

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF KENNARD
HENRY COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
09/27/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen Stanley Sharon Elliott Christina Beavers	08-01-12 to 11-30-15 12-01-15 to 09-30-16 10-01-16 to 12-31-17
President of the Town Council	John Ryan Shannon Dickerson Jason Groce	01-01-12 to 07-03-14 07-04-14 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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF KENNARD, HENRY COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Kennard (Town), which comprises the financial position and results of operations for the year ended December 31, 2013, 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. Except as stated in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, 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, 2013.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The Town received federal money from the Water and Waste Disposal Systems for Rural Communities Grant and the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii for the improvement of the wastewater treatment plant, which were included within the Town's financial statement within the Wastewater Construction funds. These grants were not maintained on any ledger and not all financial records including invoices were retained. The records did not allow for adequate testing of the transactions related to these federal awards for the financial period and alternative audit procedures could not be performed.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on Regulatory Basis of Accounting* paragraph, 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, 2013, on the basis of accounting 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. Because federal grant monies were not accurately and separately identified in the financial ledgers and financial records related to the federal awards weren't retained, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards referred to above.


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 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 September 1, 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

September 1, 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 KENNARD, HENRY 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 Kennard (Town), which comprises the financial position and results of operations for the year ended December 31, 2013, and the related notes to the financial statement, and have issued our report thereon dated September 1, 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. The opinion to the financial statement relative to the regulatory basis of accounting was qualified due to the Town not having adequate financial records for the financial activity associated with the federal grants for the improvement to the wastewater treatment plant.

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 items 2013-001 and 2013-002 to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002.

Town of Kennard'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

September 1, 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 KENNARD
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Year Ended December 31, 2013

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13
General	\$ 62,030	\$ 68,850	\$ 78,462	\$ 52,418
Motor Vehicle Highway	73,140	17,554	18,119	72,575
Local Road And Street	17,817	2,052	6,000	13,869
Riverboat	21,632	2,790	-	24,422
Rainy Day	1,990	-	-	1,990
Levy Excess	85	-	-	85
Cumulative Capital Improvement Cigarette Tax	9,733	1,264	-	10,997
Beautification Fund	-	470	-	470
Payroll	596	45,919	43,801	2,714
Trash	1,913	12,740	15,242	(589)
Wastewater Utility Operating	101,766	124,118	77,860	148,024
Wastewater Utility Bond and Interest	42,000	12,000	10,300	43,700
Wastewater Utility Depreciation/ Improvement	32,491	6,000	-	38,491
Wastewater Construction	3,214	368,775	370,989	1,000
Wastewater Retainage	-	16,909	-	16,909
Wastewater Construction Two	-	1,973,114	1,940,254	32,860
Totals	<u>\$ 368,407</u>	<u>\$ 2,652,555</u>	<u>\$ 2,561,027</u>	<u>\$ 459,935</u>

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

TOWN OF KENNARD
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.

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.

TOWN OF KENNARD
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

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

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.

TOWN OF KENNARD
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

TOWN OF KENNARD
NOTES TO FINANCIAL STATEMENT
(Continued)

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. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
One North Capitol, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Note 7. Cash Balance Deficit

The financial statement contains a fund with a deficit in cash. This is primarily the result of disbursements exceeding receipts in the Trash fund due to the underestimation of current requirements.

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 KENNARD
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013

	General	Motor Vehicle Highway	Local Road And Street	Riverboat	Rainy Day	Levy Excess
Cash and investments - beginning	\$ 62,030	\$ 73,140	\$ 17,817	\$ 21,632	\$ 1,990	\$ 85
Receipts:						
Taxes	32,986	-	-	-	-	-
Intergovernmental receipts	12,932	17,554	2,052	2,790	-	-
Charges for services	16,226	-	-	-	-	-
Fines and forfeits	4	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	6,702	-	-	-	-	-
Total receipts	<u>68,850</u>	<u>17,554</u>	<u>2,052</u>	<u>2,790</u>	<u>-</u>	<u>-</u>
Disbursements:						
Personal services	29,488	-	-	-	-	-
Supplies	3,884	-	614	-	-	-
Other services and charges	36,998	6,419	5,386	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	8,092	11,700	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>78,462</u>	<u>18,119</u>	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(9,612)</u>	<u>(565)</u>	<u>(3,948)</u>	<u>2,790</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 52,418</u>	<u>\$ 72,575</u>	<u>\$ 13,869</u>	<u>\$ 24,422</u>	<u>\$ 1,990</u>	<u>\$ 85</u>

