

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

EXAMINATION REPORT
OF
MUDDY FORK OF SILVER CREEK
WATERSHED CONSERVANCY DISTRICT
CLARK COUNTY, INDIANA

January 1, 2007 to December 31, 2009



FILED
12/14/2010

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedules of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5
Examination Results and Comments:	
Annual Financial Report	6
Prescribed Forms	6-7
Fund and Appropriation Ledger.....	7
Rental Receipts	7-9
Payment of Claims	9-10
Record Retention.....	10
Optical Images of Deposit Ticket.....	10-11
Exit Conference.....	12

OFFICIALS

Office

Official

Term

Financial Clerk

Richard E. Dreyer

01-01-07 to 12-31-10

Chairman of the Board

Carl R. Popp
Leslie R. Wright

01-01-07 to 10-14-09
10-15-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE MUDDY FORK OF SILVER CREEK
WATERSHED CONSERVANCY DISTRICT, CLARK COUNTY, INDIANA

We have examined the financial information presented herein of the Muddy Fork of Silver Creek Watershed Conservancy District (District), for the period of January 1, 2007 to December 31, 2009. 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, 2007, 2008, and 2009, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

October 1, 2010

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY DISTRICT
 SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
 GOVERNMENTAL FUND TYPES
 As Of And For The Years Ended December 31, 2007, 2008, And 2009

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds: General	<u>\$ 846,112</u>	<u>\$ 47,798</u>	<u>\$ 32,024</u>	<u>\$ 861,886</u>
	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds: General	<u>\$ 861,886</u>	<u>\$ 50,326</u>	<u>\$ 28,570</u>	<u>\$ 883,642</u>
	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds: General	<u>\$ 883,642</u>	<u>\$ 59,256</u>	<u>\$ 35,690</u>	<u>\$ 907,208</u>

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

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY DISTRICT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established by the Clark County Circuit Court effective August 25, 1965, in an area encompassing portions of Clark, Floyd, and Washington Counties. The Court approved purposes are flood prevention and control; drainage improvement; prevention of soil erosion; and development of forest, wildlife areas, and park and recreation facilities.

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. In addition, funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the District in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the District on or prior to December 31 of the year collected.

Note 5. 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 6. Litigation

In 2007, the District began eminent domain proceedings in order to acquire additional property for the District. The litigation is ongoing.

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The 2007 Special District Annual Report (SDAR) that reports the financial activity and cash and investments balances of the District was not accurate. Net financial activity in the amount of \$6,480 related to a money market depository account was excluded from the financial report. In addition, investment activity in the amount of \$400,000 was excluded from the financial report resulting in the understatement of the ending cash and investment balance in the amount of \$400,000.

The Special District Annual Report (SDAR) for the years 2008 and 2009 were not completed and filed with the Indiana State Board of Accounts.

IC 5-11-1-4 states in part:

"The state examiner shall require from every . . . local governmental unit . . . financial reports covering the full period of each fiscal year. These reports shall be . . . filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be filed electronically, in a manner prescribed by the state examiner . . ."

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)

A similar comment was included in the prior Report B29807.

PRESCRIBED FORMS

The forms prescribed by the State Board of Accounts, to ensure the financial records are maintained in a manner that will provided sufficient financial information, were not in use. Alternative financial forms were used; however, these forms had not been approved by the State Board of Accounts in order to ensure that the financial records being maintained capture sufficient financial information and provided a mechanism to document an internal control system. The following prescribed forms were not in use:

1. Form 358 - Ledger of Receipts, Disbursements, and Balances. The Ledger of Receipts, Disbursements, and Balances, Form 358, has been prescribed to record the receipts, disbursements, and cash balance for each fund maintained by the unit.
2. Form 359 - Ledger of Appropriations, Encumbrances, Disbursements, and Balances. The Ledger of Appropriations, Encumbrances, Disbursements, and Balances has been prescribed to record disbursements transactions and a system to monitor disbursements in order to ensure disbursements do not exceed the approved budgeted amount.
3. Form 352 – Receipt. The receipt forms has been prescribed to document the transfer of money from one individual to another and to provide information regarding the source of the funds received for proper recording in the financial ledger.
4. Form 353 – Check. This form has been prescribed to provide a duplicate copy of the check issued and to document the transaction for proper cross referencing with the recording of the transaction in the financial ledger.

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

5. Form 369 - Capital Asset Ledger. The Capital Asset Ledger, Form 369, has been prescribed to identify the assets owned by the District, property identification of the assets in order to ensure the assets are properly insured and to provide accountability over the assets to help prevent possible theft.

