

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

HARRISON COUNTY REGIONAL SEWER DISTRICT
HARRISON COUNTY, INDIANA

January 1, 2013 to December 31, 2014



FILED
06/03/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Gary Davis	01-01-13 to 12-31-16
President of the Board	Tom Tucker	01-01-13 to 12-31-16



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE HARRISON COUNTY REGIONAL
SEWER DISTRICT, HARRISON COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Harrison County Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2013 to December 31, 2014, and the related notes to the financial statement as listed in the Table of Contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, 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 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 the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance 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, 2013 to December 31, 2014.

Opinion on Regulatory Basis of Accounting

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, 2013 to December 31, 2014, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the District's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Other Information

Our audit 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 Leases and Debt, 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 auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

March 15, 2016



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE HARRISON COUNTY REGIONAL
SEWER DISTRICT, HARRISON COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Harrison County Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2013 to December 31, 2014, and the related notes to the financial statement, and have issued our report thereon dated March 15, 2016, wherein we noted the District followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

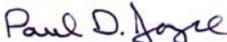
As part of obtaining reasonable assurance about whether the District's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Harrison County Regional Sewer District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Corrective Action Plans. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

March 15, 2016

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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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HARRISON COUNTY REGIONAL SEWER DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended December 31, 2013 and 2014

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13	Receipts	Disbursements	Cash and Investments 12-31-14
Sewer District Grant Account	\$ 23,532	\$ 1,884,813	\$ 1,699,129	\$ 209,216	\$ 247,374	\$ 456,442	\$ 148
Sewer District Capital Fund	224,136	405	224,541	-	-	-	-
Sewer District Operating Fund	<u>148,447</u>	<u>150,266</u>	<u>208,895</u>	<u>89,818</u>	<u>136,883</u>	<u>204,518</u>	<u>22,183</u>
Totals	<u>\$ 396,115</u>	<u>\$ 2,035,484</u>	<u>\$ 2,132,565</u>	<u>\$ 299,034</u>	<u>\$ 384,257</u>	<u>\$ 660,960</u>	<u>\$ 22,331</u>

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

HARRISON COUNTY REGIONAL SEWER 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:

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of these types of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

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

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.

HARRISON COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

E. Disbursements

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

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the District. It includes all expenditures for the reduction of the principal and interest of the District's general obligation indebtedness.

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

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.

F. Interfund Transfers

The District may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the District. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the District. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the District in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

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.

HARRISON COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

OTHER INFORMATION - UNAUDITED

The District's Annual Financial Report information 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 Financial Report of the District which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

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

HARRISON COUNTY REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013

	Sewer District Grant Account	Sewer District Capital Fund	Sewer District Operating Fund	Totals
Cash and investments - beginning	\$ 23,532	\$ 224,136	\$ 148,447	\$ 396,115
Receipts:				
Intergovernmental	783,282	-	-	783,282
Utility fees	-	-	150,266	150,266
Other receipts	1,101,531	405	-	1,101,936
Total receipts	<u>1,884,813</u>	<u>405</u>	<u>150,266</u>	<u>2,035,484</u>
Disbursements:				
Other services and charges	-	-	2,045	2,045
Capital outlay	1,699,111	-	61,180	1,760,291
Utility operating expenses	-	-	137,705	137,705
Other disbursements	18	224,541	7,965	232,524
Total disbursements	<u>1,699,129</u>	<u>224,541</u>	<u>208,895</u>	<u>2,132,565</u>
Excess (deficiency) of receipts over disbursements	<u>185,684</u>	<u>(224,136)</u>	<u>(58,629)</u>	<u>(97,081)</u>
Cash and investments - ending	<u>\$ 209,216</u>	<u>\$ -</u>	<u>\$ 89,818</u>	<u>\$ 299,034</u>

