 / 17

(Date)



KENTLAND MUNICIPAL AIRPORT
BOARD OF AVIATION COMMISSIONERS
KENTLAND, INDIANA

CORRECTIVE ACTION PLAN

FINDING 2014-003 – CASH MANAGEMENT

Contact Person Responsible for Corrective Action: James Butler
Contact Phone Number: 219-297-4531

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

General

We have started creating a written document titled the "Internal Controls Supplement". This document will be considered a living document and will be updated on an on-going basis. The document shall include individual sections to address specific tasks to ensure that we maintain the specific controls required.

Detailed

A policy and procedure will be established that outlines the various steps necessary for submitting FAA pay requests and making payments to the various vendors. These steps will include, but will not be limited to, the following:

- A copy of any pay request approved by Airport Board resolution will be provided to the Clerk/Treasurer the following day after an Aviation Board meeting.
- The Clerk/Treasurer will seek Town Council approval for the disbursement of funds.
- The Clerk/Treasurer will notify the Airport and the Engineer Consultant regarding this approval.
- The pay request will be uploaded to the FAA only after Clerk/Treasurer notification is received.
- All parties will ensure that Clerk/Treasurer is registered to receive notification emails from the Federal payment system.
- Clerk/Treasurer will monitor bank accounts once email notification is received.

- Clerk/Treasurer will pay the vendor invoices within five days of receiving deposit from the Federal government.
- A detailed procedure will be drafted similar the example provided for the Davis-Bacon issue discussed previously.

Anticipated Completion Date:

It is anticipated that the creation and implementation of these policies and procedures, along with the review of the Aviation Board, the Clerk/Treasurer and the Kentland Town Council will take up to two regular meetings to finalize and adopt. The target date for the final adoption by the Aviation Board will be May 1, 2017 and adoption by the Kentland Town Council will be May 8, 2017.

James A. Butler
President

3/13/17

Lowell G. Mitchell
Pres Council
3/13/17

James A Butler

 (Signature)

PRESIDENT

 (Title)

3 / 13 / 17

 (Date)



KENTLAND MUNICIPAL AIRPORT
BOARD OF AVIATION COMMISSIONERS
KENTLAND, INDIANA

CORRECTIVE ACTION PLAN

FINDING 2014-004 – PROCUREMENT, SUSPENSION AND DEBARMENT

Contact Person Responsible for Corrective Action: James Butler
Contact Phone Number: 219-297-4531

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

General

We have started creating a written document titled the "Internal Controls Supplement". This document will be considered a living document and will be updated on an on-going basis. The document shall include individual sections to address specific tasks to ensure that we maintain the specific controls required.

Detailed

A policy and procedure will be established that creates the internal controls necessary to ensure that procurement policies required by the AIP Program are being followed. These steps will include, but will not be limited to, the following:

- Require Contractors to include Affidavits regarding suspension and debarment.
- Perform an on-line verification that Contractors are not on the Excluded Parties List within the System for Award Management (SAM). <https://www.sam.gov>
- Establish a procedure for the Airport Board to review, verify and accept the results of this effort.

A detailed procedure will be drafted similar the example provided for the Davis-Bacon issue discussed previously.

Anticipated Completion Date:

It is anticipated that the creation and implementation of these policies and procedures, along with the review of the Aviation Board, the Clerk/Treasurer and the Kentland Town Council will take up to two regular meetings to finalize and adopt. The target date for the final adoption by the Aviation Board will be May 1, 2017 and adoption by the Kentland Town Council will be May 8, 2017.

James A. Butler
3/13/17

David G. Mitchell
pres council
3/13/17

James A Butler
(Signature)

PRESIDENT
(Title)

3 / 13 / 17
(Date)

OTHER REPORTS

In addition to this report, other reports may have been issued for the Town. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.