

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MEXICO REGIONAL SEWER DISTRICT

MIAMI COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
02/20/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Robert C. Appleton	01-01-11 to 12-31-14
President of the Board	Shirley Leazenby	01-01-11 to 03-31-13
	John Stoeckert	04-01-13 to 06-01-14
	John Stoeckert (Interim)	06-02-14 to 09-22-14
	(Vacant)	09-23-14 to 10-13-14
	Richard D. Hostetler	10-14-14 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE MEXICO REGIONAL SEWER DISTRICT, MIAMI COUNTY, INDIANA

This report is supplemental to our audit report of the Mexico Regional Sewer District (Sewer District), for the period from January 1, 2011 to December 31, 2012. 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 Sewer District. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Sewer District, which provides our opinions on the Sewer 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

October 15, 2014

MEXICO REGIONAL SEWER DISTRICT
FEDERAL FINDINGS

FINDING 2012-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Sewer 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 Sewer District to reduce risks to the achievement of financial reporting objectives. The Sewer District has not separated incompatible activities related to receipts (including utility billings and collections), disbursements, and cash and investment balances. Audit evidence was not presented to determine that utility collections are posted to a customer's Subsidiary Ledger by the Sewer District's Billing Clerk, or that the Sewer District is performing any verification of those collections. Disbursements are haphazardly noted and approved within some of the monthly Minutes of the Sewer District's Board meetings but the approvals do not include all disbursements made by the Sewer District. The Sewer District Board was not aware that financial records were not being maintained by the Sewer District's Clerk, nor were monthly bank reconcilements completed. A majority of the Wastewater Project was completed in 2012, but it was not until August 2014 that the Sewer District Board contracted with an accountant to produce financial records, capital asset records, annual financial statements, and monthly bank reconcilements dating back to October 2010. In addition, there is no evidence that monthly bank reconcilements were performed, nor were there controls in place which would provide an approval of the bank reconciliation. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Preparing Financial Statement:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Sewer District's audited financial statement and then determining how those identified risks should be managed. The Sewer 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, including notes to the financial statement.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Sewer District Board to monitor and assess the quality of the Sewer District's system of internal control. The Sewer District Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the Sewer District at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Sewer District has no process to identify or communicate corrective actions to improve controls.

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)

MEXICO REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

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."

Indiana Code 13-26-7-1 states: "Each district must keep proper records showing the district's finances."

FINDING 2012-002 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Sewer 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 Sewer 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. The Sewer District hired an accountant who independently prepared the SEFA without proper oversight, review, or approval.

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)

FINDING 2012-003 - INTERNAL CONTROLS FOR WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES - ARRA

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities - ARRA

CFDA Number: 10.781

Federal Award Number and Year (or Other Identifying Number): IN-701-92-01, IN-701-92-03,
and IN-701-00-02

Pass-Through Entity: Direct Grant

Management of the Sewer District has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Equipment and Real

MEXICO REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

Property Management; Davis-Bacon Act; Period of Availability; Procurement, Suspension, and Debarment; Reporting; and Special Tests and Provisions, including ARRA-Separate Accountability and ARRA-Presentation on the Schedule of Federal Awards. The failure to establish an effective internal control system places the Sewer 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.

Monitoring of Internal Controls over of the Sewer District's Wastewater System Construction grant and loans was inadequate to verify proper compliance with federal requirements. The Sewer District's Board hired various firms and individuals to assist them in complying with federal requirements of their USDA grant and loans but failed to monitor these persons to verify that the work was properly completed. In addition, the Sewer District Board was not aware that financial records were not being maintained by the Sewer District's Clerk, nor were monthly bank reconciliements completed. A majority of the Wastewater Project was completed in 2012, but it was not until August 2014 that the Sewer District Board contracted with an accountant to produce financial records, capital asset records, annual financial statements, and monthly bank reconciliements dating back to October 2010.

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 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 Sewer District.

