

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

CLAY TOWNSHIP REGIONAL WASTE DISTRICT

HAMILTON COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
05/07/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Andrew Williams	01-01-11 to 12-31-14
Treasurer	Greg Starleaf Jane Merrill	01-01-11 to 10-31-11 11-01-11 to 12-31-14
President of the Board	Marilyn Anderson Ron Hagan	01-01-11 to 12-31-12 01-01-13 to 12-31-14



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CLAY TOWNSHIP REGIONAL
WASTE DISTRICT, HAMILTON COUNTY, INDIANA

We have examined the accompanying financial statement of the Clay Township Regional Waste District (District), for the period of January 1, 2011 to December 31, 2012. The financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on the financial statement 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 statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the District prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive 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 these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis noted above is a different basis than that used in the prior period.

In our opinion, because of the matter discussed in the preceding 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 and results of operations of the District for the period of January 1, 2011 to December 31, 2012.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the District for the period of January 1, 2011 to December 31, 2012, on the basis of accounting described in Note 1.

Our examination was conducted for the purpose of forming an opinion on the District's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

The District's response to the Examination Result and Comment identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine the District's response and, accordingly, we express no opinion on it.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

February 13, 2014

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the District. The financial statement and notes are presented as intended by the District.

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CLAY TOWNSHIP REGIONAL WASTE DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
Wastewater Utility - Operating	\$ 4,244,318	\$ 5,728,651	\$ 6,253,858	\$ 3,719,111	\$ 5,754,909	\$ 6,823,373	\$ 2,650,647
Wastewater Utility - Construction	42,782	246,590	50,000	239,372	427,166	138,868	527,670
Wastewater Utility - Improvement	5,523,892	1,164,707	1,105,737	5,582,862	991,135	2,283,290	4,290,707
Wastewater Utility - Operating Reserve	2,108,150	84,250	-	2,192,400	-	-	2,192,400
Wastewater Utility - Petty Cash	200	-	-	200	-	-	200
Wastewater Utility - Reserve For Replacement	<u>3,062,412</u>	<u>497,400</u>	<u>155,964</u>	<u>3,403,848</u>	<u>497,400</u>	<u>283,275</u>	<u>3,617,973</u>
Totals	<u>\$ 14,981,754</u>	<u>\$ 7,721,598</u>	<u>\$ 7,565,559</u>	<u>\$ 15,137,793</u>	<u>\$ 7,670,610</u>	<u>\$ 9,528,806</u>	<u>\$ 13,279,597</u>

The notes to the financial statement are an integral part of this statement.

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The District was established under the laws of the State of Indiana. The District operates under an appointed governing board.

The accompanying financial statement presents the financial information for the District.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution, or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

Note 2. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize 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 3. Risk Management

The District may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the District to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 4. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

Note 5. Subsequent Event

Effective February 2, 2013, the District withdrew from participation in PERF. The District currently contributes to a 401(a) pension plan administered by the State of Indiana. The District contribution is 10 percent of the employee's wages per biweekly pay period.

Additional information regarding this plan may be obtained from the District.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the District's Annual Reports for years prior to 2011 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the District's Annual Report information for years 2011 and later can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the District which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was approved by management of the District. It is presented as intended by the District.

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	Wastewater Utility - Operating	Wastewater Utility - Construction	Wastewater Utility - Improvement	Wastewater Utility - Operating Reserve	Wastewater Utility - Petty Cash	Wastewater Utility - Reserve for Replacement	Totals
Cash and investments - beginning	\$ 4,244,318	\$ 42,782	\$ 5,523,892	\$ 2,108,150	\$ 200	\$ 3,062,412	\$ 14,981,754
Receipts:							
Utility fees	5,502,619	246,590	1,164,707	-	-	-	6,913,916
Other receipts	226,032	-	-	84,250	-	497,400	807,682
Total receipts	5,728,651	246,590	1,164,707	84,250	-	497,400	7,721,598
Disbursements:							
Capital outlay	1,423,962	-	1,105,737	-	-	155,964	2,685,663
Utility operating expenses	4,104,992	-	-	-	-	-	4,104,992
Other disbursements	724,904	50,000	-	-	-	-	774,904
Total disbursements	6,253,858	50,000	1,105,737	-	-	155,964	7,565,559
Excess (deficiency) of receipts over disbursements	(525,207)	196,590	58,970	84,250	-	341,436	156,039
Cash and investments - ending	\$ 3,719,111	\$ 239,372	\$ 5,582,862	\$ 2,192,400	\$ 200	\$ 3,403,848	\$ 15,137,793

