

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

SUPPLEMENTAL COMPLIANCE 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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

This report is supplemental to our audit report of the Town of Kentland (Town), 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 Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town'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

March 13, 2017

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CLERK-TREASURER
TOWN OF KENTLAND

CLERK-TREASURER
TOWN OF KENTLAND
FEDERAL 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.
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.

CLERK-TREASURER
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

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

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.

CLERK-TREASURER
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

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.

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.

CLERK-TREASURER
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

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.

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.

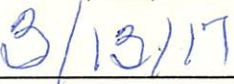
Anticipated Completion Date:
June 2017



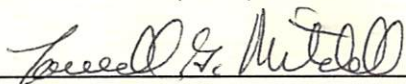
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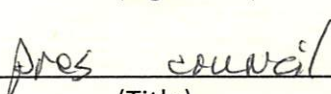
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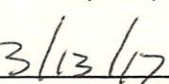
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KENTLAND MUNICIPAL AIRPORT
BOARD OF AVIATION COMMISSIONERS
KENTLAND, INDIANA

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)

CLERK-TREASURER
TOWN OF KENTLAND
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE

The financial statement presented for audit included the Restricted Donations fund with an overdrawn cash balance of \$123,864 at December 31, 2014.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

BOARD MINUTES

The minutes of the meetings of the Town Council were not presented for all meetings. The minutes for a special meeting held to award the bids for the pool project were not presented for audit.

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under section 3.5 or 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication."

Indiana Code 36-5-6-6(a) states in part:

"The clerk-treasurer shall do the following: . . .

- (9) Serve as clerk of the legislative body by attending its meetings and recording its proceedings. . . ."

ORDINANCES AND RESOLUTIONS

The Town had an ordinance concerning salary rates to be paid for Fire Department training. However, the Town did not comply with the ordinance; employees were paid less than the total amount presented in the salary ordinance. The Fire Department stated that they received direction to pay employees at a rate lower than the rate per the salary ordinance.

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Account and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF KENTLAND
AUDIT RESULTS AND COMMENTS
(Continued)

CREATING NEW FUNDS

The Town had not created ordinances establishing some funds for the Town. Because of this, we were unable to determine which activities were allowable and unallowable for several funds, including the CPX Loan, Cable TV Franchise, and Unrestricted Donations funds, all of which were used to make a loan to a local business.

Indiana Code 36-1-3-6 states in part:

"(a) If there is a constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must do so in that manner.

(b) If there is no constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must either:

- (1) adopt an ordinance prescribing a specific manner for exercising the power;
- (2) comply with a statutory provision permitting a specific manner for exercising the power; or
- (3) comply with a statutory provision permitting a specific manner for exercising the power.

(c) An ordinance under subsection (b) (1) must be adopted as follows:

- (1) in a municipality, by the legislative body of the municipality. . . ."

The Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2010, states:

"We feel the powers granted by various statutes authorize the common council of a city or the town council of a town to create, by ordinance, as many funds as they feel necessary to operate their particular city or town.

The enabling ordinance should provide various types of information:

1. The ordinance should clearly indicate the type or types of revenue that is to go into the new fund.
2. The ordinance should list the purpose or purposes for which expenditures can be made from the new fund.
3. The ordinance should establish the life of the new fund and indicate if the fund balance is nonreverting at year end or perpetual until terminated either by the terms of the current ordinance or if another subsequent ordinance must be enacted.
4. The ordinance should provide guidance as to disposition of the fund balance on termination of the fund.
5. The ordinance should include any other terms or conditions the city or town attorney deems necessary."

CLERK-TREASURER
TOWN OF KENTLAND
AUDIT RESULTS AND COMMENTS
(Continued)

PAYMENT OF CLAIMS PRIOR TO BOARD APPROVAL

Claims were paid by the Clerk-Treasurer prior to Town Council approval. The paid claims were subsequently submitted to the Town Council at the next scheduled meeting and approved. However, the only authority to pay certain claims in advance of Town Council approval would be through an ordinance adopted in accordance with Indiana Code 36-5-4-12. Such an ordinance did not exist.

