

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT
ALLEN COUNTY, INDIANA
January 1, 2012 to December 31, 2013



FILED
09/26/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Tom Fox (Vacant) Kenneth Neumeister	01-01-12 to 02-28-13 03-01-13 to 05-14-13 05-15-13 to 12-31-14
Treasurer	Win Rood	01-01-12 to 12-31-14
President of the Board	Ric Zehr	01-01-12 to 12-31-14
Office Manager	Laura Spuller	01-01-12 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE ALLEN COUNTY REGIONAL WATER
AND SEWER DISTRICT, ALLEN COUNTY, INDIANA

This report is supplemental to our audit report of the Allen County Regional Water and Sewer District (District), for the period from January 1, 2012 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the District. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Water and Sewer District, which provides our opinions on the District's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

August 21, 2014

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TREASURER
ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT

TREASURER
ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT
FEDERAL FINDINGS

***FINDING 2013-001 - CONTROLS OVER PREPARING THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The District did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The District should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted that the District reported a nonfederal grant in the amount of \$150,000 which should not have been reported on the SEFA. In addition, \$921,111 and \$1,626,067 in federal awards expended were omitted from the SEFA for December 31, 2012, and December 31, 2013, respectively. Audit adjustments were proposed, accepted by the District, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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 management's 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 controls.

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

TREASURER
ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the District related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's audited financial statement and then determining how those identified risks should be managed. The District has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements.

The District has not established effective controls to allow for the proper reporting of the District's receipts, disbursements, and cash and investment balances. The financial statement was compiled from information entered by a third party for 2012 and 2013 into the Annual Financial Report. The financial statement presented for audit contained errors and omissions as follows within the Allen County Regional Water & Sewer District Construction fund: (A) For 2012, this fund was adjusted to include \$1,351,411 in additional State Revolving Fund (SRF) receipt and disbursement transactions. (B) For 2013, this fund was adjusted to remove \$134,364 of net SRF receipt and disbursement transactions which corrected errors and the inclusion of 2014 transactions.

The District approved and made the necessary adjustments to correct these errors on the financial statement.

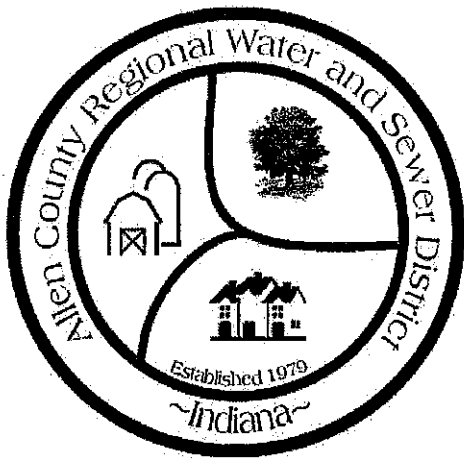
Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other 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)

TREASURER
ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

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. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."



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August 18, 2014

CORRECTIVE ACTION PLAN

Federal Finding 2013-001

1. The District's Finance Committee Chairperson and/or Treasurer will review all work done by a third party in preparing the District's Schedule of Federal Awards on the Annual Report.

Federal Finding 2013-002

1. The District's Finance Committee Chairperson and/or Treasurer will review all work done by a third party in preparing the District's Financial Statements on the Annual Report.

Win F. Rood

Win F. Rood, Treasurer
Allen County Regional Water and Sewer District

TREASURER
ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

The Annual Financial Reports for 2012 and 2013 contained a number of errors and did not properly reflect the financial activity of the Allen County Regional Water and Sewer District as described below:

1. On the Statement of Receipts, Disbursements, and Cash and Investment Balance - Regulatory Basis Report, the following errors were noted within the Allen County Regional Water & Sewer District Construction fund: (A) For 2012, this fund was adjusted to include \$1,351,411 in additional State Revolving Fund (SRF) receipt and disbursement transactions. (B) For 2013, this fund was adjusted to remove \$134,364 of net SRF receipt and disbursement transactions which were due to errors and inclusion of 2014 transactions.
2. On the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis Report, adjustments were made to re-categorize \$1,461,430 and \$7,911,175 for 2012 and 2013, respectively from "Other" receipts to "Intergovernmental" receipts for amounts received from state and federal sources.
3. On the Schedule of Payables and Receivables, there was no Accounts Receivable amount shown. An adjustment was made to add \$4,850 of utility customer receivables at December 31, 2013.
4. On the Schedule of Capital Assets, there was no amount shown for Construction in Progress. An adjustment was made to add \$13,159,103 of construction costs incurred by the District through the SRF program.

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. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

PAYROLL RECORDS

Employee timesheets were retained off-site for the current Executive Director. However when requested, these were presented for audit the next day. Also, an employee service record was not maintained for the current Executive Director.

TREASURER
ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

All governmental units are required by law to use the forms prescribed by this department; however, if it is desirable to use a different form or to have a prescribed form modified to conform for computer applications, a letter and one copy of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Employee's Service Record - Form 99A. This form provides a record for each employee of hours or days worked, sick leave, vacation and days lost. The record provides the information for preparation of Payroll Schedule and Voucher, Form 99. These forms are to be kept in binders, arranged to best serve the user, preferably in alphabetical order. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

TRAVEL AND CREDIT CARD POLICIES

The District does not have a policy concerning travel; they only have a resolution for the mileage rate to be paid for travel. We noted some expenditure for items that may be considered personal in nature such as lunches and funeral flowers. Meals are usually only reimbursed during a travel status determined by a travel policy.

We also noted that the current credit card limit is \$5,000; however, the District's credit card policy states it should only be \$1,000.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes.

Reimbursements for lodging and meals should be based upon actual receipts for amounts paid, unless otherwise authorized by statute.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)



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August 18, 2014

OFFICIAL RESPONSE

ANNUAL REPORT

The management of the Allen County Regional Water and Sewer District has reviewed the Annual Report Findings related to their audit for the years 2012-2013 and offer the following official response:

1. The District maintains Ledgers for each SRF Loan which Umbaugh uses to complete the details for receipts and disbursements from the Construction Fund as reported in the Annual Report on Gateway. In 2012 and 2013 Umbaugh didn't report all the activity shown on the Project Ledgers and did not reconcile the project payments with the loan disbursement records maintained by SRF. In the future this problem will be corrected by Umbaugh using all the project ledgers and reconciling the District's project ledgers with the SRF loan disbursement records.
2. Going forward the District's accounting firm will not record State and Federal receipts as "Other" income but record it as Intergovernmental receipts.
3. There was miscommunication about what A/R information was available. This miscommunication resulted in Umbaugh preparing the Annual Report and understating the AR balance at 12/31/13 by \$\$4,850.00. The question about what information is needed to correctly reflect the Accounts Receivable balances has been resolved which should prevent this error from re-occurring.
4. Going forward the District will use their SRF Loan Project Ledgers and capital expenditures made from other District funds to maintain an accounting of construction in progress. This detail will be entered into the Capital Assets report on Gateway.

Win F. Rood

Win F. Rood, Treasurer
Allen County Regional Water and Sewer District

TREASURER
ALLEN COUNTY REGIONAL WATER AND SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on August 21, 2014, with Kenneth Neumeister, Executive Director; Win Rood, Treasurer; Ric Zehr, President of the Board; Ryan Walls, Project Manager; and Laura Spuller, Office Manager.