

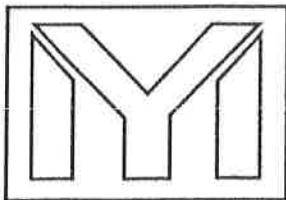
**HOUSING AUTHORITY OF THE  
CITY OF FREDONIA, KANSAS**

**AUDITORS' REPORTS AND  
FINANCIAL STATEMENT**

**December 31, 2019**

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS  
AUDITORS' REPORT and FINANCIAL STATEMENT  
For the Year Ended December 31, 2019  
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# YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

American Institute of Certified Public Accountants, Kansas Society of Certified Public Accountants

John D. Carroll, CPA

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Ashley R. Osburn, CPA, MBAA

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Housing Authority of the City of Fredonia, Kansas  
519 S. 15th Street  
Fredonia, KS 66736

### **Report on the Financial Statements**

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Housing Authority of the City of Fredonia, Kansas, as of and for the year ended December 31, 2019 and the related notes to the financial statement.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit 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 the applicable audit requirements of the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of 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 auditors' 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 entity'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 entity'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.

## **Opinion**

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statement, the financial statement is prepared by the Housing Authority of the City of Fredonia, Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, 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 conformity with accounting principles generally accepted in the United States of America, the financial position of the Housing Authority of the City of Fredonia, Kansas, as of December 31, 2019, or changes in financial position or cash flows thereof for the year then ended.

### ***Basis for Qualified Opinion on Regulatory Basis of Accounting***

The cash balance in the financial statements had an unknown material variance from supporting documentation.

### ***Qualified Opinion on Regulatory Basis of Accounting***

Except for the possible effects of the matters described in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph, in our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Housing Authority of the City of Fredonia, Kansas as of December 31, 2019, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

## **Other Matters**

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedule of regulatory basis receipts and expenditures – actual and budget (if applicable) (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however it is required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The *schedule of expenditures of federal awards* (Schedule 2 as listed in the table of contents) is presented for the purpose of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards, and is also not a required part of the basic financial statement.

The *Supplementary 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 statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Regulatory Required Supplementary Information* is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1, except for the possible effects of the matters described in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph.

The 2018 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and was not a required part of the 2018 basic financial statement upon which we rendered an unmodified opinion dated October 2, 2019. The 2018 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financialofficer/municipal-services>. Such 2018 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic financial statement. The 2018 comparative information was subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2018 basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2018 comparative information is fairly stated in all material respects in relation to the 2018 basic financial statement as a whole, on the basis of accounting described in Note 1.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 Housing Authority of the City of Fredonia, Kansas's internal control over financial reporting and compliance.



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YERKES & MICHELS, CPA, LLC  
Independence, Kansas

December 18, 2020

**HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS**  
**SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNCEMBUMERED CASH**  
**REGULATORY BASIS**

For the Year Ended December 31, 2019

	Beginning Unencumbered <u>Cash Balance</u>	Prior Year Cancelled <u>Encumbrances</u>	Cash <u>Receipts</u>	<u>Expenditures</u>	Ending Unencumbered <u>Cash Balance</u>	Outstanding Encumbrances and Accounts <u>Payable</u>	Ending <u>Cash Balance</u>	
<u>GOVERNMENTAL TYPE FUNDS:</u>								
GENERAL FUND	\$ 34,627.64	\$ -	\$ 239,610.36	\$ 227,245.17	\$ 46,992.83	\$ 7,261.59	\$ 54,254.42	GENERAL FUND
<hr/>								
TOTAL PRIMARY GOVERNMENT	<u>\$ 34,627.64</u>	<u>\$ -</u>	<u>\$ 239,610.36</u>	<u>\$ 227,245.17</u>	<u>\$ 46,992.83</u>	<u>\$ 7,261.59</u>	<u>\$ 54,254.42</u>	TOTAL PRIMARY GOVERNMENT

COMPOSITION OF CASH-Primary Government

First National Bank	
Operating Checking Account	5,582.38
Public Fund Tax Account	1,530.77
Security Deposit Savings	7,195.32
Reserve Checking	27,875.45
Certificate of Deposit	12,070.50
TOTAL PRIMARY GOVERNMENT	<u>\$ 54,254.42</u>

# HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

## NOTES TO THE FINANCIAL STATEMENT

December 31, 2019

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1A. MUNICIPAL FINANCIAL REPORTING ENTITY

The Housing Authority of the City of Fredonia, Kansas operates the city's housing projects. The Housing Authority is governed by a five-member board selected by the Fredonia City Commissioners. The Housing Authority was formed on May 31, 1977 and is a related municipal entity, which was established to benefit the City of Fredonia, Kansas (the City) and its constituents.

