

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

EXAMINATION REPORT  
OF  
NEW PARIS CONSERVANCY DISTRICT  
ELKHART COUNTY, INDIANA  
January 1, 2003 to December 31, 2005



**FILED**  
11/14/2006



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Financial Clerk/Secretary	Diane K. Fissgus	01-01-03 to 12-31-06
President of the Board	Nelson P. Burkholder	01-01-03 to 12-31-06



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE NEW PARIS CONSERVANCY DISTRICT, ELKHART COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the New Paris Conservancy District (District), for the period of January 1, 2003 to December 31, 2005. The District's management is responsible for the schedules. Our responsibility is to express an opinion based on our examination.

Except as discussed in the following paragraph, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the schedule of receipts, disbursements, and cash and investment balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Sufficient evidential matter was not available to determine the validity of individual fund balances throughout the audit period.

In our opinion, except for the uncertainty of the individual fund balances as disclosed in the preceding paragraph, the schedules referred to above present fairly, in all material respects, the cash transactions of the District for the years ended December 31, 2003, 2004, and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

September 27, 2006

NEW PARIS CONSERVANCY DISTRICT  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL PROPRIETARY FUND TYPES  
As Of And For The Years Ended December 31, 2003, 2004, And 2005

	Cash and Investments 01-01-03	Receipts	Disbursements	Cash and Investments 12-31-03
Proprietary Funds:				
Operating	\$ 649,001	\$ 809,716	\$ 1,303,750	\$ 154,967
Cumulative Capital Improvement	9,913	-	-	9,913
Construction	4,508	-	-	4,508
Bond and Interest	4,210	468,400	284,100	188,510
Reserve	21,796	88,000	-	109,796
Replacement	37,491	28,800	-	66,291
Totals	<u>\$ 726,919</u>	<u>\$ 1,394,916</u>	<u>\$ 1,587,850</u>	<u>\$ 533,985</u>

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Proprietary Funds:				
Operating	\$ 154,967	\$ 1,328,599	\$ 971,833	\$ 511,733
Cumulative Capital Improvement	9,913	27,372	-	37,285
Construction	4,508	-	-	4,508
Bond and Interest	188,510	89,800	263,753	14,557
Reserve	109,796	96,000	-	205,796
Replacement	66,291	28,800	-	95,091
Totals	<u>\$ 533,985</u>	<u>\$ 1,570,571</u>	<u>\$ 1,235,586</u>	<u>\$ 868,970</u>

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Proprietary Funds:				
Operating	\$ 511,733	\$ 1,121,328	\$ 1,375,111	\$ 257,950
Cumulative Capital Improvement	37,285	3,500	-	40,785
Construction	4,508	-	-	4,508
Bond and Interest	14,557	440,000	313,200	141,357
Reserve	205,796	88,000	-	293,796
Replacement	95,091	26,400	-	121,491
Totals	<u>\$ 868,970</u>	<u>\$ 1,679,228</u>	<u>\$ 1,688,311</u>	<u>\$ 859,887</u>

The accompanying notes are an integral part of the schedules.

NEW PARIS CONSERVANCY DISTRICT  
NOTES TO SCHEDULES

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides the following services: wastewater collection and treatment services and general administrative services.

Note 2. Fund Accounting

The District uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Additional Funding

In addition to the property taxes received by the District, the District is financed in part by user fees that are based on single family dwelling units.

Note 4. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the District to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Long-Term Debt

The District has entered into general obligation bonds and sewage works revenue bonds for the construction of a wastewater collection and treatment facility. The outstanding principal at December 31, 2005, was \$1,625,000 and \$1,030,000, respectively.

Note 6. Operating Fund

For reporting purposes, the following funds were combined and reported as the Operating Fund: Savings Account, General Tax Fund, Wastewater Utility Operating Fund, Investment Money Market Fund and the Investment Certificate of Deposit Fund.