TOWN OF KENNARD
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	Cumulative Capital Improvement Cigarette Tax	Beautification Fund	Payroll	Trash	Wastewater Utility Operating	Wastewater Utility Bond and Interest
Cash and investments - beginning	\$ 9,733	\$ -	\$ 596	\$ 1,913	\$ 101,766	\$ 42,000
Receipts:						
Taxes	-	-	-	-	-	-
Intergovernmental receipts	1,264	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	12,740	124,118	-
Other receipts	-	470	45,919	-	-	12,000
Total receipts	1,264	470	45,919	12,740	124,118	12,000
Disbursements:						
Personal services	-	-	43,801	-	30,935	-
Supplies	-	-	-	-	140	-
Other services and charges	-	-	-	15,242	20,197	-
Debt service - principal and interest	-	-	-	-	5,375	10,300
Capital outlay	-	-	-	-	-	-
Other disbursements	-	-	-	-	21,213	-
Total disbursements	-	-	43,801	15,242	77,860	10,300
Excess (deficiency) of receipts over disbursements	1,264	470	2,118	(2,502)	46,258	1,700
Cash and investments - ending	\$ 10,997	\$ 470	\$ 2,714	\$ (589)	\$ 148,024	\$ 43,700

TOWN OF KENNARD
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	Wastewater Utility Depreciation/ Improvement	Wastewater Construction	Wastewater Retainage	Wastewater Construction Two	Totals
Cash and investments - beginning	\$ 32,491	\$ 3,214	\$ -	\$ -	\$ 368,407
Receipts:					
Taxes	-	-	-	-	32,986
Intergovernmental receipts	-	368,774	-	1,973,114	2,378,480
Charges for services	-	-	-	-	16,226
Fines and forfeits	-	-	-	-	4
Utility fees	-	-	-	-	136,858
Other receipts	6,000	1	16,909	-	88,001
Total receipts	<u>6,000</u>	<u>368,775</u>	<u>16,909</u>	<u>1,973,114</u>	<u>2,652,555</u>
Disbursements:					
Personal services	-	-	-	-	104,224
Supplies	-	-	-	-	4,638
Other services and charges	-	-	-	-	84,242
Debt service - principal and interest	-	-	-	-	15,675
Capital outlay	-	-	-	-	19,792
Other disbursements	-	370,989	-	1,940,254	2,332,456
Total disbursements	<u>-</u>	<u>370,989</u>	<u>-</u>	<u>1,940,254</u>	<u>2,561,027</u>
Excess (deficiency) of receipts over disbursements	<u>6,000</u>	<u>(2,214)</u>	<u>16,909</u>	<u>32,860</u>	<u>91,528</u>
Cash and investments - ending	<u>\$ 38,491</u>	<u>\$ 1,000</u>	<u>\$ 16,909</u>	<u>\$ 32,860</u>	<u>\$ 459,935</u>

TOWN OF KENNARD
SCHEDULE OF LEASES AND DEBT
December 31, 2013

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
Revenue bonds	Sewage Works Revenue Bond 2013c-2	\$ 100,000	\$ 1,875
Revenue bonds	Sewage Works Revenue Bond 2013c	320,000	6,000
Revenue bonds	Sewage Works Revenue Bond 2013a	<u>654,000</u>	<u>20,438</u>
Total Wastewater		<u>1,074,000</u>	<u>28,313</u>
Totals		<u>\$ 1,074,000</u>	<u>\$ 28,313</u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE TOWN OF KENNARD, HENRY COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Kennard'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 each of its major federal programs for the year ended December 31, 2013. The Town's major federal programs are 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 each of the Town's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Basis for Disclaimer of Opinion on Water and Waste Program Cluster