The Housing Authority operates 56 housing units with the purpose to provide rental apartments for senior living for the elderly (62 years of age or older), handicapped, disabled persons, and persons of low income. The Housing Authority also receives Rural Development subsidies to help assist residents with their rent.

#### 1B. BASIS OF ACCOUNTING

*Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.* The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenue and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Housing Authority has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the Housing Authority to use the regulatory basis of accounting.

#### 1C. REGULATORY BASIS FUND TYPES

General Fund— the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

NOTES TO THE FINANCIAL STATEMENT

December 31, 2019

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2A. BUDGETARY INFORMATION

The budget is prepared on the cash basis of accounting, as required by Rural Development utilizing Form RD 3560-7. The Housing Authority does not have a legal budget requirement.

2B. COMPLIANCE WITH LOAN REQUIREMENTS

The Housing Authority's loan requirements for USDA Rural Development Loans 002, 004, 005, and 006 require that a loan reserve account be established. The Housing Authority has an established debt reserve account with a balance of \$39,945.95; however, the amount required to be in this account is \$80,924.67 creating a deficit of \$40,978.72. This is considered material non-compliance to the financial statements. See the schedule of Findings and Questioned costs on pages 19-25 for more information.

2C. COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL MATTERS

Management is not aware of any violations of compliance with Kansas Statutes or violations of other finance related legal matters, except as noted in Note 2B above.

NOTE 3 – DEPOSITS AND INVESTMENTS

As of December 31, 2019, the Housing Authority had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Housing Authority. The statute requires banks eligible to hold the Housing Authority's funds have a main or branch bank in the county in which the Housing Authority is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Housing Authority has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Housing Authority's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Housing Authority has no investment policy that would further limit its investment choices.



HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

NOTES TO THE FINANCIAL STATEMENT

December 31, 2019

NOTE 3 – DEPOSITS AND INVESTMENTS (cont'd)

*Concentration of credit risk.* State statutes place no limit on the amount the Housing Authority may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Housing Authority's deposits may not be returned to it. State statutes require the Housing Authority's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. As of December 31, 2019, all deposits were secured.

At December 31, 2019 the carrying amount of the Housing Authority's deposits was \$54,254.42. The bank balance was \$56,144.38. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by one bank in Wilson County. The entire bank balance was covered by federal depository insurance.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Housing Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 4 – LONG-TERM DEBT

See Schedules on pages 9 - 11.

NOTE 5 – OTHER POST EMPLOYMENT BENEFITS

The Housing Authority does not provide any type of post-employment benefits.

NOTE 6 – DEFINED BENEFIT PENSION PLAN

The Housing Authority does not provide any type of defined benefit pension plan.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

NOTES TO THE FINANCIAL STATEMENT

December 31, 2019

NOTE 7 - RISK MANAGEMENT

The Housing Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Housing Authority carries commercial insurance. Settlements of claims have not exceeded coverage during the past three fiscal years.

NOTE 8 – USE OF ESTIMATES

The preparation of regulatory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of expenditures during the audit period, encumbrances outstanding, and disclosure of contingencies at the end of the audit period. Actual results could differ from the estimates.

NOTE 9 – FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS

Multiple findings relating to non-compliance and internal controls over financial reporting and compliance have been documented. See the Schedule of Findings and Questioned Costs on page 19-25 for details.

NOTE 10 – CONCENTRATION OF REVENUE

The Housing Authority receives rent subsidy revenue from Kansas Department of Agriculture Office of Rural Development, rental income from various renters, and interest income. In 2019, the Housing Authority received \$86,793.00 from USDA Rural Development, which made up 36.22% of its total revenue.

