

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
GNAW BONE REGIONAL SEWER DISTRICT
BROWN COUNTY, INDIANA
January 1, 2006 to December 31, 2007



FILED
01/16/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Charles E. White	01-01-06 to 12-31-08
President of the Board	Ronald Smith	01-01-06 to 12-31-08



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF GNAWBONE REGIONAL SEWER DISTRICT, BROWN COUNTY, INDIANA

We have examined the financial information presented herein of Gnow Bone Regional Sewer District (District), for the period of January 1, 2006 to December 31, 2007. The District's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

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 financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the District for the years ended December 31, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

December 17, 2008

GNAW BONE REGIONAL SEWER DISTRICT
 SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
 ALL GOVERNMENTAL FUND TYPES
 As Of And For The Years Ended December 31, 2006 And 2007

	<u>Cash and Investments 01-01-06</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments 12-31-06</u>
Governmental Fund: General	\$ <u>4,365</u>	\$ <u>67,325</u>	\$ <u>52,811</u>	\$ <u>18,879</u>
	<u>Cash and Investments 01-01-07</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments 12-31-07</u>
Governmental Fund: General	\$ <u>18,879</u>	\$ <u>61,822</u>	\$ <u>78,245</u>	\$ <u>2,456</u>

The accompanying notes are an integral part of the financial information.

GNAW BONE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides wastewater service.

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. Budgets

The operating budget is initially prepared and approved at the local level.

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.

GNAW BONE REGIONAL SEWER DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Sewer District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Loans payable:		
2002 State Revolving Supplemental Loan	<u>\$ 78,156</u>	<u>\$ 8,680</u>

GNAW BONE REGIONAL SEWER DISTRICT EXAMINATION RESULTS AND COMMENTS

DEPOSITING RECEIPTS

As stated in prior Reports B17068 and B29693, most of the District's receipts were held for several days before they were deposited.

Indiana Code 5-13-6-(c) states: ". . . all local officers, except township trustees, who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the several local boards of finance that have jurisdiction of the funds. . . ."

The statute also provides public funds deposited shall be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision must be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 15)

PRESCRIBED FORMS

The District did not use the following prescribed or approved forms: Receipt (Form 352), Ledger of Receipts, Disbursements and Balances (Form 358), Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100R), Capital Assets Ledger (Form 369), and Check (Form 353).

A similar comment appeared in prior Reports B17068 and B29693.

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)

Receipts shall be issued and recorded at the time of the transactions; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making the payment. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

FINANCIAL REPORTS NOT FILED

The District did not prepare annual reports for 2006 and 2007.

Indiana Code 5-11-1-4(a) states: "The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. Except as provided by subsection (b), these reports shall be prepared, verified, and filed with the state examiner not later than thirty (30) days after the close of each fiscal year."

GNAW BONE REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

CERTIFIED REPORT NOT FILED

The District did not file the Certified Report of Names Addresses Duties and Compensation of Public Employees (100R) with the State Board of Accounts in 2006 or 2007.

Indiana Code 5-11-13-1 states in part: "Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts. . . ."

CAPITAL ASSET RECORDS

The District has recorded capitalized amounts for Sewer Plant and Sewer Line Improvements but did not present detailed capital assets records for examination. The District is not using a Capital Asset Ledger (Form 369).

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

INTERNAL CONTROLS

The District is making one posting for the total monies deposited each month. There is also evidence that checks are not recorded at the time they are written, but rather recorded later. Also, as mentioned above, the District did not use many prescribed or approved forms. Prescribed forms were designed to be used as indicated in the Accounting and Uniform Compliance Guidelines Manual for Special Districts as part of a system to provide an adequate level of internal controls.

Receipts shall be issued and recorded at the time of the transactions; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making the payment. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

GNAW BONE REGIONAL SEWER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OPTICAL IMAGES OF WARRANTS

As stated in prior Report B29693, the financial institution did not return the actual cancelled checks with the monthly bank statements, but rather returned optical images of the front-side of the checks.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . "

Further, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

GNAW BONE REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2008, with Larry Lopshire, Contractual Accountant.