HARRISON COUNTY REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014

	Sewer District Grant Account	Sewer District Capital Fund	Sewer District Operating Fund	Totals
Cash and investments - beginning	\$ 209,216	\$ -	\$ 89,818	\$ 299,034
Receipts:				
Utility fees	-	-	130,387	130,387
Other receipts	<u>247,374</u>	<u>-</u>	<u>6,496</u>	<u>253,870</u>
Total receipts	<u>247,374</u>	<u>-</u>	<u>136,883</u>	<u>384,257</u>
Disbursements:				
Other services and charges	-	-	3,676	3,676
Debt service - principal and interest	150,000	-	3,276	153,276
Capital outlay	306,442	-	7,075	313,517
Utility operating expenses	-	-	121,670	121,670
Other disbursements	<u>-</u>	<u>-</u>	<u>68,821</u>	<u>68,821</u>
Total disbursements	<u>456,442</u>	<u>-</u>	<u>204,518</u>	<u>660,960</u>
Excess (deficiency) of receipts over disbursements	<u>(209,068)</u>	<u>-</u>	<u>(67,635)</u>	<u>(276,703)</u>
Cash and investments - ending	<u>\$ 148</u>	<u>\$ -</u>	<u>\$ 22,183</u>	<u>\$ 22,331</u>

HARRISON COUNTY REGIONAL SEWER DISTRICT
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2014

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Harrison County Regional Sewer District	<u>\$ 4,341</u>	<u>\$ 9,387</u>

HARRISON COUNTY REGIONAL SEWER DISTRICT
 SCHEDULE OF LEASES AND DEBT
 December 31, 2014

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Notes and loans payable	Sewer Extension	\$ 100,000	\$ 100,731

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE HARRISON COUNTY REGIONAL
SEWER DISTRICT, HARRISON COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Harrison County Regional Sewer District's (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2013 to December 31, 2014. The District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period of January 1, 2013 to December 31, 2014.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

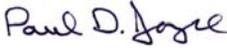
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-03 to be material weaknesses.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

March 15, 2016

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the District. The schedule and note are presented as intended by the District.

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HARRISON COUNTY REGIONAL SEWER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended December 31, 2013 and 2014

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-13	Total Federal Awards Expended 12-31-14
<u>Department of Commerce</u>					
Economic Development Cluster					
Investments for Public Works and Economic Development Facilities					
New Salisbury Sewer project					
	Direct Grant	11.300	06-01-05679	\$ <u>783,282</u>	\$ <u>128,874</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

HARRISON COUNTY REGIONAL SEWER DISTRICT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of special districts shall be conducted biennially. Such audits shall include both years within the biennial period.

HARRISON COUNTY REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. **Monitoring of Controls:** An evaluation of the District's system of internal control has not been conducted. The failure to monitor the internal control system places the District at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the District has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting requires the District to monitor and assess the quality of the system of internal control.

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 2014-002 - PREPARATION OF 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 Treasurer gathers the information, then compiles, certifies, and submits the federal grant information used for the SEFA without sufficient oversight and review. 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.

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)

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - DAVIS-BACON ACT

Federal Agency: Department of Commerce
Federal Program: Investment for Public Works and Economic Development Facilities
CFDA Number: 11.300
Federal Award Number and Year (or Other Identifying Number): 06-01-05679

HARRISON COUNTY REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Management of the District has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements that apply to Davis-Bacon Act. The failure to establish an effective internal control system places the District at risk of non-compliance 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.

The District hired a Grant Administrator to assist in overseeing the labor standards required under the Davis-Bacon Act. Certified payrolls were submitted by the contractors/subcontractors to the Grant Administrator who would then check to determine if prevailing wages were being properly paid. The District did not have procedures in place to review and approve the work being performed by the Grant Administrator.

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, 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. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the District.

We recommended that the District's management establish and implement controls, including segregation of duties, related to the grant agreement and compliance requirements pertaining to Davis-Bacon Act.

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AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the District. The document is presented as intended by the District.

