

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

EXAMINATION REPORT
OF
CLARK COUNTY SOIL AND WATER
CONSERVATION DISTRICT
CLARK COUNTY, INDIANA
January 1, 2008 to December 31, 2009



FILED
03/10/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Tami S. Kruer	01-01-09 to 12-31-11
President of the Board	Sam Hagest	01-01-09 to 12-31-11



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CLARK COUNTY SOIL AND WATER
CONSERVATION DISTRICT, CLARK COUNTY, INDIANA

We have examined the financial information presented herein of the Clark County Soil and Water Conservation District (District), for the period of January 1, 2008 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, 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

December 2, 2010

CLARK COUNTY SOIL AND WATER CONSERVATION DISTRICT
 SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
 ALL GOVERNMENTAL FUND TYPES
 As Of And For The Years Ended December 31, 2008 And 2009

	<u>Cash and Investments 01-01-08</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments 12-31-08</u>
General	<u>\$ 96,848</u>	<u>\$ 134,254</u>	<u>\$ 147,285</u>	<u>\$ 83,817</u>
	<u>Cash and Investments 01-01-09</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Investments 12-31-09</u>
General	<u>\$ 83,817</u>	<u>\$ 120,331</u>	<u>\$ 84,385</u>	<u>\$ 119,763</u>

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

CLARK COUNTY SOIL AND WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides the soil and water conservation 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. 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.

CLARK COUNTY SOIL AND WATER CONSERVATION DISTRICT
EXAMINATION RESULTS AND COMMENTS

RECEIPTS NOT DEPOSITED

A review of receipts during the years 2008 and 2009 identified seven receipts issued for cash totaling \$235 that could not be traced to a bank deposit. The receipts were issued by Melanie Davis, Administrative Coordinator. The receipt transactions were shown as reconciling items on the District's monthly bank reconcilements prepared by Melanie Davis.

During the year 2010, adjustments were made to the financial records to deduct the receipt transactions from the record balance with a description that the receipts were voided. The original customer copies of the receipts were not presented for examination and the duplicate receipt copies did not indicate that the receipts had been voided. There was no indication that the receipts were issued in error. A review of the receipts did not identify other receipts issued to the same individuals around the same time period to indicate a duplicate receipt was issued in error.

IC 5-13-6-1(c) states in part:

"All local officers . . . 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 . . . local boards of finance. . . ."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

On December 2, 2010, Melanie Davis, Administrative Coordinator, refunded \$235 to the District. (See Summary, page 14)

RECEIPT ISSUANCE

The following deficiencies were noted in the procedures to account for monies received:

1. Receipts were not always issued to each individual from whom money was received. Instead of showing the name of the individual from whom the money was received, some receipts were issued to "customers" with the receipt used to account for monies received from more than one individual.
2. The receipts issued were not issued at the time the money was received. Instances were noted in which the date funds were deposited was prior to the date the receipts were issued, indicating receipts were being issued after the fact in order to agree with the deposits made.
3. Receipts were voided without the original receipt copy being retained or notations indicating the reason the receipt was voided.

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)

CLARK COUNTY SOIL AND WATER CONSERVATION DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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.

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)

A similar comment was made in prior Report B33907.

CONDITION OF RECORDS

The District utilizes a financial accounting software program to maintain its financial records. Computerized general ledger reports were not printed monthly and retained for audit. However, on October 22, 2010, upon our request, the District was able to print a computerized general ledger report of the financial activity for years 2008 and 2009. The computerized general ledger report printed on October 22, 2010, showed the ending cash balance at December 31, 2009, of \$119,762.86; however, the ending general ledger cash balance at December 31, 2009, per the computerized cash reconciliation report printed on January 1, 2010, had a cash balance of \$119,897.86. A variance of \$135 existed between the cash balances of the two reports, both of which were to have reported the ending cash balance as of December 31, 2009.

Changes had been made to the 2008 and 2009 financial transactions, between the time the report was printed on January 1, 2010, and the time the report was printed on October 22, 2010, that resulted in a change in the cash balance. The financial records did not provide an audit trail showing the original transactions and a record of new transactions to show any necessary corrections. Instead, dollar amounts of the original transactions were simply changed and balances were changed without identification of the reason for the change.

The following requirements have been established for all computer systems processing accounting information. In the event these requirements are not met by the computer environment of the accounting system, compensating manual controls must be implemented. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 11)

Audit Trails

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion.

CLARK COUNTY SOIL AND WATER CONSERVATION DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Error Correction

Accounting information must not be modified by computer utility programs which are not contained in the accounting application system. The accounting application system must be supported by computerized and manual procedures to assure the following error correction controls are implemented:

The type of error condition is recorded.

The original transaction creating the error is retained within the system.

A reversing transaction to eliminate the effect of the error is entered and retained within the system.

The correct transaction is entered into the system and recorded.

Management approval for error correction is documented.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 11)

DISBURSEMENT PROCEDURES

The following deficiencies were noted regarding the District's disbursement procedures:

1. The person receiving the goods or services did not verify delivery on any of the claims examined.
2. None of the claims examined had certification by the fiscal officer that the invoice or bill was true and correct.

IC 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) 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 services;
- (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 or official having jurisdiction over allowance of payment of the claim."

CLARK COUNTY SOIL AND WATER CONSERVATION DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

IC 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, 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."

"(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)."

NO SURETY BOND COVERING DISTRICT EMPLOYEES

The District did not present for examination a surety bond covering District employees and officers who are responsible for collecting and disbursing funds.

