

***CITY OF GARDNER, KANSAS***  
OMB *CIRCULAR A-133*, SINGLE AUDIT REPORT  
YEAR ENDED DECEMBER 31, 2014  
WITH  
INDEPENDENT AUDITOR'S REPORT

CITY OF GARDNER, KANSAS  
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CITY OF GARDNER, KANSAS  
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YEAR ENDED DECEMBER 31, 2014

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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

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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 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, 2014, 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, 2015.

**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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002 that we consider to be significant deficiencies.

## **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*.

## **City's Response to Findings**

The City's response to the findings identified in our audit is 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 the financial statements 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 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, 2015  
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

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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, 2014. 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.

***Opinion on Capitalization Grants for Clean Water State Revolving Funds***

In our opinion, 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, 2014.

**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 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 City's internal control over compliance.

*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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 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, 2014, 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, 2015, 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. 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

June 25, 2015  
Wichita, KS

CITY OF GARDNER, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2014

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?   X   Yes        None reported
- Noncompliance material to financial statements noted?        Yes   X   No

FEDERAL AWARDS

Internal control over major programs:

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

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

Identification of major programs and type of auditor's report issued on compliance for major programs:

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

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

Auditee qualified as low-risk auditee?        Yes   X   No



**CITY OF GARDNER, KANSAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2014  
(CONTINUED)

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SECTION II – FINANCIAL STATEMENT FINDINGS

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**Finding 2014-001 (Significant Deficiency) Accounting and Financial Reporting in the Airport Association, a Component Unit of the City of Gardner**

**Condition:** There is a lack of procedures and controls used to initiate, authorize, record and process accounting transactions related to accounts payable, accounts receivable, and capital assets. There is also a lack of segregation of duties related to overall accounting functions including cash receipting, deposits and check writing. Bank reconciliations are not performed and reviewed in a timely manner.

**Criteria:** Procedures and controls should be in place over the financial reporting process to ensure accounting transactions are properly initiated, authorized, recorded and processed. The employee who authorizes a transaction should not be the same employee who initiates or processes the transaction. Procedures should also be in place to allow for performing the bank reconciliation in a timely manner.

**Context:** By not having procedures and controls in place, inaccurate transactions could be recorded in the financial system.

**Effect:** These issues could lead to inaccurate financial information used in the preparation of the financial statements.

**Cause:** One employee is performing all functions of the financial report process.

**Recommendation:** We recommend the Airport Association implement procedures and controls over the financial reporting process to ensure transactions are properly initiated, authorized and recorded in the financial system.

**Management's Response (unaudited):** Because the City does not have operational responsibility for the airport, corrective actions for deficiencies in financial operations are beyond the control of City staff. Under the current structure, staff's ability to ensure compliance is limited. Finance staff will continue to communicate the auditor's concerns to the Airport Association.

**CITY OF GARDNER, KANSAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2014  
(CONTINUED)

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SECTION II – FINANCIAL STATEMENT FINDINGS

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**Finding 2014-002 (Significant Deficiency) Inventory System at the Electric Utility, a Department of the City of Gardner**

**Condition:** There is a lack of controls over the inventory system.

**Criteria:** Procedures and controls should be in place to track the purchase and usage of inventory to allow for an understanding of what inventory items are on hand and available for use and the value of these inventory items.

**Context:** By not having controls and procedures in place over the inventory system, items could be added or removed from inventory without being accounted for.

**Effect:** This issue could lead to an inaccurate valuation of inventory on the financial statements.

**Cause:** Employees at the electric utility remove items from inventory as well as make purchases of inventory items without recording the usage or addition.

**Recommendation:** We recommend the electric utility implement controls over inventory to allow for the adjustment of inventory when items are purchased and used.

**Management's Response (unaudited):** Finance staff will assist the Utilities Department to implement inventory controls.

**CITY OF GARDNER, KANSAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2014  
(CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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No matters were reported.

**CITY OF GARDNER, KANSAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2014

<u>Federal Agency/Passthrough/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	\$ 412,513
<i>Total Environmental Protection Agency</i>			<u>412,513</u>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Airport Improvement Program	A.I.P. #3-20-0119-07	20.106	227,314
Passed through the Kansas Department of Transportation:			
State and Community Highway Safety	OP-1270-14	20.600	<u>4,264</u>
<i>Total U.S. Department of Transportation</i>			<u>231,578</u>
			 <u>\$ 644,091</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, 2014

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 modified accrual 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.