NEW PARIS CONSERVANCY DISTRICT  
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping that were cited in the prior audit report, were again present during our period of audit:

- (1) The individual fund balances, as reported in the bank reconciliation for December 31, 2005, do not agree to the trial balance. Monies are placed into the Investment Money Market Fund and Investment Certificate of Deposit Fund without noting what fund the monies were transferred from. The balance in these Investment Funds cannot be reconciled to the funds from which the monies were originally transferred. In total, the fund balances reconcile to the adjusted bank balance at December 31, 2005.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

- (2) Local property tax distributions were posted to the wrong fund. In 2003, all the property tax distributions received for the General Fund and the Cumulative Capital Improvement Fund were posted to the Wastewater Utility Operating Fund. In 2004, all property tax distributions received were posted to the Investment Fund. In 2005, all the property tax distributions received for the General Fund and the Cumulative Capital Improvement Fund were posted to the Wastewater Utility Operating Fund.

Employee compensation transactions are not being consistently posted to the records. For 2003 and 2004, the employee compensation transactions were posted to the General Fund and, in 2005, the employee compensation transactions were posted to the Wastewater Utility Operating Fund.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have an adverse financial consequence with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

- (3) The Wastewater Utility Operating Fund had a negative fund balance at December 31, 2003, 2004, and 2005. The ending balances for the Wastewater Utility Operating Fund at 2002, 2003, 2004, and 2005, were \$42,498, (\$236,796), (\$405,843), and (\$506,531) respectively.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

NEW PARIS CONSERVANCY DISTRICT  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

ANNUAL REPORT

The annual reports for 2003, 2004, and 2005 presented for audit were not always reflective of the activity of the District.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PENALTY AND INTEREST CHARGES

During the examination period, penalties and interest totaling \$53.64 were paid to the Internal Revenue Service and the Indiana Department of Revenue.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OFFICIAL BOND

The financial clerk was not bonded from February 22, 2005, through September 24, 2006.

A financial clerk shall execute a surety bond in the manner prescribed by IC 5-4-1. [IC 14-33-5-18(b)] (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

APPROPRIATIONS

In 2003, 2004, and 2005, the expenditures for the General Fund exceeded the budgeted appropriations by \$84,513, \$52,509, and \$55,037, respectively.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

NEW PARIS CONSERVANCY DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on October 4, 2006, with Nelson P. Burkholder, President of the Board; Tony Neff, President of the Board of Finance; and Diane K. Fissgus, Financial Clerk/Secretary. The official response has been made a part of this report and may be found on pages 9 through 14.



**BLACHLY, TABOR, BOZIK & HARTMAN, LLC**

October 16, 2006

Duane W. Hartman  
David L. Hollenbeck  
Thomas F. Macke  
Randall J. Zromkoski  
Richard J. Rupcich  
Craig R. Van Schouwen  
Patrick A. Lyp

**Mr. Bruce Hartman**  
**State Examiner**  
**Indiana State Board of Accounts**  
**302 West Washington St., Room E 418**  
**Indianapolis, Indiana 46204-2765**

Jeffrey S. Wrage  
Anna M. Hearn  
Tracey S. Wetzstein

**RE: New Paris Conservancy District Audit Response**

**Dear Mr. Hartman:**

OF COUNSEL  
Glenn J. Tabor  
James S. Bozik

I initiate this correspondence in my capacity as legal counsel to the Board of Directors of the New Paris Conservancy District. Your field examiner recently completed his audit of the conservancy district books and records for the period of January 1, 2003 to December 31, 2005. The exit conference convened on October 4, 2006. At the end of the exit conference, the conservancy district opted to file an official response to the results and comments contained in the audit findings. Please consider this correspondence as that response.

Quentin A. Blachly  
(1934-1997)

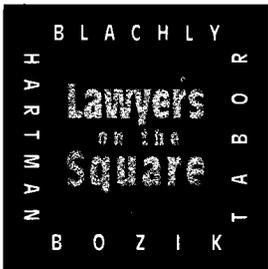
The Board of Directors of the New Paris Conservancy District utilizes Lehman & Associates, P.C., CPAs to assist the Financial Clerk and provide consultation and advice on fiscal matters. Specifically, Mr. Regan Lehman has worked with the New Paris Conservancy District for many years. Mr. Lehman attended the exit conference, and I have attached to this correspondence his written response to the audit findings.

Originally, the conservancy district combined its monies from several of its funds to invest the money in aggregate so as to maximize earned interest. Even though the funds from multiple accounts were co-mingled, aggregate amount was fully accounted for and reconciled to the monthly bank statement. The co-mingling of the funds did result in confusing and sometimes misleading and incorrect individual fund balances.