As described in item 2013-005 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient documentation supporting the compliance of the Town with the Water and Waste Program Cluster regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principals, Matching, Period of Availability, and Reporting, nor were we able to satisfy ourselves as to the Town's compliance with those requirements by other auditing procedures.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Disclaimer of Opinion on Water and Waste Program Cluster

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Town's compliance with the types of compliance requirements referred to above that could have a direct and material effect on the Water and Waste Program Cluster for the year ended December 31, 2013.

Basis for Disclaimer of Opinion on CDBG - State-Administered CDBG Cluster

As described in item 2013-007 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient documentation supporting the compliance of the Town with CDBG - State-Administered CDBG Cluster regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principals, Matching, and Period of Availability, nor were we able to satisfy ourselves as to the Town's compliance with those requirements by other auditing procedures.

Disclaimer of Opinion on CDBG - State-Administered CDBG Cluster

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Town's compliance with the types of compliance requirements referred to above that could have a direct and material effect on the CDBG - State-Administered CDBG Cluster for the year ended December 31, 2013.

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 2013-004 and 2013-008. Our opinion on each 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

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 2013-003, 2013-004, 2013-005, 2013-006, 2013-007, and 2013-008 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

September 1, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

TOWN OF KENNARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

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 Agriculture</u>					
Water and Waste Program Cluster					
Water and Waste Disposal Systems for Rural Communities Kennard Waste Water Project	Direct Grant	10.760	--	\$ -	1,940,254
Total - Water and Waste Program Cluster				-	1,940,254
Total - Department of Agriculture				-	1,940,254
<u>Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Office of Community and Rural Affairs	14.228	A192-13-CF-12-115	-	368,774
Total - CDBG - State-Administered CDBG Cluster				-	368,774
Total - Department of Housing and Urban Development				-	368,774
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205	FY11	-	9,075
Total - Highway Planning and Construction Cluster				-	9,075
Total - Department of Transportation				-	9,075
Total federal awards expended				\$ -	2,318,103

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

TOWN OF KENNARD
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, 2013. 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 KENNARD
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; Qualified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Disclaimer on Water and Waste Program Cluster and CDBG - State-Administered CDBG Cluster
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 Programs:

_____ Name of Federal Program or Cluster _____
Water and Waste Program Cluster
CDBG - State-Administered CDBG Cluster

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 2013-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Modified Opinion

Condition

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town relied on one employee to prepare the SEFA.

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

Due to the lack of controls, the SEFA presented for audit had the following errors:

1. Information, such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number, was either incorrectly reported or omitted.
2. The Water and Waste Disposal Systems for Rural Communities and the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii grants were not maintained on ledgers and were missing several records, including grant agreements, reports, and several invoices. We could not substantiate all transactions and amounts with these grants.

For the errors that were identified, audit adjustments were proposed, accepted by the Town, and made to the SEFA.

Context

The lack of controls and condition of records were systemic problems during the period audited.

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. . . .

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

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

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310."

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

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

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

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

Cause

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

Effect

Because a proper system of internal control was not in place, and inadequate records were kept, the transactions could not be substantiated and the opinion on the SEFA had to be disclaimed. The errors on the SEFA that could be identified are listed in the *Condition*.

Views of Responsible Officials

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

FINDING 2013-002

Subject: Internal Controls over Financial Transactions and Reporting
Audit Findings: Material Weakness, Modified Opinion

Condition

The Town had deficiencies in the internal control system related to financial transactions and reporting in the following errors:

1. Lack of Segregation of Duties: The Town had not separated incompatible activities related to cash, receipts, and disbursements for both the Town and Wastewater records.