NOTE 11 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through the date of financial statements issuance December 18, 2020.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS  
NOTES TO THE FINANCIAL STATEMENT  
December 31, 2019

Page 1 of 3

NOTE 4 - LONG TERM DEBT

Changes in long-term liabilities for the Housing Authority for the year ended December 31, 2019, were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
Rural Development										
84 20 002	1.653	05/01/2004	\$ 284,345.20	01/20/2037	\$ 195,349.81	\$ -	\$ 11,091.48	\$ (11,091.48)	\$ 184,258.33	\$ 1,473.96
84 20 004	2.573	05/01/2004	209,983.99	04/20/2048	177,525.51	-	5,355.62	(5,355.62)	172,169.89	3,312.94
84 20 005	2.565	07/01/1988	208,000.00	06/20/2093	170,874.37	-	3,551.70	(3,551.70)	167,322.67	1,736.34
84 20 006	2.379	09/27/1995	301,219.49	06/20/2086	255,086.10	-	4,177.51	(4,177.51)	250,908.59	3,550.13
					<u>\$ 798,835.79</u>	<u>\$ -</u>	<u>\$ 24,176.31</u>	<u>\$ (24,176.31)</u>	<u>\$ 774,659.48</u>	<u>\$ 10,073.37</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 4 - LONG TERM DEBT (cont'd.)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025- 2029</u>	<u>2030- 2034</u>	<u>2035- 2039</u>	
Principal:									Principal:
FHA Loan 002	\$ 9,592.10	\$ 9,751.88	\$ 9,914.29	\$ 10,079.44	\$ 10,247.32	\$ 53,854.23	\$ 58,491.05	\$ 22,328.02	FHA Loan 002
FHA Loan 004	4,288.98	4,400.64	4,515.22	4,632.78	4,753.40	25,689.01	29,211.87	33,217.84	FHA Loan 004
FHA Loan 005	1,008.02	1,034.18	1,061.01	1,088.55	1,116.78	6,034.10	6,858.86	7,796.32	FHA Loan 005
FHA Loan 006	1,777.83	1,820.57	1,864.36	1,909.21	1,955.14	10,504.00	11,829.45	13,322.14	FHA Loan 006
Total Principal	<u>\$ 16,666.93</u>	<u>\$ 17,007.27</u>	<u>\$ 17,354.88</u>	<u>\$ 17,709.98</u>	<u>\$ 18,072.64</u>	<u>\$ 96,081.34</u>	<u>\$106,391.23</u>	<u>\$ 76,664.32</u>	
Interest:									Interest:
FHA Loan 002	\$ 2,973.34	\$ 2,813.56	\$ 2,651.15	\$ 2,486.00	\$ 2,318.12	\$ 8,972.97	\$ 4,336.15	\$ 350.27	FHA Loan 002
FHA Loan 004	4,379.58	4,267.92	4,153.34	4,035.78	3,915.16	17,653.79	14,130.93	10,124.96	FHA Loan 004
FHA Loan 005	4,280.02	4,253.86	4,227.03	4,199.49	4,171.26	20,406.10	19,581.34	18,643.88	FHA Loan 005
FHA Loan 006	5,949.81	5,907.07	5,863.28	5,818.43	5,772.50	28,134.20	26,808.75	25,316.06	FHA Loan 006
Total Interest	<u>\$ 17,582.75</u>	<u>\$ 17,242.41</u>	<u>\$ 16,894.80</u>	<u>\$ 16,539.70</u>	<u>\$ 16,177.04</u>	<u>\$ 75,167.06</u>	<u>\$ 64,857.17</u>	<u>\$ 54,435.17</u>	

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 4 - LONG TERM DEBT (cont'd.)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