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 36-5-4-12(b) states in part:

"Notwithstanding IC 5-11-10, with the prior written approval of the board having jurisdiction over the allowance of claims, the town fiscal officer may make claim payments in advance of board allowance for the following kinds of expenses if the town legislative body has adopted an ordinance under subsection (a) . . ."

CAPITAL ASSETS

The Town did not properly maintained a complete inventory of capital assets owned. Capital asset records were incomplete; they did not include infrastructure for Airport runways, or water or sewage lines. Insurance values were used for the assets recorded in the capital asset schedule. Capital assets were not recorded at cost (actual or estimated historical).

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is not possible to determine the historical cost of capital assets owned by a governmental unit, the following procedure should be followed.

Develop an inventory of all capital assets which are significant for which records of the historical costs are not available. Obtain an estimate of the replacement costs of these assets. Through inquiry determine the year or approximate year of acquisition. Then multiply the estimated replacement cost by the factor for the year of acquisition from the Table of Cost Indexes. The resulting amount will be the estimated cost of the asset. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March 2012)

CLERK-TREASURER
TOWN OF KENTLAND
AUDIT RESULTS AND COMMENTS
(Continued)

LEASE OF AIRPORT PROPERTY

The Town Council awarded the lease of certain acreage of airport property for farming. This lease generated \$2,400 of receipts in 2014. The lease collections were recorded in the General fund. Per Federal Aviation Administration requirements, these receipts should have been recorded in the Aviation fund.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

TRANSFERS

A transfer was made from the Parks And Recreation fund to the Unrestricted Donations Fund that was not authorized by ordinance or resolution.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF KENTLAND
EXIT CONFERENCE

The contents of this report were discussed on March 13, 2017, with Judy M. King, Clerk-Treasurer, and Lowell G. Mitchell, President of the Town Council.

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TOWN COUNCIL
TOWN OF KENTLAND

TOWN COUNCIL
TOWN OF KENTLAND
FEDERAL 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.
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.

TOWN COUNCIL
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

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

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.

TOWN COUNCIL
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

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.

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.

TOWN COUNCIL
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

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:

TOWN COUNCIL
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

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.

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."

TOWN COUNCIL
TOWN OF KENTLAND
FEDERAL FINDINGS
(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 enabled noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirements.

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.

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:

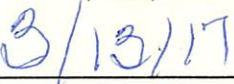
June 2017



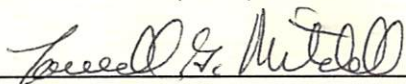
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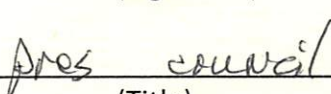
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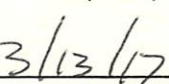
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(Date)



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. 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 2014-003 – 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)

TOWN COUNCIL
TOWN OF KENTLAND
AUDIT RESULTS AND COMMENTS

BOARD MINUTES

The minutes of the meetings of the Town Council were not presented for all meetings. The minutes for a special meeting held to award the bids for the pool project were not presented for audit.

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under section 3.5 or 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication."

Indiana Code 36-5-6-6(a) states in part:

"The clerk-treasurer shall do the following: . . .

- (9) Serve as clerk of the legislative body by attending its meetings and recording its proceedings. . . ."

CREATING NEW FUNDS

The Town had not created ordinances establishing some funds for the Town. Because of this, we were unable to determine which activities were allowable and unallowable for several funds, including the CPX Loan, Cable TV Franchise, and Unrestricted Donations funds, all of which were used to make a loan to a local business.

Indiana Code 36-1-3-6 states in part:

"(a) If there is a constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must do so in that manner.

(b) If there is no constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must either:

- (1) adopt an ordinance prescribing a specific manner for exercising the power;
- (2) comply with a statutory provision permitting a specific manner for exercising the power;
or
- (3) comply with a statutory provision permitting a specific manner for exercising the power.

TOWN COUNCIL
TOWN OF KENTLAND
AUDIT RESULTS AND COMMENTS
(Continued)

(c) An ordinance under subsection (b) (1) must be adopted as follows:

(1) in a municipality, by the legislative body of the municipality. . . ."

The Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2010, states:

"We feel the powers granted by various statutes authorize the common council of a city or the town council of a town to create, by ordinance, as many funds as they feel necessary to operate their particular city or town.

The enabling ordinance should provide various types of information:

1. The ordinance should clearly indicate the type or types of revenue that is to go into the new fund.
2. The ordinance should list the purpose or purposes for which expenditures can be made from the new fund.
3. The ordinance should establish the life of the new fund and indicate if the fund balance is nonreverting at year end or perpetual until terminated either by the terms of the current ordinance or if another subsequent ordinance must be enacted.
4. The ordinance should provide guidance as to disposition of the fund balance on termination of the fund.
5. The ordinance should include any other terms or conditions the city or town attorney deems necessary."

PAYMENT OF CLAIMS PRIOR TO BOARD APPROVAL

Claims were paid by the Clerk-Treasurer prior to Town Council approval. The paid claims were subsequently submitted to the Town Council at the next scheduled meeting and approved. However, the only authority to pay certain claims in advance of Town Council approval would be through an ordinance adopted in accordance with Indiana Code 36-5-4-12. Such an ordinance did not exist.

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 36-5-4-12(b) states in part:

"Notwithstanding IC 5-11-10, with the prior written approval of the board having jurisdiction over the allowance of claims, the town fiscal officer may make claim payments in advance of board allowance for the following kinds of expenses if the town legislative body has adopted an ordinance under subsection (a) . . ."

TOWN COUNCIL
TOWN OF KENTLAND
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS

The Town did not properly maintained a complete inventory of capital assets owned. Capital asset records were incomplete; they did not include infrastructure for Airport runways, or water or sewage lines. Insurance values were used for the assets recorded in the capital asset schedule. Capital assets were not recorded at cost (actual or estimated historical). Additionally, the Town did not have a capital asset policy to guide the Town in recording its capital assets.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is not possible to determine the historical cost of capital assets owned by a governmental unit, the following procedure should be followed.

Develop an inventory of all capital assets which are significant for which records of the historical costs are not available. Obtain an estimate of the replacement costs of these assets. Through inquiry determine the year or approximate year of acquisition. Then multiply the estimated replacement cost by the factor for the year of acquisition from the Table of Cost Indexes. The resulting amount will be the estimated cost of the asset. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March, 2012)

TRANSFERS

A transfer was made from the Parks And Recreation fund to the Unrestricted Donations Fund that was not authorized by ordinance or resolution.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

TOWN COUNCIL
TOWN OF KENTLAND
EXIT CONFERENCE

The contents of this report were discussed on March 13, 2017, with Judy M. King, Clerk-Treasurer, and Lowell G. Mitchell, President of the Town Council.

AVIATION BOARD
TOWN OF KENTLAND

AVIATION BOARD
TOWN OF KENTLAND
FEDERAL FINDINGS

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

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.

AVIATION BOARD
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

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.

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.

AVIATION BOARD
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

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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:

AVIATION BOARD
TOWN OF KENTLAND
FEDERAL FINDINGS
(Continued)

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.

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. . . ."

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"Procurement standards.

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- (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."

AVIATION BOARD
TOWN OF KENTLAND
FEDERAL FINDINGS
(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 enabled noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirements.

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.



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)

AVIATION BOARD
TOWN OF KENTLAND
AUDIT RESULT AND COMMENT

LEASE OF AIRPORT PROPERTY

The Town Council awarded the lease of certain acreage of airport property for farming. This lease generated \$2,400 of receipts in 2014. The lease collections were recorded in the General fund. Per Federal Aviation Administration requirements, these receipts should have been recorded in the Aviation fund.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

AVIATION BOARD
TOWN OF KENTLAND
EXIT CONFERENCE

The contents of this report were discussed on March 13, 2017, with Judy M. King, Clerk-Treasurer; Lowell G. Mitchell, President of the Town Council; and James A. Butler, President of the Aviation Board.