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

2. **Preparing Financial Statements:** The Town failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement. The financial statement of the Town was compiled from the information reported on the Annual Financial Report submitted by the Town; however, the Town did not have procedures in place to ensure the accuracy of the information reported on the Annual Financial Report.
3. **Wastewater Records:** No effective controls were in place to ensure that records were retained. As a result, the Wastewater Funds Ledger was not presented for audit. Alternative procedures had to be performed to substantiate the Wastewater Funds (excluding the Wastewater Construction funds) presented on the Town's financial statement.
4. **Wastewater Construction Funds:** No effective controls were in place to ensure the proper recordkeeping of the funds. The Wastewater Construction bank accounts contained the federal grant funds from the Water and Waste Disposal Systems for Rural Communities and the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii grants; however, these grant funds were not maintained on a ledger, and invoices were not retained for \$413,721 of disbursements used to pay for the improvement of the wastewater treatment plant. Due to these conditions, we were unable to substantiate a material amount of disbursements within the Wastewater Construction funds presented on the financial statement.

For the errors identified, audit adjustments were proposed, accepted by the Town, and made to the financial statement.

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. . . .

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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

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

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Cause

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

Effect

Because a proper system of internal control was not in place, and the condition of the Town's records, the opinion on the financial statements had been modified. The condition of records is explained further in the *Condition*.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2013-003

Subject: Water and Waste Disposal Systems for Rural Communities - Cash Management
and Procurement and Suspension and Debarment

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): None

Compliance Requirements: Cash Management, Procurement and Suspension and Debarment

Audit Finding: Material Weakness

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: Cash Management and Procurement and Suspension and Debarment.

Context

The lack of controls was a systemic problem throughout the audit period.

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

Criteria

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

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

Cause

Management had not developed a system of internal controls for the Cash Management and Procurement and Suspension and Debarment compliance requirements.

Effect

The failure to establish an effective internal control system placed the Town at risk of non-compliance with the grant agreement and the compliance requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls related to the grant agreement and Cash Management and 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.

FINDING 2013-004

Subject: Water and Waste Disposal Systems for Rural Communities -
Equipment and Real Property Management
Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number and Year (or Other Identifying Number): None
Compliance Requirement: Equipment and Real Property Management
Audit Findings: Material Weakness, Other Matters

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 Equipment and Real Property Management compliance requirement.

The Town was not in compliance with the requirements for Equipment and Real Property Management. There were no inventory records or records of any dispositions, nor was there evidence of an oversight, review, or approval process to ensure that an inventory and listing of dispositions were maintained.

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

Context

The Town did not provide an inventory or list of dispositions. Further documentation was requested from the Town, but none was provided. The lack of controls was a systemic problem for the period audited.

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. . . ."

7 CFR 3016.32(d) states:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Cause

Management of the Town had not established an effective internal control system that would have ensured compliance with the Equipment and Real Property Management requirements.

Effect

The failure to establish an effective internal control system resulted in the Town being in non-compliance with the Equipment and Real Property Management compliance requirement.

Questioned Costs

There were no questioned costs identified.

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

Recommendation

We recommended that management establish effective internal controls to ensure compliance related to the grant agreement and Equipment and Real Property 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 2013-005

Subject: Water and Waste Disposal Systems for Rural Communities -
Activities Allowed or Unallowed, Allowable Costs/Cost Principles,
Matching, Level of Effort, Earmarking, Period of Availability, and Reporting

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): None

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles,
Matching, Level of Effort, Earmarking, Period of Availability, Reporting

Audit Findings: Material Weakness, Modified Opinion

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 Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, Period of Availability, and Reporting.

The Town was unable to locate several accounting records needed to complete the audit, including invoices, reports, and the original grant agreement; therefore, compliance related to the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, Period of Availability, and Reporting compliance requirements could not be tested.

Context

The lack of controls was a systemic problem throughout the audit period. Due to the lack of records, compliance could not be tested for the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, Period of Availability, and Reporting compliance, which were determined to be direct and material to the program.

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 KENNARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

7 CFR 3016.20(b)(2) states:

"Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

Cause

Management had not developed a system of internal controls that would have ensured that accounting records were available for audit.