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

FINDING 2012-004 - REPORTING - COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities - ARRA

CFDA Number: 10.781

Federal Award Number and Year (or Other Identifying Number): IN-701-92-01, IN-701-92-03,
and IN-701-00-02

Pass-Through Entity: Direct Grant

MEXICO REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

As part of the grant agreement between the Sewer District and the USDA - Rural Development, the Sewer District is required to submit an OMB Circular A-133 Audit, an Annual Budget and Projected Cash Flow, as well as Quarterly Reports to the USDA - Rural Development. The Sewer District has not filed any of these reports, although the OMB Circular A-133 Audit report requirement will be met with the late filing of this 2011-2012 report.

The Sewer District has agreed to the USDA-Rural Development's *Letter of Conditions* which states in part:

"A borrower that expends \$500,000 or more in federal financial assistance per fiscal year shall submit an audit performed in accordance with the requirements of OMB Circular A-133 . . . audits shall be submitted no later than 9 months after the end of the fiscal year . . ."

"Annual Budget and Projected Cash Flow: Thirty days prior to the beginning of each fiscal year, you will be required to submit an annual budget and projected cash flow to this office. You should submit two copies of Form RD 442-2, Statement of Budget, Income and Equity, Schedule 1, page 1; and Schedule 2, Projected Cash Flow. The only data required at this time on Schedule 1, page 1, is Columns 2 & 3. All of Schedule 1, page 2 and Schedule 2, Projected Cash Flow will be required. You may submit annual budgets on other financial statements for cash flow projections rather than Form RD 442-2. With the submission of the annual budget, you will be required to provide a current rate schedule, a current listing of the Board of Counsel member and terms."

"Quarterly Reports - Borrowers receiving their first loan from RD, will be required to submit two copies of Form RD 442-2, Schedule 1, page 1, columns 2-6, as appropriate, and page 2. You may submit historical quarterly financial statements on a format other than Form RD 442-2. This information should be received in the servicing office thirty days after the end of each of the first three quarters of the fiscal year."

The Sewer District is not in compliance with reporting requirements for this program. Failure to comply with these requirements could cause the Sewer District to be ineligible to receive future federal awards.

We recommended that officials prepare all required reports on a timely basis, and that they contact the USDA - Rural Development office regarding whether to file previously required reports.

MEXICO REGIONAL SEWER DISTRICT
P.O.BOX 96
MEXICO, INDIANA 46958

October 15, 2014

CORRECTIVE ACTION PLAN

FINDING 2012-001

Contact Person Responsible for Corrective Action: Richard Hostetler, Board President
Contact Phone Number: 1-765-633-1110

Description of Corrective Action Plan:

The collection and deposit of collections is performed by First Farmers Bank and Trust and the District Treasurer.

The posting of collections is performed by First Farmers Bank and Trust.

The postings of the records and bank reconcilements are performed by the clerk.

Checks are written and posted by the clerk, but approved and signed by the Treasurer.

All disbursements are approved by the District Board.

A new clerk has been hired with the proper training and knowledge required for this position.

A full district board is now in force and will maintain the proper oversight over financial recordkeeping and daily operations of the MRSD.

Anticipated Completion Date: 10/1/14

FINDING 2012-002

Contact Person Responsible for Corrective Action: Richard Hostetler, Board President

Contact Phone Number: 1-765-633-1110

MRSD has hired a clerk with the proper training and knowledge in order to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations and compliance with laws and regulations. The Schedule of Expenditures of Federal Awards will be reviewed and approved by the district board.

Anticipated Completion Date: 12/31/14

FINDING 2012-003

Contact Person Responsible for Corrective Action: Richard Hostetler, Board President

Contact Phone Number: 1-765-633-1110

MRSD has hired a clerk with the proper training and knowledge in order to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations and compliance with laws and regulations. Records are now up to date, bank reconcilements performed and

capital asset records are maintained. Segregation of duties is in place as aforementioned under Finding 2012-001. The district board has been made aware of their responsibility in assuring that laws and regulations are followed as stipulated by the State Board of Accounts and the Department of Agriculture, as per the grant agreement.