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The NPCD accountants specifically identified this issue during previous audits by your agency and during the annual budget adoption process overseen by the Department of Local Government Finance. As the attached response indicates, the conservancy district was regularly advised that the individual fund balances were "immaterial" as long as the aggregate fund balances were correct.



**BLACHLY, TABOR, BOZIK & HARTMAN, LLC**

Mr. Bruce Hartman  
October 16, 2006  
Page Two

At the most recent exit conference, the field examiner recommended that the individual fund balances be corrected and that the conservancy district Financial Clerk/Treasurer begin to accurately track income and expenses by fund and track spending against approved appropriations in the two tax-driven funds (general fund and cumulative improvement fund).

Obviously, the corrective actions identified in the attached accounting response will be implemented as expeditiously as possible. The second and third pages of the accounting response contain specific references to the numerical comments in the audit findings.

I asked the Financial Clerk/Treasurer to prepare an explanation as to why the financial clerk was not bonded from February 22, 2005 through September 25, 2006. Her response is as follows:

The Financial Clerk/Secretary was bonded with Western Surety Insurance Company for \$15,000.00 until February 22, 2006. The Conservancy District moved all of their insurance policies from Salem Insurance to Insurance Trustees. The Bond was never requested not to be renewed or moved to Insurance Trustees. Salem Insurance took it upon themselves not to renew the bond and let it lapse. An invoice was never sent to the Conservancy District for renewal. Upon the auditor's finding of this, the Conservancy requested from Western Surety the paperwork on the non-renewal. They said we would have to obtain from Salem Insurance, but Salem Insurance would not comply. Insurance Trustees contacted Western Surety and applied for a bond for the Financial Clerk/Secretary for \$50,000.00. This was placed in effect as of September 25, 2006. The District acknowledges it's responsibility for the Financial Clerk/Secretary to be bonded, and thus has made sure that it be made a part of the annual responsibilities of this position to make sure that this is filed with the Elkhart County Auditor's office on a timely basis.



**BLACHLY, TABOR, BOZIK & HARTMAN, LLC**

Mr. Bruce Hartman  
October 16, 2006  
Page Three

Obviously, the New Paris Conservancy District is steadfast in its commitment to maintaining books and records consistent with your agency's requirements. Any and all necessary remedial action will be taken to accomplish that end. Should there be any remaining questions or concerns regarding any aspect of this matter, please feel free to contact the undersigned.

Sincerely,

BLACHLY TABOR BOZIK & HARTMAN

By:   
David L. Hollenbeck

DLH/msr  
attachment: Lehman audit response  
sent by: Fax to 317-232-4711 and also  
by first class mail  
copy faxed to: Diane Fissgus at NPCD

Lehman & Associates P.C., CPAs  
**Certified Public Accountants  
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New Paris Conservancy District  
Responses – Examination Results and Comments  
2003 – 2005

As a result of the recent examination of the 2003-2005 financial transactions and records of the New Paris Conservancy District by the Indiana State Board of Accounts, important issues has arisen and need to be addressed. This memorandum will serve to not only identify the problems, but to also respond to the examination results and comments.

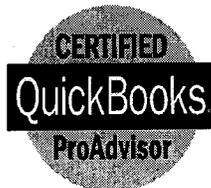
Several years ago, the Conservancy combined the monies from several of its funds to invest the money in aggregate – and maximize the interest earned. **In aggregate, the monies were all accounted for and reconciled to the monthly bank statement.** However, the co-mingling of the funds resulted in confusing bookkeeping and misleading and incorrect **individual** fund balances.

As this is not a new issue, it has surfaced many times before. Because of the confusing bookkeeping, this issue has been broached by us several times to representatives from the Indiana State Board of Accounts (at the last audit) and Department of Local Government Finance (budget and year-end). Each time, we have been assured that the individual fund balances are immaterial – as long as the aggregate fund balances are correct. However, during the most recent examination, 6 out of the 8 comments from the auditor (see below) were directly related to this issue. At the exit conference, it was recommended that the individual fund balances be corrected and that the bookkeeper for the Conservancy begin accurately tracking income and expenses by fund, and track spending against appropriated expenses in the two tax-driven funds (General Fund and Cumulative Improvement Fund).

