

**CITY OF KENT
PORTAGE COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

James G. Zupka, CPA, Inc.
Certified Public Accountants

**CITY OF KENT
PORTAGE COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013**

TABLE OF CONTENTS

	<u>PAGE</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
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	3-5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-10
Status of Prior Findings and Recommendations	11

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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**

To the Members of City Council
City of Kent, Ohio

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the City of Kent, Portage County, Ohio (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Kent, Ohio's basic financial statements, and have issued our report thereon dated August 25, 2014, wherein we noted that the City restated its December 31, 2012 net position of the business-type activities, the Water Fund, and the Sewer Fund due to an overstatement of the City's utility accounts receivable.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kent, Ohio'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 of Kent, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kent, Ohio'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 City'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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questions Costs as **Finding No. 2013-001**, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kent, Ohio'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 of Kent, Ohio's Response to Finding

The City of Kent, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Kent, Ohio'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 City of Kent, Ohio'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 City of Kent, Ohio's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka,
CPA, President
James G. Zupka, CPA, Inc.
Certified Public Accountants

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.08.28 16:53:18 -04'00'

August 25, 2014

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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**

To the Members of City Council
City of Kent, Ohio

Report on Compliance for Each Major Federal Program

We have audited the City of Kent, Portage County, Ohio's 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 the City of Kent, Ohio's major federal program for the year ended December 31, 2013. The City of Kent, Ohio's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Kent, Ohio's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Kent, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Kent, Ohio's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Kent, Ohio, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the City of Kent, Ohio, 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 of Kent, Ohio's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 of Kent, Ohio'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 also audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kent, Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Kent, Ohio's basic financial statements. We issued our report thereon dated August 25, 2014, which contained unmodified opinions on those financial statements. Our opinion also explained that the City of Kent, Ohio, restated its December 31, 2012 net position of the business-type activities, the Water Fund, and the Sewer Fund due to an overstatement of the City's utility accounts receivable. 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.08.28 16:53:37 -04'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

August 25, 2014

**CITY OF KENT
PORTAGE COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Expenditures
<u>U.S. Department of Agriculture</u>			
<i>Direct Program</i>			
Farmer's Market	10.168		\$ 9,618
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grant - Entitlement	14.218	MC-39-0026	534,575
<i>Passed through the Ohio Department of Development and Portage County</i>			
Neighborhood Stabilization Program Grant	14.218	B-Z-08-062-1	48,214
Total U.S. Department of Housing and Urban Development			582,789
<u>U.S. Department of Justice</u>			
<i>Direct Program</i>			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Formula	16.804	2010-DJ-BX-0669	462
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Formula	16.804	2009-SB-B9-1237	13,086
<i>Total CFDA #16.804</i>			<u>13,548</u>
Bullet Proof Vest Partnership	16.607	2013-BUBX11055643	600
Total U.S. Department of Justice			14,148
<u>U.S. Department of Transportation</u>			
<i>Passed through the Ohio Department of Transportation</i>			
<i>Highway Planning and Construction -</i>			
Redmond Bridge	20.205	PID 90582	423,536
East Summit Street Improvements	20.205	PID 84546	496,927
Fairchild Avenue Resurfacing	20.205	PID 93805	119,783
Spaulding Drive Bridge/SR 59	20.205	PID 81651	268,169
H & B Tannery Park	20.205	PID 84984	55,881
KSU Gateway Bike Trail	20.205	PID 88517	241,809
Total U.S. Department of Transportation			1,606,105
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,212,660

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY OF KENT
PORTAGE COUNTY, OHIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

NOTE 1: GENERAL

The accompanying Schedule of Expenditures of Federal Awards of the City of Kent, Ohio presents the activity of all federal financial assistance programs of the City.

The City's reporting entity is defined in Note 1 to the City's basic financial statements. Federal financial assistance received directly from federal agencies as well as financial assistance passed through other government agencies are included on this schedule.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Consequently, certain expenditures are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is accrued.

NOTE 3: PROGRAM INCOME

The City of Kent, Ohio, uses federal funds received in the current and prior years to issue revolving loans. These loans are issued to companies and are to be repaid to the City in monthly installments. Principal received on these loans may be used to issue new loans. The program income represents interest revenue earned from the revolving loans and bank accounts and repayment of loans. The following table reflects principal outstanding and program income earned as of December 31, 2013. These amounts were subject to single audit procedures.

	<u>Principal Outstanding</u>	<u>Program Income</u>
Urban Development Action Grant (UDAG)	\$ 106,074	\$ 2,147
Economic Development and Administration (EDA)	<u>228,669</u>	<u>7,014</u>
Total	<u>\$ 334,743</u>	<u>\$ 9,161</u>

**CITY OF KENT
PORTAGE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
DECEMBER 31, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

2013(i)	Type of Financial Statement Opinion	Unmodified
2013(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2013(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
2013(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2013(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2013(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2013(v)	Type of Major Programs' Compliance Opinions	Unmodified
2013(vi)	Are there any reportable findings under .510(a)?	No
2013(vii)	Major Programs (list): Community Development Block Grant - CFDA #14.218	
2013(viii)	Dollar Threshold: A/B Programs	Type A: \$300,000 Type B: All Others
2013(ix)	Low Risk Auditee?	Yes

**CITY OF KENT
PORTAGE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
DECEMBER 31, 2013
(Continued)**

2. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding No. 2013-001 - Significant Deficiency - Internal Controls Over Financial Reporting

Condition/Criteria

Financial reporting is the responsibility of the City's Finance Department and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. During the annual financial statement preparation process, management identified the following error to the financial statements:

1. Restatement of fund balances and net position at December 31, 2012, for accounts receivables within the Water Fund and Sewer Fund were overstated. This error was corrected by the City on the customer billing prior to submission, but was not corrected on the document utilized to prepare the year-end financial statements.

As a result, audit adjustments have been prepared and made to correct the financial activity for 2013.

Cause/Effect

The changes in financial presentation resulted in a prior period adjustment to the various funds as noted above.

Recommendation

We recommend that the City ensure procedures are followed that will identify/detect any mis-statements in financial reporting so corrections/revisions can be made in the source document. We also recommend that the City exercise due diligence to ensure that any corrections/revisions made to source documents be posted to all related documents, including the financial statements and footnotes.

City Response

While the City understands and accepts this audit comment, we believe that this finding reflects more of a chance timing occurrence at the end of a reporting period than it does a deficiency in internal controls. The City utilizes the end of year trial balance report from our utility billing system when preparing the year-end receivables. The December 31, 2012 trial balance report included a large erroneous bill to one customer (resulting from a flawed meter read), that was subsequently discovered and corrected by our utility billing clerk two days later when she was reviewing the utility billing reports. It was corrected on the January 3, 2013 trial balance; however, for financial reporting purposes since only the end of the year report is used, the erroneous amounts were booked into the financial statements. The customer never received the erroneous billing and they were sent the corrected billing statement. We will implement procedures to do a more detailed analysis of the balances contained in the report used for GAAP purposes along with increased staff awareness of the criticality of timing for corrective adjustments, particularly when proximate to reporting period cutoff dates.

**CITY OF KENT
PORTAGE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
DECEMBER 31, 2013
(Continued)**

2. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**CITY OF KENT
PORTAGE COUNTY, OHIO
STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013**

The prior audit report, as of December 31, 2012, included no citations or instances of noncompliance. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.