

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT

LAGRANGE COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED
12/19/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Administrative Manager	Heidi M. Sisco	01-01-12 to 12-31-14
Treasurer	Robert Jarolim Dennis E. Davis	01-01-12 to 03-27-14 03-28-14 to 12-31-14
President of the Board	Mike Sutter Ronald M. Kantorak	01-01-12 to 11-01-12 11-02-12 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE LAGRANGE COUNTY REGIONAL
UTILITY DISTRICT, LAGRANGE COUNTY, INDIANA

This report is supplemental to our audit report of the LaGrange County Regional Utility District (Utility 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 that pertain to the Utility District. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Utility District, which provides our opinions on the Utility 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.

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

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

November 19, 2014

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
FEDERAL FINDINGS

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

The Utility 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 Utility 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. We believe the following deficiency constitutes a material weakness.

During the audit of the SEFA, we noted the Utility District understated federal awards for the year 2012 in the amount of \$1,703,380 and overstated federal awards for the year 2013 in the amount of \$1,003,038, resulting in a net understatement of \$700,342 for the audit period. Audit adjustments were proposed, accepted by the Utility District, and made to the SEFA presented in this report.

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)

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.
- (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.

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
FEDERAL FINDINGS
(Continued)

- (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 FOR WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (or Other Identifying Number): IN-701-92-12 and IN-701-92-13

Pass-Through Entity: Direct Grant

Management of the Utility District has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management and Procurement and Suspension and Debarment compliance requirements.

The failure to establish an effective internal control system places the Utility District at risk of noncompliance with the grant agreement and the Equipment and Real Property Management and Procurement and Suspension and Debarment compliance requirements. A lack of a properly established internal control system, including segregation of duties, could 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.

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."

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go 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 Utility District.

We recommended that the Utility District's management establish controls, including segregation of duties, related to the grant agreement and the Equipment and Real Property Management and Procurement and Suspension and Debarment compliance requirements to ensure the Utility District complies with all requirements.

FINDING 2013-003 - COMPLIANCE REQUIREMENTS FOR WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES

Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number and Year (or Other Identifying Number): IN-701-92-12 and IN-701-92-13
Pass-Through Entity: Direct Grant

The Utility District did not comply with Equipment and Real Property Management compliance requirements related to the Water and Wastewater Disposal Systems for Rural Communities program. The Utility District did not conduct an inventory of property as required.

7 CFR 3016.32(d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property. Any loss, damage, or theft shall be investigated."

The Utility District is not in compliance with Equipment and Real Property Management requirements for this program. Failure to comply with these requirements could cause the Utility District to be ineligible to receive future federal awards.

We recommended that officials conduct an inventory of property as required and to update that inventory at least every two years.

**LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
P O BOX 270
LAGRANGE, IN 46761
260-499-6349**

CORRECTIVE ACTION PLAN

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

Contact Person Responsible for Corrective Action: Heidi M Sisco
Contact Phone Number: 260-499-6349

Description of Corrective Action Plan:

The LaGrange County Regional Utility District Administrative Manager will take the steps necessary to review the information of the Schedule of Expenditures of Federal Awards (SEFA). In addition to being reviewed by the Administrative Manager we will also have the information reviewed by the current Board Secretary/Treasurer before authorizing Umbaugh to submit the information via the Gateway.

Anticipated Completion Date: With the Submission of the 2014 Gateway

FINDING 2013-002 – INTERNAL CONTROLS FOR WATER AND WASTE WATER DISPOSAL SYSTEMS FOR RURAL COMMUNITIES:

Federal Agency: Department of Agriculture
Federal Program: Water and Wastewater Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number and Year (of Other Identifying Number): IN-701-92-12 and IN-701-92-13

Contact Person Responsible for Corrective Action: Heidi M Sisco
Contact Phone Number: 260-499-6349

In regard to verifying that there are no compliance issues with certification regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion for a contractor the District Administrative Manager shall contact SAM.GOV and verify the contractor's Duns #. In addition to that the award winning contractor signs the form AD-1048 certifying this information and it is also verified by Rural Development.

In regard to the lacking controls over Equipment and Real Property Management the District Administrative Manager and District Operations Manager will be conducting an annual inventory on the equipment listed on the capital asset spread sheet.

Anticipated Completion Date: For the Suspension and Debarment we will implement this procedure immediately to be utilized in the event of a future project that receives USDA funding. For the Equipment and Real Property Management the District has already begun this process.

FINDING 2013-003 – COMPLIANCE REQUIREMENTS FOR WATER AND WASTE WATER DISPOSAL SYSTEMS FOR RURAL COMMUNITIES:

Federal Agency: Department of Agriculture

Federal Program: Water and Wastewater Disposal Systems for Rural Communities

CFDA Number: 10.760

Federal Award Number and Year (of Other Identifying Number): IN-701-92-12 and IN-701-92-13

Contact Person Responsible for Corrective Action: Heidi M Sisco

Contact Phone Number: 260-499-6349

In regard to the noncompliance with Equipment and Real Property Management the District Administrative Manager and District Operations Manager will be conducting an annual inventory on the equipment listed on the capital asset spread sheet.

Anticipated Completion Date: Immediately

LAGRANGE COUNTY REGIONAL UTILITY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 19, 2014, with Dennis E. Davis, Treasurer; Ronald M. Kantorak, President of the Board; and Heidi M. Sisco, Administrative Manager.