IC 14-32-4-22 states in part:

"The supervisors of a district shall do the following:

- (1) Provide for the execution of surety bonds for all district employees and officers who are entrusted with money or property . . ."

CLARK COUNTY SOIL AND WATER CONSERVATION DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on December 2, 2010, with Sam Hagest, President of the Board; Tami S. Kruer, Treasurer; and Melanie Davis, Administrative Coordinator. The official response has been made a part of this report and may be found on pages 11 through 13.

Clark County Soil and Water Conservation District
9608 HWY 62
Charlestown, IN 47111
812-256-2330



*"Inspiring community involvement through teaching, leading and providing technical assistance
to keep our natural resources abundant, fertile and clean"*

February 1, 2011

State Board of Accounts
302 Washington Street, Room E418
Indianapolis, IN 46204-2765

Dear Sir/Madam:

I am writing in response to a finding by the State Board of Accounts concerning the Clark County Soil & Water Conservation District. During the years of 2008 and 2009, receipts totaling \$235.00 were written but were identified by the SBOA as not being traceable back to a bank deposit. The SWCD Board of Supervisors, as well as our Treasurer Tami Kruer, have reviewed the audit report and have read the response written to you by our Administrative Coordinator, Melanie Davis. We concur with her findings that in all of these cases it was a matter of duplicate or multiple receipts being written for a total of seven transactions— and that no funds are actually missing and none have been misappropriated.

It was our understanding that only one member of the staff was authorized to issue an “official receipt” on General Form 352. This has been the standard practice in our office for at least the past sixteen years. Given the fact that Ms. Davis cannot be present every moment that the office doors are open, she was left to issue those “official receipts” after the money had been collected by other staff members. Receipts were issued to the customer at the time the funds were collected, but Form 352 was not filled out by anyone other than Ms. Davis. We have determined this to be the cause of duplicate receipts being issued. We have instituted new internal controls which will prevent this from occurring in the future.

We are aware that Ms. Davis has been asked to reimburse the SWCD for the total amount of the receipts equaling \$235.00. We are at a loss to understand this request, since we firmly believe that no funds have been misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance. Holding Ms. Davis personally responsible to reimburse the SWCD in the amount of \$235.00 in our opinion is inappropriate. Ms. Davis is being asked to provide documentation to prove that the money was accounted for; however, after reviewing the audit report and our past financial records we have not been convinced that the SBOA has proven that it has not been accounted for.

In reviewing Chapter 10 of the Uniform Compliance Guidelines Manual for Special Districts, we are fully aware that “funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee.” Since we are not fully certain that this type of act has occurred, we have asked Ms. Davis to delay the requested repayment until this issue undergoes additional review and can be resolved. We also request that the response letter from Ms. Davis and this letter be attached to the final copy of the audit report.

Sincerely,

Sam Hagest, SWCD Board of Supervisors, Chairman

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*"Inspiring community involvement through teaching, leading and providing technical assistance
to keep our natural resources abundant, fertile and clean"*

December 3, 2010

State Board of Accounts
302 Washington St., Room E418
Indianapolis, IN 46204-2765

Dear Sirs and/or Madams:

I am writing in response to a finding by the State Board of Accounts in which seven receipts issued during 2008 and 2009 for cash totaling \$235 that could not be traced to a bank deposit. All receipts were issued by me, Melanie Davis.

I have reviewed the receipts in question and determined the following:

1. Receipt #237319 written on 3/31/08 to Tom Cole for \$30.00 was not deposited on that date, but was *included* in receipt #237239 written on 4/10/08 to "Customer" for \$90.00.
2. Receipt #237460 written on 1/5/09 to Sylvia Hottel for \$40.00 was not deposited on that date, but was *included* in receipt #237462 written on 1/7/09 to "Customer" for \$60.00.
3. Receipt #237467 written on 1/9/09 to Brent Peacock for \$20.00 was not deposited on that date, but was *included* in receipt #237471 written on 1/16/09 to "Customer" for \$35.00.
4. Receipt #237474 written on 1/22/09 to E.E. Martin for \$20.00 was not deposited on that date, but was *included* in receipt #237477 written on 1/23/09 to "Customer" for \$40.00.
5. Receipt #237487 written on 2/6/09 to Reva Dietrich for \$20.00 was not deposited on that date, but was *included* in receipt #237494 written on 2/11/09 to "Customer" for \$55.00.

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6. Receipt #237489 written on 2/9/09 to Dana Coats for \$80.00 was not deposited on that date, but was *included* in receipt #237495 written on 2/11/09 to "Customer" for \$650.00.

All receipts were for cash amounts.

My research showed me that I was not depositing funds as I should have been on their day of receipt, affording the opportunity for them to be included with funds received on another day and being receipted again. In addition, in each instance of duplication, the receipt was written to "Customer" instead of an individual.

Therefore, I have concluded that I could have avoided these mistakes by following the proper accounting procedures of:

- Issuing receipts in the name of each individual from whom money is received.
- Depositing monies on the date on which they are received.

These procedures were noted as deficiencies in the findings of the State Board of Accounts audit and were reviewed with me.

I would like to thank you for the opportunity to respond to this finding and explain the reason for this discrepancy in the District's accounts.

Sincerely,



Melanie Davis
Administrative Coordinator

CLARK COUNTY SOIL AND WATER CONSERVATION DISTRICT
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Melanie Davis, Administrative Coordinator:			
Receipts Not Deposited, page 6	\$ 235	\$	\$
Paid March 3, 2011, Receipt 237985	<hr/>	235	<hr/> -
 Totals	 <u>235</u>	 <u>235</u>	 <u>-</u>