<u>2040-</u> <u>2044</u>	<u>2045-</u> <u>2049</u>	<u>2050-</u> <u>2054</u>	<u>2055-</u> <u>2059</u>	<u>2060-</u> <u>2064</u>	<u>2065-</u> <u>2069</u>	<u>2070-</u> <u>2074</u>	<u>2075-</u> <u>2079</u>	<u>2080-</u> <u>2084</u>	<u>2085-</u> <u>2089</u>	<u>TOTAL</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$184,258.33
37,773.23	23,686.92	-	-	-	-	-	-	-	-	172,169.89
8,861.96	10,073.20	11,450.06	13,015.06	14,794.00	16,816.08	19,114.49	21,727.10	24,696.79	776.11	167,322.67
15,003.11	16,896.22	19,028.19	21,429.16	24,133.12	27,178.22	30,607.62	34,469.75	17,180.50	-	250,908.59
<u>\$ 61,638.30</u>	<u>\$ 50,656.34</u>	<u>\$ 30,478.25</u>	<u>\$ 34,444.22</u>	<u>\$ 38,927.12</u>	<u>\$ 43,994.30</u>	<u>\$ 49,722.11</u>	<u>\$ 56,196.85</u>	<u>\$ 41,877.29</u>	<u>\$ 776.11</u>	<u>\$774,659.48</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,901.56
5,569.57	900.19	-	-	-	-	-	-	-	-	69,131.22
17,578.24	16,367.00	14,990.14	13,425.14	11,646.20	9,624.12	7,325.71	4,713.10	1,743.41	2.38	177,178.42
23,635.09	21,741.98	19,610.01	17,209.04	14,505.08	11,459.98	8,030.58	4,168.45	488.14	-	230,418.45
<u>\$ 46,782.90</u>	<u>\$ 39,009.17</u>	<u>\$ 34,600.15</u>	<u>\$ 30,634.18</u>	<u>\$ 26,151.28</u>	<u>\$ 21,084.10</u>	<u>\$ 15,356.29</u>	<u>\$ 8,881.55</u>	<u>\$ 2,231.55</u>	<u>\$ 2.38</u>	<u>\$503,629.65</u>

**HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS  
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS**

**GENERAL FUND**

**For the Year Ended December 31, 2019  
(With Comparative Actual Totals for the year Ended December 31, 2018)**

	Year Ended December 31, 2018	Current Year Actual
<b>CASH RECEIPTS</b>		
Rental Subsidy Payments	\$ 83,076.00	\$ 86,793.00
Rental Income	135,453.47	143,833.00
Interest Income	73.28	147.03
Security Deposit Income	770.00	-
Miscellaneous	6,625.21	8,837.33
<b>TOTAL CASH RECEIPTS</b>	<b>225,997.96</b>	<b>239,610.36</b>
<b>EXPENDITURES</b>		
Loan Principal Payments	22,024.94	24,176.31
Loan Overage Fees	5,870.00	4,701.00
Loan Late Fees	345.00	-
Interest Expense	12,224.74	10,073.37
Capital Outlay	13,304.87	13,947.34
Repairs and Maintenance	28,283.33	34,795.69
Insurance	28,145.53	22,840.08
Services	7,026.62	7,512.58
Payroll Expenses	57,458.50	54,739.00
Payroll Taxes	11,541.27	18,587.25
Utilities	22,917.35	30,864.32
Office Expense	2,821.90	4,922.23
Advertising and Marketing	241.44	86.00
Security Deposit Expense	434.00	-
Miscellaneous Expense	6,544.86	-
<b>TOTAL EXPENDITURES</b>	<b>219,184.35</b>	<b>227,245.17</b>
<b>RECEIPTS OVER (UNDER) EXPENDITURES</b>	<b>6,813.61</b>	<b>12,365.19</b>
<b>UNENCUMBERED CASH, BEGINNING</b>	<b>27,814.03</b>	<b>34,627.64</b>
<b>UNENCUMBERED CASH, ENDING</b>	<b>\$ 34,627.64</b>	<b>\$ 46,992.83</b>

Housing Authority of the City of Fredonia, Kansas  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2019

Schedule 2  
Page 1 of 1

<i><b>Federal Grantor/Pass-Through Agency/Program</b></i>	<i><b>Federal CFDA Number</b></i>	<i><b>Pass-through Number</b></i>	<i><b>Federal Expenditures</b></i>
<b>United States Department of Agriculture</b>			
Passed-Through Kansas Department of Agriculture Office of Rural Development			
Rural Rental Housing Loans	10.415	19 003 198827078 Loan No. 2	\$ 195,349.81
Rural Rental Housing Loans	10.415	19 003 198827078 Loan No. 4	177,525.51
Rural Rental Housing Loans	10.415	19 003 198827078 Loan No. 5	170,874.37
Rural Rental Housing Loans	10.415	19 003 198827078 Loan No. 6	255,086.10
Total Rural Rental Housing Loans			798,835.79
Rural Rental Assistance Payments	10.427	198827078 05 6	86,793.00
Total Rural Rental Assistance Payments			86,793.00
<b>Total United States Department of Agriculture</b>			885,628.79
<b>Total Expenditures of Federal Awards</b>			\$ 885,628.79

The accompanying notes are an integral part of this schedule.

# HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

## Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

### **Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Housing Authority of the City of Fredonia, Kansas (the Housing Authority) under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Housing Authority, it is not intended to and does not present the financial position, changes in fund balances, or cash flows of the Housing Authority.

### **Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas (regulatory basis) with exceptions as noted in Note 3 below. 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 the 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 allowable or are limited to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Housing Authority did not elect to use the 10% de minimis indirect cost rate.

### **Note 3. Reconciliation of the Schedule of Expenditures of Federal Awards to the Financial Statements**

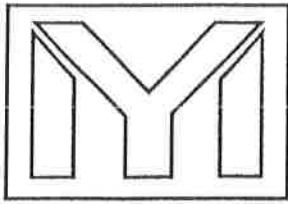
- a. Rural Rental Housing Loans: The amount shown on the Schedule is equal to the balance at the beginning of the year for loans with continuing compliance requirements in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. However, regulatory basis requires that loans be recorded as revenue when received, and expensed when repaid.
- b. Rural Rental Assistance Payments: These funds are intermingled with non-federal funds. The federal portion of funds is assumed to be spent before other funding sources. Therefore, all federal Rental Assistance payments received are considered expended and federal rental assistance revenue equals federal expenditures.

### **Note 4. End of year balances for loans described in 2 CFR section 200.502(b)**

The balances at December 31, 2019 for the four loans on the face of the Schedule are as follows:

- a. Loan #2: \$184,258.33
- b. Loan #4: \$172,169.89
- c. Loan #5: \$167,322.67
- d. Loan #6: \$250,908.59





# YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

American Institute of Certified Public Accountants, Kansas Society of Certified Public Accountants

John D. Carroll, CPA

Emily S. Vail, CPA

Ashley R. Osburn, CPA, MBAA

## 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

### Independent Auditors' Report

Board of Directors  
Housing Authority of the City of Fredonia, Kansas  
519 S. 15<sup>th</sup> Street  
Fredonia, KS 66736

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, and the *Kansas Municipal Audit and Accounting Guide*, the regulatory basis financial statement of the Housing Authority of the City of Fredonia, Kansas (Authority), as of and for the year ended December 31, 2019, and the related notes to the financial statement, which collectively comprise the Housing Authority of the City of Fredonia, Kansas's basic financial statement, and have issued our report thereon dated December 18, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as items Finding 2019-001 and Finding 2019-002.

## **Compliance and Other Matters**


As part of obtaining reasonable assurance about whether the Authority's regulatory basis financial statement is free of 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 object 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 item Finding 2019-003.

## **Housing Authority of the City of Fredonia, Kansas's Response to Findings**

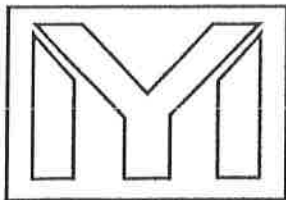
The Authority's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs* and the accompanying *Corrective Action Plan*. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements 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 result 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
YERKES & MICHELS, CPA, LLC  
Independence, KS

December 18, 2020



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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

### Independent Auditors' Report

Board of Directors  
Housing Authority of the City of Fredonia, Kansas  
519 S. 15<sup>th</sup> Street  
Fredonia, KS 66736

### **Report on Compliance for Each Major Federal Program**

We have audited the Housing Authority of the City of Fredonia, Kansas's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2019. The Authority'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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority'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; the audit requirements of Title 2 U.S. Code of *Federal Regulations Requirements for Federal Awards* (Uniform Guidance); and the *Kansas Municipal Audit and Accounting Guide*. Those standards and the Uniform Guidance 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 Authority'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 on the Authority's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Housing Authority of the City of Fredonia, Kansas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

## Report on Internal Control Over Compliance


Management of the Housing Authority of the City of Fredonia, Kansas, 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 Authority'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 the Uniform Guidance, 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 Authority'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items Finding 2019-004 and Finding 2019-005, that we consider to be significant deficiencies.

The Authority's response to the internal control over compliance findings, identified in our audit, are described in the accompanying Corrective Action Plan. The Authority'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 in 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
YERKES & MICHELS, CPA, LLC  
Independence, KS

December 18, 2020

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2019

Section I - Summary of Auditor's Results

*Financial Statements*

Type of auditor's report issued:

*Qualified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported

Noncompliance material to financial statements noted?