Going forward, we will resolve these issues. We will be working with the Conservancy Board to set forth guidelines to ensure that fund reporting is clear and consistent. For simplicity sake, we will eliminate extraneous funds and only utilize funds that were required by the original bond ordinances. We will allocate beginning fund balances and work with the Conservancy bookkeeper to verify that the activity in each fund is reported correctly and accurately.

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10/13/2006

## **Comments and Responses to the Examination Results and Comments**

### **Condition of Records**

**Comment #1 – Fund balances, as reported in the bank reconciliation for December 31, 2005, individually do not agree to the trial balance.**

Response – The fund balances, as reported in the bank reconciliation for December 31, 2005 DO agree to the trial balance. Please see the December bank reconciliation, the LAPC final 12/31/05 working trial balance, and the NPCD final 12/31/05 working trial balance as documentation. Once the fund balances are corrected, the bank reconciliation process will be much easier and will be completed and kept current by the Conservancy bookkeeper on a monthly basis.

**Comment #2 – Local property tax distribution was posted to the wrong fund.**

Response – Direct result of fund activity having incorrect individual balances, and fund activity not being clearly defined and understood by the Conservancy bookkeeper. As the fund balances are corrected and defined, the bookkeeper will better understand the activities that are to be reported in each respective fund.

**Comment #3 – Employee compensation transactions are not being consistently posted to records.**

Response – Same as #2

**Comment #4 – The Wastewater Utility Operating Fund had a negative fund balance at December 31, 2003, 2004, and 2005. The fund balance of any fund may not be reduced below zero.**

Response – As explained above, this is a continuing issue as a result of the New Paris Conservancy District combining each of the funds assets into a single Certificate of Deposit and Money Market investment account in order to maximize interest income. The Fund did not really have a negative balance, as a portion of the fund's monies were invested in the Investment and Money Market accounts. This negative fund balance will be corrected as the monies in the Investment and Money Market accounts are allocated back into the fund balances.

### **Annual Report**

**Comment #5 – The annual reports for 2003, 2004, and 2005 presented for audit were not always reflective of the activity of the financial statements.**

Response – The information on the annual report is taken directly from the Conservancy's working trial balance. The working trial balance has working papers that document the ending balances in all the asset and liability accounts, and many income statement accounts. Part 1 – Total Cash and Investments ties to the bank reconciliation. Parts 2 (Receipts) & 3 (Disbursements) tie to Page 1, but some of the transfers may be misleading as a result of the fund balance situation. Part 4 – Cash and Investments ties to Page 1 and the bank reconciliation. Part 5 – Indebtedness is

10/13/2006

correct and ties to bond amortization schedules. The Accounts Receivable ties to the A/R aging, and the Report on Capital Assets ties to the depreciation schedule. Some of the confusion may have been the result of the Indiana State Board of Accounts software not being formatted to accept negative fund balances. This is another situation which will be resolved when the fund balances are corrected.

### **Appropriations**

**Comment #8 – In 2003-2005, the expenditures for the General Fund exceeded the budgeted appropriations each year.**

Response – This is a misleading result of the auditor having to group the activity of several funds together. Expenditures from the General Fund did not exceed the budgeted appropriations – the bookkeeper simply did not code the transactions correctly. Many of the expenses that the auditor allocated to the General Fund should have been allocated to the Operating Fund. Also, revenue streams were misposted between funds (see Comment #2). This problem will also be resolved as the various activities of each fund are clearly stated and the bookkeeper is aware of the definition and purpose of each fund and how various transactions should be handled.

In conclusion, the majority of the results and comments from the examination of the New Paris Conservancy District relate to two problems. The first is the negative fund balances resulting from past investment transactions. We will work with the Conservancy Board to reallocate investment funds back into the funds from which they originated. The second is a general misunderstanding of how each fund operates and its purpose. Again, we will work with the Board to clearly define the activities of each fund and also verify the transactions flowing through each fund.

If you have any questions regarding this memorandum, please do not hesitate to contact me at 574-533-8857. Thank you in advance for your consideration,

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Regan S. Lehman, CPA, Partner  
Lehman & Associates P.C., CPAs