Effect

The failure to establish an effective internal control system and maintain records related to the program caused the opinion over the compliance of the program to be disclaimed.

Questioned Costs

The total of known questioned costs was \$394,721.

Recommendation

We recommended that the Town's management establish controls and maintain records related to the program as required by federal guidelines.

Views of Responsible Officials

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

FINDING 2013-006

Subject: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii - Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Environmental Reviews

Federal Agency: Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): A192-13-CF-12-115

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Compliance Requirements: Cash Management, Procurement and Suspension and Debarment, Special Tests and Provisions - Environmental Reviews

Audit Finding: Material Weakness

TOWN OF KENNARD
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: Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Environmental Reviews. The Clerk-Treasurer was the sole person responsible for ensuring compliance with the Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Environmental Reviews requirements for the grant.

Context

The lack of controls was a systemic problem throughout 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. . . ."

Cause

Management had not developed a system of internal controls related to the Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Environmental Reviews compliance requirements.

Effect

The failure to establish an effective internal control system placed the Town at risk of non-compliance with the grant agreement and the Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Environmental Reviews compliance requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls related to the grant agreement and Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Environmental Reviews 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 KENNARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2013-007

Subject: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, and Period of Availability
Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): A192-13-CF-12-115
Pass-Through Entity: Indiana Office of Community and Rural Affairs
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, Period of Availability
Audit Findings: Material Weakness, Modified Opinion

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 Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, and Period of Availability.

The Town was unable to locate several accounting records needed to complete the audit, including invoices, reports, and the original grant agreement; therefore, compliance related to the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, and Period of Availability compliance requirements could not be tested.

Context

The lack of controls was a systemic problem throughout the audit period. Due to the lack of records, compliance could not be tested for the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, and Period of Availability compliance requirements that were determined to be direct and material to the program.

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. . . ."

24 CFR 85.20(b)(2) states:

"*Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

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

Cause

Management had not developed a system of internal controls that would have ensured that accounting records were available for audit.

Effect

The failure to establish an effective internal control system and maintain records related to the program caused the opinion over the compliance of the program to be disclaimed.

Questioned Costs

The total of known questioned costs was \$19,000.

Recommendation

We recommended that the Town's management establish controls and maintain records related to the program as required by federal guidelines.

Views of Responsible Officials

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

FINDING 2013-008

Subject: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii - Equipment and Real Property Management
Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): A192-13-CF-12-115
Pass-Through Entity: Indiana Office of Community and Rural Affairs
Compliance Requirement: Equipment and Real Property Management
Audit Findings: Material Weakness, Other Matters

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 Equipment and Real Property Management compliance requirement.

The Town was not in compliance with the requirements for Equipment and Real Property Management. There were no inventory records or records of any dispositions, nor was there evidence of an oversight, review, or approval process to ensure that an inventory and listing of dispositions were maintained.

Context

The Town did not provide an inventory or list of dispositions. Further documentation was requested from the Town, but none was provided. The lack of controls was a systemic problem for the period audited.

TOWN OF KENNARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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. . . ."

24 CFR 85.32(d) states:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Cause

Management of the Town had not established an effective internal control system that would have ensured compliance with the Equipment and Real Property Management requirements.

Effect

The failure to establish an effective internal control system resulted in the Town being in non-compliance with the Equipment and Real Property Management compliance requirement.

Questioned Costs

There were no questioned costs.

Recommendation

We recommended that management establish effective internal controls to ensure compliance related to the grant agreement and Equipment and Real Property Management compliance requirement.