☒ yes ☐ no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for major programs:

*Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

☐ yes ☒ no

Identification of major federal program(s):

CFDA Number

Name of Federal Program or Cluster

10.415

Rural Rental Housing Loans

Dollar Threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low risk auditee?

☐ yes ☒ no

# HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

### Section II – Financial Statement Findings

#### Finding 2019-001

Criteria: AU-C section 315 defines internal control as a process effected by those charge with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regards to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. To obtain an acceptable internal control environment that reduces the risk of material misstatement of the financial statement or the required supplementary information, control activities and monitoring functions must be properly implemented and effectively designed. AU-C section 265 further explains that deficiencies in the design of a control function that can result in material misstatements should be considered, at minimum, to be a significant deficiency.

Statement of Condition: The Authority does not have a system of control over disbursement to ensure that expenses are paid for the actual amount of pre-approval.

Context: Internal control testing was performed with regards to cash disbursements and implementation and effectiveness of internal controls. All individually significant disbursements occurring in calendar year 2019 were selected for substantive testing and the sample exceeded required internal control required sampling size of 25. However, prior to testing 25 disbursements, three deviations in controls were noted and the control risk was then assessed at high. The deviations occurred due to those items not being included in the approved list of disbursements.

Effect of Condition: The condition illustrates the lack of effectiveness in current controls over disbursements. The disbursements considered to be deviations are material to the financial statements; therefore, we considered this to be a material misstatement. Also, this is considered a fraud risk and creates a reasonable possibility of future material misstatements of the financial statement.

Cause of Condition: The Authority has not designed nor implemented an adequate system of control regarding the payment of disbursements in accordance with prior approved amounts.

Repeat Finding: This finding is repeated from prior year Finding 2018-001

Recommendations: A complete list of disbursements should be printed from QuickBooks and the full list presented to the board for approval.

# HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

### Finding 2019-001 (cont'd)

View of responsible officials and planned corrective actions: Management concurs with the finding and will work to create a system that allows approval of the entire disbursement population. See corrective action plan on page 27.

### Finding 2019-002

Criteria: AU-C section 315 defines internal control as a process effected by those charge with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regards to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. To obtain an acceptable internal control environment that reduces the risk of material misstatement of the financial statement or the required supplementary information, control activities and monitoring functions must be properly implemented and effectively designed. AU-C section 265 further explains that deficiencies in the design of a control function that can result in material misstatements should be considered, at minimum, to be a significant deficiency.

Statement of Condition: Due to the staff consisting of one primary full-time manager and a part time individual that cannot take part in financial transactions, it is not possible for the Authority to properly segregate the recording, custody, and reviewing duties. The same person preparing checks also has custody of signed checks to mail out, and they perform bank reconciliations. Payroll reports and summaries are also not being reviewed.

Context: The segregation of tasks concerning the recording function, custody of assets, and reviewing functions were discussed with management. It was noted that only the project manager handles financial transactions. This does not allow for a proper segregation of duties.

Effect of Condition: The lack of segregation of duties does not allow the Authority to have an effective system of control. This increases the risk of material misstatement whether due to fraud or error and provides the opportunity for the misappropriation of assets. We consider this to be a significant deficiency.

Cause of Condition: The current workload and budget of the Authority does not allow for additional staff to be hired.

Repeat Finding: This finding is repeated from prior year Finding 2018-002.

# HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

### Finding 2019-002 (cont'd)

Recommendations: We recommend that the office staff continually review their procedures for opportunities to increase the segregation of duties in the office as well as the overall internal controls and oversight over the accounting functions in the office. We recommend the Board be aware of the importance of segregating the office duties in order to maintain a good internal control structure that will aid in the prevention and detection of errors and irregularities whether caused by fraud or human error. We recommend that signed checks be mailed out by someone other than the Director to segregate recording and custody functions; that all bank reconciliations continue to be reviewed, and that review be documented; and that all payroll reports and summaries be reviewed, and that review be documented.

View of responsible officials and planned corrective actions: Management concurs with the finding and will work to incorporate more mitigating controls through board oversight. At this time, it is not economically feasible to hire additional staff. See the Corrective Action Plan developed by the Authority on page 27.