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	Wastewater Utility - Operating	Wastewater Utility - Construction	Wastewater Utility - Improvement	Wastewater Utility - Operating Reserve	Wastewater Utility - Petty Cash	Wastewater Utility - Reserve for Replacement	Totals
Cash and investments - beginning	\$ 3,719,111	\$ 239,372	\$ 5,582,862	\$ 2,192,400	\$ 200	\$ 3,403,848	\$ 15,137,793
Receipts:							
Utility fees	5,476,689	427,166	991,135	-	-	-	6,894,990
Penalties	66,380	-	-	-	-	-	66,380
Other receipts	211,840	-	-	-	-	497,400	709,240
Total receipts	<u>5,754,909</u>	<u>427,166</u>	<u>991,135</u>	<u>-</u>	<u>-</u>	<u>497,400</u>	<u>7,670,610</u>
Disbursements:							
Capital outlay	1,779,769	-	2,283,290	-	-	283,275	4,346,334
Utility operating expenses	4,078,904	-	-	-	-	-	4,078,904
Other disbursements	964,700	138,868	-	-	-	-	1,103,568
Total disbursements	<u>6,823,373</u>	<u>138,868</u>	<u>2,283,290</u>	<u>-</u>	<u>-</u>	<u>283,275</u>	<u>9,528,806</u>
Excess (deficiency) of receipts over disbursements	<u>(1,068,464)</u>	<u>288,298</u>	<u>(1,292,155)</u>	<u>-</u>	<u>-</u>	<u>214,125</u>	<u>(1,858,196)</u>
Cash and investments - ending	<u>\$ 2,650,647</u>	<u>\$ 527,670</u>	<u>\$ 4,290,707</u>	<u>\$ 2,192,400</u>	<u>\$ 200</u>	<u>\$ 3,617,973</u>	<u>\$ 13,279,597</u>

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Wastewater	<u>\$ 748,494</u>	<u>\$ 457,781</u>

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Wastewater:	
Land	\$ 524,590
Infrastructure	110,517,868
Buildings	1,372,468
Machinery, equipment, and vehicles	1,863,086
Construction in progress	5,712,621
 Total capital assets	 \$ 119,990,633

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
EXAMINATION RESULT AND COMMENT

UNAUTHORIZED DEBITS FROM THE WASTE DISTRICT'S CHECKING ACCOUNT

During the period of May 22, 2012 to May 24, 2012, three unauthorized debits in the amounts of \$71,079, \$83,700, and \$83,800 were withdrawn from the District's bank account. The origination of these withdrawals was not determined. These withdrawals appear to have been made without the approval of the District's Controller or Administration. Through the efforts of First Financial Bank employees, \$44,802.86 was recovered from the bank accounts, located at other banks, to which some of these funds were transferred. This resulted in an overall loss to the District of \$193,776.14.

The District Controller contacted the Indiana State Board of Accounts on July 24, 2012, to report the unauthorized debits from their account.

The District had controls in place to try to minimize the opportunities available for this situation to occur; however, these controls were not completely followed, allowing access to their bank account from an outside source. The District should work with their financial institution to ensure all controls are followed when giving information to any source other than authorized personnel.

The District has closed the bank account from which these unauthorized debits occurred and has opened a new account that does not allow ACH access.

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. (Accounting and Uniform Compliance Guidelines for Special Districts, Chapter 10)

CLAY TOWNSHIP REGIONAL WASTE DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on February 26, 2014, with Andrew Williams, Director; Ron Hansen, Controller; Ron Hagan, President of the Board; and Jane Merrill, Treasurer. The Official Response has been made a part of this report and may be found on pages 18 through 20.



Clay Township Regional Waste District

www.ctrwd.org • (317) 844-9200 • Fax (317) 844-9203

Official Response

March 19, 2014

Indiana State Board of Accounts
302 W Washington Street
Room E 418
Indianapolis, IN 46204-2765

To Whom It May Concern,

This letter will serve as an official response to the Examination Comment relating to the unauthorized debits from the Clay Township Regional Waste District (the District) checking account during the period of May 22, 2012 to May 24, 2012 resulting in an overall loss to the District of \$193,776. On May 25, 2012 the District notified law enforcement officials by filing an Internet Crime Complaint Center (IC3) incident report as directed by the Indiana State Police. The District informed the State Board of Accounts of the unauthorized debits on July 24, 2012. The State Board of Accounts did not recommend any changes to policies or procedures at that time. The District takes exception to and finds relevant portions of the Comment inaccurate.