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

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENT

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

**TOWN OF KENNARD
TOWN HALL
PO Box 167
Kennard, IN 47351**

**Board President: Jason Groce
Board Member: Carolyn Roberts
Board Member: Holly Lee
Clerk/Treasurer: Christina Beavers**

**Phone: 765-785-2331
Fax: 765-785-2062
townofkennard@gmail.com**

CORRECTIVE ACTION PLAN

FINDING 2013-001

Contact Person Responsible for Corrective Action:

Christina Beavers

**Contact Phone Number:
765-785-2331**

**Views of Responsible Official:
Prior Clerk/Treasurer had issues on maintaining records.
We concur with the finding.**

**Description of Corrective Action Plan:
In the future we will be maintaining our records and ledgers of everything.**

**Anticipated Completion Date:
September 30, 2017**

**TOWN OF KENNARD
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townofkennard@gmail.com**

CORRECTIVE ACTION PLAN

FINDING 2013-002

Contact Person Responsible for Corrective Action:

Christina Beavers

**Contact Phone Number:
765-785-2331**

**Views of Responsible Official:
Prior Clerk/Treasurer had issues on maintaining records.
We concur with the finding.**

**Description of Corrective Action Plan:
We will be maintaining our records and ledgers in the future.
We are a small Town Unit and are currently working on a Unit Control System.**

**Anticipated Completion Date:
September 30,2017**

**TOWN OF KENNARD
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CORRECTIVE ACTION PLAN

FINDING 2013-003

Contact Person Responsible for Corrective Action:

Christina Beavers

**Contact Phone Number:
765-785-2331**

Views of Responsible Official:

**The prior Clerk/Treasurer had issues on maintaining records.
We concur with the finding.**

Description of Corrective Action Plan:

We are currently working on a unit control system and we will be maintaining our records and Ledgers.

**Anticipated Completion Date:
September 30,2017**

**TOWN OF KENNARD
TOWN HALL
PO Box 167
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CORRECTIVE ACTION PLAN

FINDING 2013-004

Contact Person Responsible for Corrective Action:

Christina Beavers

**Contact Phone Number:
765-785-2331**

Views of Responsible Official:

**The prior Clerk/Treasurer had issues on maintaining records.
We concur with the finding.**

Description of Corrective Action Plan:

We are a small unit and are currently working on a unit control system and will be maintaining our records and ledgers.

**Anticipated Completion Date:
December 31,2017**

**TOWN OF KENNARD
TOWN HALL
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CORRECTIVE ACTION PLAN

FINDING 2013-005

Contact Person Responsible for Corrective Action:

Christina Beavers

Contact Phone Number:
765-785-2331

Views of Responsible Official: The prior Clerk/Treasurer had issues on maintain records and ledgers.
We concur with the finding.

Description of Corrective Action Plan:

We will be maintaining our records and ledgers, and are currently working on a control unit system.

Anticipated Completion Date:
September 30,2017

**TOWN OF KENNARD
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CORRECTIVE ACTION PLAN

FINDING 2013-006

Contact Person Responsible for Corrective Action:

Christina Beavers

Contact Phone Number:
765-785-2331

Views of Responsible Official:
The prior Clerk/Treasurer had issues on maintaining records.
We concur with the finding.

Description of Corrective Action Plan:
We are currently working on a control unit system and will be maintaining our records and ledgers.

Anticipated Completion Date:
September 30,2017

**TOWN OF KENNARD
TOWN HALL
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Kennard, IN 47351**

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CORRECTIVE ACTION PLAN

FINDING 2013-007

Contact Person Responsible for Corrective Action:

Christina Beavers

**Contact Phone Number:
765-785-2331**

Views of Responsible Official:

**The prior Clerk/Treasurer had issues on maintaining records and ledgers.
We concur with the finding.**

Description of Corrective Action Plan:

**We as a small Town Unit are currently working on a unit control system and will be maintaining our
records and ledgers.**

**Anticipated Completion Date:
September 30,2017**

**TOWN OF KENNARD
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townofkennard@gmail.com**

CORRECTIVE ACTION PLAN

FINDING 2013-008

Contact Person Responsible for Corrective Action:

Christina Beavers

Contact Phone Number:
765-785-2331

Views of Responsible Official:

The prior Clerk/Treasurer had issues on maintaining records and ledgers.

Description of Corrective Action Plan:

We as a small town unit are currently working on a unit control system and will be maintaining our records and ledgers.

We concur with the finding.

Anticipated Completion Date:
December 31, 2017

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/>.