The transactions of the District are recorded by a contractual accountant. The forms generated by the contractual accountant for the Ledger of Receipts, Disbursements, and Balances have not been approved for use by the State Board of Accounts. Checks are bank issued and not a prescribed form. Receipts are not issued. The Ledger of Appropriations, Encumbrances, Disbursements, and Balances is not maintained in any form.

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)

A similar comment was included in prior Report B29807.

FUND AND APPROPRIATION LEDGER

The District approves a budget for three funds: General Fund, Cumulative Maintenance Fund, and a Rainy Day Fund. Property tax distributions are received for the General Fund and the Cumulative Maintenance Fund. The records maintained by the District do not separate the three funds. All revenue is receipted into one fund and all disbursements are charged to one fund. No appropriation ledger is maintained.

At the beginning of the year the following prescribed ledger sheets should be set up for each fund approved by the District:

- (a) A ledger sheet on Form 358 to account for "cash" receipts, disbursements, and balances.
- (b) A ledger sheet on Form 359 for each appropriation, or major budget classification.
- (c) A ledger sheet on Form 359 for each detail expenditure account listed in the Budget Estimate.

This procedure should be followed, for each fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 21)

A similar comment was included in prior Report B29807.

RENTAL RECEIPTS

The District signed a two year lease rental agreement beginning on November 1, 2006, for the rental of property owned by the District. The rental agreement allows for the option to renew the agreement upon a 30 day notice and allows for the continuation of the agreement once expired on a month to month basis. The terms of the agreement call for lease rental payments in the amount of \$600 per month. The following is a schedule of lease rental revenue shown per the financial records for the period 2007, 2008, and 2009:

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

<u>Years</u>	<u>Receipts Per Terms of Agreement</u>	<u>Rental Receipts Per Ledger</u>	<u>Variance</u>
2007	\$ 7,200	\$ 6,900	\$ 300
2008	7,200	7,154	46
2009	7,200	5,400	1,800

A District Board member collects the rent from the tenant and the rental money is periodically given to Richard Dreyer, Financial Clerk, for deposit into the District's depository account. We noted the following deficiencies regarding the accounting:

1. No receipts are issued to document the receipt of the rental payment from the tenant and no receipts are issued to document the exchange of funds between the Board member who collected the funds and the financial clerk.

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

2. The District's Financial Clerk stated that the District allows for the tenant to make certain repairs on the property and deduct the amount of the repairs from the rental amount due rather than requiring the tenant to file a claim for work performed and being paid by check. No documentation is retained to identify the types of repairs made by the tenant or to support the cost of the repairs made that are deducted from the rent.

IC 5-11-10-1.6(c) states:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and service
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board of official having jurisdiction over allowance of payment of the claims."

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY 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)

PAYMENT OF CLAIMS

The following errors were noted on a random sample of twenty-five disbursements made by the District:

1. Seven of the disbursements did not have an associated claim form or accounts payable voucher; or the claim form/voucher was not properly completed
2. Seven disbursements were not properly itemized in order to determine whether the goods/services provided were related to governmental business.
3. Twenty-two disbursements were not certified by the fiscal officer that the invoice or bill was true and correct.
4. Twenty-five disbursements were not certified by an officer or person that the goods or services were received.

IC 5-11-10-1.6(c) states:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and service
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board of official having jurisdiction over allowance of payment of the claims."

IC 5-11-10-1-6(d) states in part:

"The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements:

- (1) processed in accordance with this section; . . ."

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

A similar comment was included in prior Report B29807.

RECORD RETENTION

The bank statement for September 2008 and cancelled checks were not presented for examination.

IC 5-15-6-3(f) concerning destruction of public records states in part:

"Original records may be disposed of only with the approval of the commission according to guidelines established by the commission. . . ."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OPTICAL IMAGES OF DEPOSIT TICKET

The financial institution did not return the actual deposit ticket with the monthly bank statements and did not provide an optical image of the deposit ticket.

IC 5-15-6-3 concerning optical imaging 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 or the depositor receives an optical image of the deposit document after the document has been process for the deposit"

Further, IC 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."

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

"(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)."

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers, and corresponding names of payors. (Accounting and Uniform Compliance Guidelines Manuals for Special Districts, Chapter 10)

MUDDY FORK OF SILVER CREEK WATERSHED CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 1, 2010, with Richard E. Dreyer, Financial Clerk; Leslie R. Wright, Chairman of the Board; and John Mead, District Attorney.