Anticipated Completion Date: 10/14/14

FINDING 2012-004

Contact Person Responsible for Corrective Action: Richard Hostettler, Board President
Contact Phone Number: 1-765-633-1110

The current clerk and the board have been made aware of the failure to comply in submitting their quarterly reports and their annual budget and cash flow to USDA Rural Development. The clerk is in the process of compiling the information necessary to complete the delinquent reports. The board will monitor the reporting process closely in the future.

Anticipated Completion Date: 12/01/14

Robert C. Appleton
(Signature)

Treasurer
(Title)

10-14-2014
(Date)

MEXICO REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORTS

The Annual Financial Reports for 2011 and 2012 were not filed electronically until September 9, 2014.

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."

BOARD MINUTES NOT PROVIDED

Minutes of meetings of the governing body were not presented for audit for the months beginning October 2013 through December 2013 and May 2014 through July 2014. It is not clear if meetings were held for these six months.

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5."

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties were not recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

MEXICO REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

- (B) A description of the premises, as shown by the records of the county auditor.
- (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.
- (c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .
- (e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May."

PREScribed FORMS - CONSUMER LEDGER

The Indiana State Board of Accounts is responsible for prescribing and/or approving the accounting forms/records for all governmental units.

The Sewer District did not properly maintain the Consumer's Ledger - Municipal Wastewater Utility, Form Number 324. The Consumer's Ledgers were posted beginning with the first "full-rate" bill in October of 2012, although billing during construction, at "half-rate," began in October of 2011. No entries recording billings or collections have been made to the Consumer's Ledger since April of 2013.

The Sewer District also did not use the prescribed General Ledger Sheet, General Form Number 315, in the front of the Consumer's Ledger, nor have they requested approval for an alternative form in lieu of the prescribed form. This sheet is to account for monthly billings to all wastewater customers as well as collections received by the Sewer District. This "Control" sheet should reconcile to the individual customer accounts, Consumer's Ledger - Municipal Wastewater Utility, Form Number 324.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

When utility records are kept on a cash or single-entry basis, a separate control account should be carried on General Ledger Sheet, General Form Number 315, in the front of the Consumer's Ledger. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 22)

ACCOUNTS PAYABLE VOUCHER AND REGISTER

The Indiana State Board of Accounts is responsible for prescribing and/or approving the accounting forms/records for all governmental units. The Sewer District did not use the prescribed forms Accounts Payable Voucher, Form No. 301-S, and Accounts Payable Voucher Register, Form No. 364, nor have they requested approval for an alternative form in lieu of the prescribed forms.

During a review of disbursements it was also noted that only checks written on the Construction Account were approved by the Sewer District Board. This approval was noted directly on the minutes of the Sewer District Board meetings. Checks written on the Operating Account were not properly approved by the Sewer District Board before payment.

MEXICO REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

All claims or accounts payable vouchers must be itemized and allowed by a majority of the members of the board before payment by the fiscal officer. Payment of invoices not supported by a duly certified claim or accounts payable voucher is not permissible. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 21)

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."

OFFICIAL BOND

The Sewer District Treasurer, Robert C. Appleton, did not obtain an individual Surety Bond for the periods after June 21, 2012 through the current period.

We also noted that the Treasurer's Surety Bonds covering the two year period June 21, 2010 to June 21, 2012, were not filed in the Office of the County Recorder.

The Treasurer's Surety Bond was insufficient per the Indiana Code.

The order establishing the district, issued by the Commissioner of the Department of Environmental Management, must provide the requirements for sufficient bond for all officers, trustees, or employees having power to dispense money of the district. [IC 13-26-2-10] (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 2)

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder in the county of residence of the officer, official, deputy, or employee."

MEXICO REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 15, 2014, with Robert C. Appleton, Treasurer, and Richard D. Hostetler, President of the Board.