### Finding 2019-003:

Criteria: The consolidated loan resolution, dated November 2002, states that the Authority will transfer a minimum of \$13,294.78 per year into a reserve account until the minimum balance of \$132,947.80 is reached. The balance requirement is reduced by any approved withdrawals. Per United States Department of Agriculture's Rural Development Office, the required balance as of December 31, 2019 was \$80,924.67.

Statement of Condition: The actual balance in the reserve checking account and certificate of deposit as of December 31, 2019 is \$39,945.95, which is a material deficit of \$40,978.72.

Context: The actual reserve balance was compared to the required reserve balance as of December 31, 2019.

Effect of Condition: The condition created material non-compliance of \$40,978.72. This also creates the need for even larger transfers to the reserve account in future years which restricts cash that may be needed for other purposes.

Cause of Condition: The Authority did not have a system of control in place to ensure required transfers to the reserve account are made. A workout plan has been developed with Rural Development and monthly transfers have been increased with the hope to eliminate the deficit in two to three years.

Repeat Finding: This finding is repeated from prior year Finding 2018-003.



# HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

### Finding 2019-003 (cont'd)

Recommendations: Controls should be in place to ensure all annual required transfers to the reserve account are being made. Additionally, catch-up transfers will need to be made based off Rural Development's recommendations.

View of responsible officials and planned corrective actions: Management concurs with the finding and they've developed a system that allows for proper transfer of reserve required deposits. Additionally, the Authority has created a spreadsheet to begin tracking the required balance for any point during the year. See corrective action plan on page 27.

### Section III – Federal Award Findings and Questioned Costs

#### Rural Rental Housing Loans – CFDA #10.415

##### Finding 2019-004:

Criteria: AU-C section 315 defines internal control as a process effected by those charge with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regards to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. To obtain an acceptable internal control environment that reduces the risk of material misstatement of the financial statement or the required supplementary information, control activities and monitoring functions must be properly implemented and effectively designed. AU-C section 265 further explains that deficiencies in the design of a control function that can result in material misstatements should be considered, at minimum, to be a significant deficiency.

Statement of Condition: The Authority currently lacks a system of internal control for the assurance of completeness and accuracy for the Schedule of Expenditures of Federal Awards.

Context: The Schedule of Expenditures of Federal Awards (SEFA) prepared by the Authority was not prepared prior to the start of auditor's field work. Observation and inquiry demonstrated the Authority's inaccuracy in calculating the federal expenditures of all Federal awards. Additionally, there was no documented review by management of the SEFA or the supporting documentation used to prepare the schedule.

# HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

### Finding 2019-004 (cont'd)

Effect of Condition: The Schedule of Expenditures of Federal Awards serves as the primary basis for the auditor's major program determination. Misstatements in the schedule could result in the omission of potential major programs from required compliance audit procedures. Failure to audit a program as major, when required, is cause for the future reissuance of the compliance audit report. Also, the SEFA is a required supplementary schedule and the lack of controls over the SEFA could result in a material misstatement of the SEFA in the financial reporting package.

Cause of Condition: The Authority has not designed nor implemented an adequate system of control regarding the preparation of the required Schedule of Expenditures of Federal Awards.

Repeat Finding: This finding is repeated from prior year Finding 2018-004.

Recommendations: Controls should be in place to ensure accuracy and completeness of the Schedule of Expenditures of Federal Awards. Management should be aware of all Federal awards received and expended, their source, and their compliance requirements. During the preparation of the schedule, the Authority should verify with granting agencies all CFDA titles and numbers, and the appropriate pass-through entity to be reported. After the schedule is completed, a reconciliation of the financial statements to the schedule should be performed, and management should review the schedule to verify all known Federal Programs are reported and that expenditures are properly captured on the regulatory basis of accounting. The reconciliation and management's review should be documented.

View of responsible officials and planned corrective actions: Management concurs with the finding. The Authority will develop an appropriate system of control over the preparation of the SEFA. See the Corrective Action Plan developed by the Authority on page 27.

