

CITY OF GARDNER, KANSAS
OMB *CIRCULAR A-133*, SINGLE AUDIT REPORT
YEAR ENDED DECEMBER 31, 2012
WITH
INDEPENDENT AUDITOR'S REPORT

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A copy of the City of Gardner, Kansas, Comprehensive Annual Financial Report for the year ended December 31, 2012, accompanies this report. The independent auditor's report and the basic financial statements are hereby incorporated by reference.	
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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 FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and City Council Members
City of Gardner

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 statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Kansas as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

June 25, 2013
Wichita, Kansas

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor and City Council Members
City of Gardner

Report on Compliance for Each Major Federal Program

We have audited City of Gardner, Kansas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City'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 City'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 City'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 City's compliance.

Basis for Qualified Opinion on Capitalization Grants for Clean Water State Revolving Funds

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 66.458 Capitalization Grants for Clean Water State Revolving Funds program as described in finding numbers 2012-1 for the Davis Bacon Act, and Procurement, Suspension and Debarment, and 2012-2 for Reporting. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on Capitalization Grants for Clean Water State Revolving Funds

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds program for the year ended December 31, 2012.

Other Matters

The City's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City'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 City 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 City's internal control over compliance with 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 an opinion on compliance for each major federal programs 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 City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 at items 2012-1 and 2012-2 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City'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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Kansas as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 25, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to June 25, 2013. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

July 10, 2013
Wichita, Kansas

CITY OF GARDNER, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal control over major programs:

- Material weaknesses identified? X Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes X None reported

Type of auditor’s report issued on compliance for major programs: See below

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB *Circular A-133*? X Yes No

Identification of major programs:

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM</u>	<u>MAJOR PROGRAM OPINION</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds	Qualified

CITY OF GARDNER, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION I – SUMMARY OF AUDITOR'S RESULTS (Continued)

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

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-1 (Material Weakness):

Capitalization Grants for Clean Water State Revolving Funds, #66.458. Award No. KWPCRF Project No.: C20 195601, 2012. Environmental Protection Agency, passed through the Kansas Department of Health and Environment.

Condition: The City did not have controls in place to ensure compliance with the Davis Bacon Act, Procurement, and Suspension and Debarment requirements.

Criteria: 29 CFR part 5, (Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction), includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls). 2 CFR part 180 and A-102 Common Rule, states that all non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements and prohibits non-Federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

Questioned Costs: None noted.

Context: The City of Gardner, Kansas learned of a sewer treatment facility project that was underway by the City of Edgerton, Kansas. The City of Edgerton, Kansas was funding the project in part by a receipt of federal funds through the Capitalization Grants for Clean Water State Revolving Funds program. The City of Gardner, Kansas then entered into an agreement with the City of Edgerton, Kansas to expand the capacity of their project to accommodate the City of Gardner, Kansas. Upon execution of the agreement, the City of Gardner, Kansas applied for and received funds from the Kansas Department of Health and Environment under the Capitalization Grants for Clean Water State Revolving Funds program to fund their portion of the expanded project. Due to the nature of the agreement between the City of Gardner, Kansas and Edgerton, Kansas, the City of Gardner relied on the City of Edgerton to implement controls to ensure compliance with certain types of compliance requirements applicable to this grant program. However, the City of Gardner did not implement the proper controls to ensure such requirements were being met. Subsequently, it was verified per review of the City of Edgerton's fiscal year ended 2012 OMB A-133 Single Audit report,

CITY OF GARDNER, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

the City of Edgerton had no findings reported related to its CFDA #66.458 Capitalization Grants for Clean Water State Revolving Funds program or the compliance requirements noted above. Additionally, subsequent verification determined that no contractors were suspended or debarred.

Cause: The City obtained grant funding through the State of Kansas (pass through entity) and was not aware of federal requirements.

Effect: Lack of controls and procedures related to compliance requirements could result in a loss of funding.

Recommendation: We recommend the City implement controls and procedures to identify federal funding compliance requirements and to ensure those requirements are being met.

Management response: The City agrees with this finding. It was staff's understanding that the KDHE loan funds received were state funds, and staff was unaware the funds were "passed-through" federal dollars. Staff has since been educated on how to identify federal funding and also attended grant compliance training conducted by an auditing firm. Staff is implementing effective controls over grant awards and will continue to work with the external auditors to ensure all future compliance and reporting requirements are met for all future federal awards.

Finding 2012-2 (Material Weakness):

Capitalization Grants for Clean Water State Revolving Funds, #66.458. Award No. KWPCRF Project No.: C20 195601, 2012. Environmental Protection Agency, passed through the Kansas Department of Health and Environment.

Condition: The City did not prepare or submit the required SF-425 financial reports.

Criteria: 40 CFR part 35 requires form SF-425, Federal Financial Report, to be submitted.

Question Costs: None noted.

Context: The City obtained grant funding through the State of Kansas (pass through entity) and was not aware of federal requirements.

Cause: Lack of awareness of OMB A-133 compliance requirements related to the grant.

Effect: Not preparing and submitting the required reports could result in the loss of federal program funding under the award.

Recommendation: We recommend the City implement controls and procedures to ensure the timely submission of required federal financial reporting.

Management response: The City agrees with this finding. It was staff's understanding that the KDHE loan funds received were state funds, and staff was unaware the funds were "passed-through" federal dollars. Staff has since been educated on how to identify federal funding and also attended grant compliance training conducted by an auditing firm. Staff is implementing effective controls over grant awards and will continue to work with the external auditors to ensure all future compliance and reporting requirements are met for all future federal awards.

CITY OF GARDNER, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

<u>Federal Agency/Program</u>	<u>Federal Agency or Pass-Through Grant No.</u>	<u>CFDA #</u>	<u>Total Program Expenditures</u>
<u>Environmental Protection Agency</u>			
Passed through the Kansas Department of Health and Environment:			
Capitalization Grants for Clean Water State Revolving Funds	KWPCRF C20195601	66.458	\$ 4,706,331
<i>Total Environmental Protection Agency</i>			<u>4,706,331</u>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Airport Improvement Program	A.I.P. #3-20-0119-05 A.I.P. #3-20-0119-07 A.I.P. #3-20-0119-08	20.106	271,535
Passed through the Kansas Department of Transportation:			
State and Community Highway Safety	OP-1270-3	20.600	<u>1,821</u>
<i>Total U.S. Department of Transportation</i>			<u>273,356</u>
			<u>\$ 4,979,687</u>

The accompanying note is an
integral part of this schedule.

CITY OF GARDNER, KANSAS

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Gardner, Kansas, and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.