

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF  
HANTS LAKE CONSERVANCY DISTRICT  
JOHNSON COUNTY, INDIANA  
January 1, 2012 to December 31, 2013



**FILED**  
11/26/2014



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Hope Nutt	01-01-12 to 12-31-14
President of the Board	Robert D. Morrison	01-01-12 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE HANTS LAKE CONSERVANCY DISTRICT, JOHNSON COUNTY, INDIANA

This report is supplemental to our audit report of the Hants Lake Conservancy District (Conservancy 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 Conservancy District. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Conservancy District, which provides our opinions on the Conservancy District's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://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 and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

October 6, 2014

HANTS LAKE CONSERVANCY DISTRICT  
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the Conservancy District related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the Conservancy District to reduce risks to the achievement of financial reporting objectives. The Treasurer is responsible for all accounting duties. We noted that most of the disbursements for 2013 did not have claim vouchers with attached supporting documentation signed by the Treasurer and President of the Board. There was not regularly scheduled Board meetings held for the approval of claims.
2. **Bank Reconcilements:** There were no bank reconcilements presented for audit. The Treasurer noted in the checkbook that the ending balance was traced to the bank statement. This procedure does not allow for the proper approvals by a Board member.

The failure to establish proper internal controls could enable material misstatements or irregularities to remain undetected.

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)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

***FINDING 2013-002 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII***

Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program  
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): DR1B-09-014

Pass-Through Entity: Town of Prince's Lakes

The Conservancy District has not established an effective internal control system, which would include monitoring activities of paid consultants and segregation of duties, related to the grant agreement and the compliance requirements related to Activities Allowed or Unallowed, Allowable Costs/Cost Principles,

HANTS LAKE CONSERVANCY DISTRICT  
FEDERAL FINDINGS  
(Continued)

Cash Management, Davis-Bacon Act, Period of Availability, and Reporting. The failure to establish an effective internal control system places the Conservancy District at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

The Conservancy District hired and relied upon a paid consultant as the Grant Administrator to perform all the required procedures for administering the grant with little oversight by the Conservancy District. Construction invoices were signed by the Treasurer but did not have claim vouchers attached with the signature of the Treasurer and President of the Board nor were they presented and approved at a Board meeting. Except for three payments which had signed claim vouchers, there is no indication that invoices for the professional engineer and the Grant Administrator were approved by the Treasurer or the President of the Board. The Cash Management, Period of Availability, and Reporting compliance procedures were performed by the Grant Administrator. No monitoring or review of these procedures were performed by the Conservancy District.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material misstatements and noncompliance to be undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Conservancy District.

We recommended that the Conservancy District establish controls to effectively monitor the activities of paid consultants, including segregation of duties, to ensure compliance related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

***FINDING 2013-003 - SUSPENSION AND DEBARMENT***

Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program  
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): DR1B-09-014

Pass-Through Entity: Town of Prince's Lakes

HANTS LAKE CONSERVANCY DISTRICT  
FEDERAL FINDINGS  
(Continued)

The Conservancy District has not established an effective internal control system, which would include segregation of duties, relating to the grant agreement and the compliance requirements over Suspension and Debarment. The failure to establish an effective internal control system places the Conservancy District at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

The Conservancy District did not have procedures established to ensure that the professional engineer for the Hants Lake Dam Project was not excluded, disqualified, or otherwise ineligible from federal procurement and nonprocurement programs at the time of contract execution or during the period of project work. No documentation was provided for audit to show that the Conservancy District had determined the professional engineer's eligibility. There was documentation to show that the construction contractor was eligible; however, there was no indication that this was checked by someone other than the paid consultant who performed the initial task.

2 CFR, Subpart C-Responsibilities of Participants Regarding Transactions Doing Business With Other Persons, 180.300 states:

"What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

HANTS LAKE CONSERVANCY DISTRICT  
FEDERAL FINDINGS  
(Continued)

Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Conservancy District.

We recommended that the Conservancy District's management establish controls, including segregation of duties, and procedures to ensure compliance with the grant agreement and all compliance requirements that have a direct and material effect to the program.

# HANTS LAKE CONSERVANCY DISTRICT

## CORRECTIVE ACTION PLAN

### **FINDING 2013-001 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

Contact Person Responsible for Corrective Action: Hope Nutt  
Contact Phone Number: 317-442-1975

Description of Corrective Action Plan:

1. Lack of Segregation of Duties: Claim vouchers will be prepared for all disbursements and approved by board members.
2. Bank Reconcilements: Will perform reconciliation on back of bank statement and present to board member to review and approve.

Anticipated Completion Date: Oct 6, 2014

### **FINDING 2013-002 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII**

Contact Person Responsible for Corrective Action: Hope Nutt  
Contact Phone Number: 317-442-1975

Description of Corrective Action Plan:

We will implement internal controls as much as possible over any future grants.

Anticipated Completion Date: Oct 6 2014

Since this grant is now completed, we will try our best for any future federal funding that we receive.

### **FINDING 2013-003 SUSPENSION AND DEBARMENT**

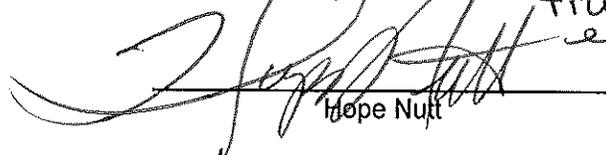
Contact Person Responsible for Corrective Action: Hope Nutt  
Contact Phone Number: 317-442-1975

Description of Corrective Action Plan:

We will implement internal controls and check suspension and debarment compliance for any future grants.

Anticipated Completion Date: We felt that this ~~work~~ had been done by our paid consultant & double checked by OCRA. Not sure we are qualified to do more than trust their experts.

Since this grant is now completed, we will try our best for any future federal funding that we receive.

  
Hope Nutt

HANTS LAKE CONSERVANCY DISTRICT  
AUDIT RESULTS AND COMMENTS

**BANK ACCOUNT RECONCILIATIONS**

Depository reconciliations of the fund balances to the bank account balances were not presented for audit for 2012 and 2013. The Treasurer notes in the checkbook that the ending balance was traced to the bank statement.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

**APPROPRIATIONS**

The General fund expenditures exceeded the budgeted appropriations by \$1,675 for the year 2012.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

**ERRORS ON CLAIMS**

A test of claims for the Conservancy District identified the following deficiencies with an error rate greater than 10 percent:

1. Claims were not prepared for 40 percent of disbursements tested. This error resulted in \$318,821 of expenditures which were not supported by a proper claim.
2. Of the claims tested, 50 percent did not have Board approval. This error resulted in \$318,885 expenditures which did not have proper Board approval.

Indiana Code 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."

HANTS LAKE CONSERVANCY DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on October 6, 2014, with Robert D. Morrison, President of the Board, and Hope Nutt, Treasurer.