### Finding 2019-005

Criteria: The Uniform Guidance provides requirements regarding the auditee's responsibility related to internal control in 2 CFR 200.303 of Subpart D, "Post Federal Award Requirements Standards for Financial and Program Management," of the Uniform Guidance. As noted in that section, the nonfederal entity must establish and maintain effective internal control over federal awards; comply with federal statutes, regulations, and the terms and conditions of the federal awards; evaluate and monitor the entity's compliance with statutes, regulations, and the terms and conditions of federal awards; and take prompt action when instances of noncompliance are identified, including noncompliance identified in the audit findings. Under the Uniform Guidance, the auditor

# HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2019

### Finding 2019-005 (cont'd)

determines that internal controls over a compliance requirement for a major program is likely to be ineffective in preventing or detecting noncompliance, the auditor must report either a significant deficiency or material weakness.

Statement of Condition: The Authority does not have a system of control over the Special Tests compliance requirement for the debt reserve account that is considered to have a direct or material effect on the major program.

Context: Controls over the special tests requirements were discussed with management. It was determined that there were no reliable controls present over the requirement.

Effect of Condition: The condition created a deficit in the reserve accounts of \$40,978.72. Additionally, the lack of controls over the reserve account requirements could result in insufficient funds to cover the costs of capital improvements or repairs. Also, see Finding 2019-003.

Cause of Condition: The Authority has not designed nor implemented an adequate system of control regarding the transfers to the reserve account, nor do they have an appropriate system to track the required balance of the account.

Repeat Finding: This finding is repeated from prior year Finding 2018-005.

Recommendations: Controls should be in place to ensure all annual required transfers to the reserve and security deposit accounts are being made. Additionally, catch-up transfers will need to be made based off Rural Development's recommendations.

View of responsible officials and planned corrective actions: Management concurs with the finding and will work to create a system that allows for proper transfer of reserve and security deposit required deposits. Additionally, the Authority will create a spreadsheet to begin tracking the required balance for any point during the year. See corrective action plan on page 27.

**HOUSING AUTHORITY OF THE CITY OF FREDONIA  
519 S. 15<sup>TH</sup> STREET – OFFICE  
FREDONIA, KS 66736  
PHONE (620) 378-3911 FAX (620) 378-3949**

**Summary Schedule of Prior Year Audit Findings  
For the Year Ended December 31, 2019**

**Finding 2018-001:**

The finding was not fully addressed and will be repeated as a finding in 2019.

**Finding 2018-002:**

The board is working to develop mitigating controls for the lack of segregation of duties. However, it is determined that it is not economically feasible to increase staff size which would be required to adequately segregate duties. Therefore, this finding will be repeated for 2018.

**Finding 2018-003:**

While the organization is working to remedy the issue of a deficit in the reserve funds, the balance remains inadequate based on loan requirements. The deficit is still material to the financial statements and this finding will be repeated in 2019.

**Finding 2018-004:**

The board is working to mitigate controls; however, the process of preparing the Schedule of Expenditures of Federal Awards has not been fully implemented.

**Finding 2018-005:**

See Finding 2018-003.

**HOUSING AUTHORITY OF THE CITY OF FREDONIA  
519 S. 15<sup>TH</sup> STREET – OFFICE  
FREDONIA, KS 66736  
PHONE (620) 378-3911 FAX (620) 378-3949**

**Corrective Action Plan**

Finding 2019-001: The board will develop a process to compare pre-approved expenditures to actual expenditures, and they will document this review and any discrepancies noted.

Finding 2019-002: The project manager and the board will review current procedures and work to ensure the maximum benefit from mitigating controls is obtained. However, the board does not feel that it is economically feasible to hire additional staff at this time.

Finding 2019-003: To ensure monthly transfers are being made to the reserve account, a reminder has been setup in an electronic calendar. The board will also review monthly financial reports and check to make sure required transfers have been made. Additionally, the Housing Authority will work to transfer additional funds to make up prior year deficits to the reserve account.

Finding 2019-004: Controls will be implemented to ensure accuracy and completeness of the Schedule of Expenditures of Federal Awards. Management will be aware of all Federal awards received and expended, their source, and their compliance requirements. During the preparation of the schedule, the Authority should verify with granting agencies all CFDA titles and numbers, and the appropriate pass-through entity to be reported. After the schedule is completed, a reconciliation of the financial statements to the schedule should be performed, and management should review the schedule to verify all known Federal Programs are reported and that expenditures are properly captured on the regulatory basis of accounting. The reconciliation and management's review should be documented.

Finding 2019-005: See Finding 2019-003. The Board will review management's calculations of the required balance in the reserve and security deposit accounts and the review will be documented.