A summary of the events underlying the District's loss is as follows.

The District Controller logged into the First Financial Bank website daily using an id, password, and six-digit code provided by a device supplied by the bank. This code changed every 30 seconds. He reviewed daily activity and transferred funds between the accounts. A second staff member also had access to the bank website but was on vacation that week. First Financial Bank was aware of and/or had reviewed our security procedures. No changes or additions to our security procedures were recommended. Finally, security and anti-virus software was loaded on the District's computer servers by third party consultants.

First Financial Bank notified the District that they were changing companies that supplied the six-digit security device and these changes would go into effect on May 23. A new six-digit code device was received by both users. On May 22 to May 24, 2012, the Controller was unable to access the bank activity on the website. After he entered his id, password and six-digit code the website either locked up or showed a screen that the website was down. On each of the three days he received a call from a gentleman stating that he worked for First Financial Bank. The caller stated that First Financial Bank was aware that the Controller was having problems accessing the website. The caller reported that First Financial was working on the problem and hoped to have it fixed later that

afternoon or by the next morning. None of these events were suspicious particularly when considering that the login problems coincided with the security device change First Financial Bank was conducting.

After receiving another phone call on May 24, 2012 and being frustrated that the problem had not yet been resolved, the Controller contacted another representative with First Financial Bank by email summarizing the events of the past few days and asking when the problem would be fixed. Thereafter an official First Financial Bank representative called later the same morning and stated that no one from the bank had contacted the Controller previously. Further the official representative indicated that there was suspicious activity on the account and all account activity was being frozen and reviewed by the bank.

The representative from First Financial Bank called later on May 24th and reported that someone using the Controller's id, password and security code had initiated transfers from the ACH account on May 22nd, 23rd and 24th totaling \$238,579. A fourth transfer was scheduled but cancelled by the bank. The District later learned that each transfer was split into small amounts and deposited into a multitude of individual bank accounts. A review of the District's history would have revealed that the District had never before made similar transfers to third parties since the opening of the account in August 2009.

Upon notification from First Financial Bank of the unauthorized transfers, the District had all of their computers scanned by an outside computer consultant on May 24. These consultants discovered what appeared to be a virus on the Controller's computer. No other problems were discovered. A company specializing in forensic computer analysis was additionally hired to examine that Controller's computer. The second consultants reported that a virus on the computer had apparently allowed an outside party to take over his computer session once he had logged into the First Financial Bank website and display a different screen on his monitor after he logged in. This third party was then able to set up the ACH transfers because the Controller was the company's administrator for the First Financial Bank website.

The District submitted an Internet Crime Complaint Center (IC3) incident report on May 25, 2012 and contacted the Secret Service to report the ACH bank theft. A secret service agent contacted the Controller and First Financial Bank to obtain information. The District has not received any additional information from either agency since the date of the report.

First Financial Bank was able to recover a total of \$44,803 by requesting that the banks that received the transfers return the funds still in the accounts. The remaining \$193,776 was not recovered and booked as a loss in 2012.

New accounts were opened with First Financial Bank immediately after the theft and additional security procedures recommended by the bank were put in place. The District has since switched banks and continues to vigilantly monitor its accounts and implement appropriate and commercially reasonable security measures. New computer consultants

reviewed the District's computer security and supplemental anti-virus software was installed. Finally, systematic updates are being performed.

In summary, at all times relevant the District has maintained commercially reasonable security procedures to safeguard its financial accounts. Prior to the theft the District strictly followed all security procedures recommended by First Financial Bank and these procedures were in place at the time of the loss. In addition, the District had further security and anti-virus software installed by a computer consultant. Together the procedures and software were more than commercially reasonable and were designed and implemented with confidence that they would act to prevent unauthorized third party access to the District's computer systems. Since the date of the loss, the District has aggressively taken even further action and steps to prevent any future loss.

Sincerely,



Andrew J Williams
Utility Director

cc: Board of Trustees – Clay Township Regional Waste District
Al Homrig – State Board of Accounts