HARRISON COUNTY REGIONAL SEWER DISTRICT

P.O. BOX 266
CORYDON, INDIANA 47112
PHONE: 812.738.4600 FAX: 812.738.4418

Officers:

Tom Tucker
Commissioner Rep.
President

Darin Duncan
Commissioner Rep.
Secretary

Gary Davis
Council Rep.
Treasurer

Chris Byrd
Board Attorney

Board Members:
John Kintner
Town of Corydon

Tony Combs
Board of Health

JR Eckart
Commissioner Rep.

Daniel Lee
Council Rep.

Bill Byrd
Town of Milltown

Chris Shultz
Town of Lanesville

CORRECTIVE ACTION PLAN

FINDING 20014-001

Contact Person Responsible for Corrective Action: Gary Davis, Treasurer
Contact Phone Number:

Description of Corrective Action Plan:

The Regional Sewer District will adopt the internal control standards established by IC 5-11-1-27(e) at its next Board meeting. Supporting internal control policies and procedures will then be implemented as appropriate. Since the Regional Sewer District has no employees, segregating duties is difficult. The emphasis will be on additional monitoring of the Treasurer's activities. The responsibilities specified for management will be performed by the Regional Sewer District Board. All billing and collection activities are performed by an independent contractor. Our waste water treatment plant is operated by an independent contractor who monitors compliance with governing regulations.

Anticipated Completion Date: 2016

(Signature)

Gary Davis

(Title)

Treasurer

(Date)

3-10-16

HARRISON COUNTY REGIONAL SEWER DISTRICT

P.O. Box 266
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Officers:

Tom Tucker
Commissioner Rep.
President

CORRECTIVE ACTION PLAN

Darin Duncan
Commissioner Rep.
Secretary

FINDING 20014-002

Contact Person Responsible for Corrective Action: Gary Davis, Treasurer
Contact Phone Number:

Gary Davis
Council Rep.
Treasurer

Description of Corrective Action Plan:

Chris Byrd
Board Attorney

For all future federal projects, the Treasurer will have the Board President review the Schedule of Expenditures of Federal Awards to confirm that the figures listed are accurate.

Board Members:
John Kintner
Town of Corydon

Tony Combs
Board of Health

JR Eckart
Commissioner Rep.

Daniel Lee
Council Rep.

Anticipated Completion Date: March 14, 2016

Bill Byrd
Town of Milltown

Chris Shultz
Town of Lanesville

(Signature)

Gary Davis

(Title)

Treasurer

(Date)

3-14-16

HARRISON COUNTY REGIONAL SEWER DISTRICT

P.O. Box 266
CORYDON, INDIANA 47112
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Officers:

Tom Tucker
Commissioner Rep.
President

CORRECTIVE ACTION PLAN

Darin Duncan
Commissioner Rep.
Secretary

FINDING 20014-003

Contact Person Responsible for Corrective Action: Gary Davis, Treasurer
Contact Phone Number:

Gary Davis
Council Rep.
Treasurer

Chris Byrd
Board Attorney

Description of Corrective Action Plan:

Board Members:

John Kintner
Town of Corydon

During the construction of the project, the grant administrator kept the Board informed of all irregularities with regard to Davis Bacon compliance. The Board will utilize the following policy for any future federal projects that involve Davis Bacon compliance:

Tony Combs
Board of Health

A member of the Board will be designated to be trained on how to review the required Certified Payroll Reports and demonstrate a working knowledge of Davis Bacon. At least quarterly, this designee will select at least three (3) week-ending dates to review. The designee will then contact the grant administrator for copies of those selected weeks. The designee will review those reports and will submit a report to the grant administrator, as well as a copy in the file, to demonstrate that the payrolls have been reviewed.

JR Eckart
Commissioner Rep.

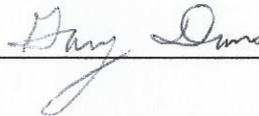
Daniel Lee
Council Rep.

Bill Byrd
Town of Milltown

Chris Shultz
Town of Lanesville

Anticipated Completion Date: March 14, 2016

(Signature)



(Title)

Treasurer

3-14-16

(Date)

OTHER REPORTS

In addition to this report, other reports may have been issued for the District. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.