

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

DAMON RUN CONSERVANCY DISTRICT

PORTER COUNTY, INDIANA

January 1, 2012 to December 31, 2015



FILED
03/10/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jennifer Beauchamp	01-01-10 to 12-31-16
President of the District Board	Bernard Madej John Barko	01-01-10 to 12-31-10 01-01-11 to 12-31-16



STATE OF INDIANA
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TO: THE OFFICIALS OF THE DAMON RUN CONSERVANCY DISTRICT, PORTER COUNTY, INDIANA

This report is supplemental to our examination report of the Damon Run Conservancy District (District), for the period from January 1, 2010 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the District. It should be read in conjunction with our Financial Statements Examination Report of the District, which provides our opinion on the District's financial statements. This report may be found at www.in.gov/sboa/.

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 Examination 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 Official Response to the Examination Results and Comments, incorporated within this report, was not verified for accuracy.

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

October 20, 2016

DAMON RUN CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS

SEPARATE FUNDS ALLOCATIONS

Prior to July 1, 2013, the District maintained an Operating Fund and a Permits fund. Collections and disbursements associated with providing water and sewage services were recorded in the Operating Fund, and collections and disbursements associated with the issuance of permits for new water and sewage services were recorded in the Permits fund.

On June 19, 2013, the Indiana Utility Regulatory Commission issued Order 44146 which stated the following:

"Damon Run Conservancy District shall maintain separate books and records for its utilities and certify it is doing so within ninety (90) days of this Order in accordance with Finding Paragraph 5. B. (1). 2."

On July 1, 2013, the District, instead of creating four new funds, renamed the two existing funds Operating Fund - Sewer, and Permit Fund - Sewer, retaining the cash balances of the former Operating and Permits funds, respectively. Two new funds were created, Operating Fund - Water, and Permit Fund - Water. The water portions of the cash and investment balances of the former Operating and Permits funds were not allocated to each of the newly created water funds.

The District did not designate the fund name on the accounts payable vouchers to ensure disbursements were recorded in the correct fund. Disbursements for billing services, attorney fees, and accounting services were either allocated 100 percent to one of the Sewer funds, or allocated at 50 percent to each of the two operating funds. Invoices were not reviewed to determine if the allocation percentage was accurate and just.

Indiana Code 5-11-1-2 states in part:

"The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following: . . .

(2) Exhibit true accounts and detailed statements of funds collected, received, obligated, and expended for or on account of the public for any and every purpose whatever, and by all public officers, employees, or other individuals. . . ."

BOND PROCEEDS FUND

Bond proceeds in the amount of \$14,019,960, received prior to the separation of the funds between Water and Sewage, were receipted to the Operating Fund of the District, which was inconsistent with the "Certificate of the Damon Run Conservancy District Conservancy District Ad Valorem Special Benefits Property Tax Bonds of 2010, Series A and B" (Certificate). The Certificate addressed the disposition of the bond proceeds to be as follows: \$1,233,266 were to be deposited in the Reserve Account of the Bond fund and \$771,081 were to be deposited in the Proceeds fund. All of the bond proceeds were receipted into the Operating Fund, with immediate transfers to the Debt Service fund and Bond Reserve fund. However, \$771,081 was retained in the Operating Fund for payments to vendors.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

DAMON RUN CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH AND INVESTMENT BALANCES

At December 31, 2014, the Operating Fund - Sewer fund was overdrawn by \$35,668.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

CONTRACTS

The District contracted with an attorney for specialized legal work. The contract did not specify the hourly rates that were invoiced for paralegals, assistants, or any other personnel that the attorney deemed necessary. Furthermore, the hourly rate for the attorney was set for a two year period with a caveat that the fee would increase in the subsequent years, as the contract did not specify a term. The invoices for legal services were not properly itemized, as they did not indicate the rate per hour for each person billed, or amounts billed by individual; thus, the District could not recalculate the invoice, or verify compliance to the contract.

The District also contracted with an accounting firm for assistance on various financial aspects. The contract with the accounting firm listed job titles and hourly rates for each title; however, the invoices listed individual names and excluded job titles. The exclusion of the job titles from the invoices did not allow the District to validate compliance with the contracts.

The District contracted with a service organization to provide billing services. The contract had a three year term. After the first year the service organization increased their fee, but the contract was not amended or approved by the District Board.

The District also paid other vendors for services, including website updates, and storage, without a written contract.

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

OFFICIAL BOND

The Surety Bond for the Treasurer was not filed in the Office of the Porter County Recorder as required by statute.

The bond coverage for March 22, 2015 through December 31, 2016, was insufficient. The bond coverage was \$30,000 for each year. Per statute, the amount of coverage is based on receipts from the preceding year and should be \$30,000 for each million dollars in receipts. Receipts for the periods ending December 31, 2014, and December 31, 2015, were \$2,684,429 and \$3,543,364, respectively. This should have resulted in bond coverage greater than \$30,000.

Indiana Code 14-33-5-18(b) states: "A financial clerk shall execute a surety bond in the manner prescribed by IC 5-4-1."

DAMON RUN CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-4-1-5.1(b) states in part:

"Every elected or appointed officer, official, deputy, or employee of a political subdivision who is required by section 18 of this chapter to file an official bond for the faithful performance of duty . . . shall file the bond . . . in the office of the county recorder in the county of residence of the officer, official, deputy, or employee. . . ."

Indiana Code 5-4-1-18(c) states:

". . . the fiscal bodies of the respective units shall fix the amount of the bond of . . . conservancy district financial clerks as follows:

- (1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee. . . ."



Damon Run Conservancy District

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October 21, 2016

Paul D Joyce, CPA
State Examiner
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RE: Damon Run Conservancy District ("District")
State Board of Accounts ("State")
Official Response of Examination Results and Comments

The report prepared by the State constitutes the first review and comment by the State regarding the District. The District will utilize the information contained in the State's report to ensure compliance and offers the following responses:

Separate Funds Allocations: The District will review all invoices to determine proper allocation percentages between both sewer and water. The District will also ensure that a designated fund name is listed on the accounts payable vouchers.

Bond Proceeds Fund: The District corrected the Debt Service Reserve recording by transferring the amount of bond proceeds to the Debt Service Reserve Fund immediately after the initial recording to the operating fund. There was no proceeds fund established by the District so the operating fund was used to record the receipt and corresponding expenses related to bond issuance and district expansion costs. The disbursement of these funds was made in accordance with the use of bond funds schedule found in the official statement. Should the District issue bonds in the future and the need for a proceeds fund arise the District will create that fund to track such receipts and expenses.

Overdrawn Cash and Investment Balances: While the sewer operating fund per the District bookkeeping system showed a negative balance at year end 2014, the District's total cash balances at the bank were never in jeopardy of being negative. Both sewer and water operating funds are held in the same bank account. In the future the District will make timely transfers in their bookkeeping system to ensure negative balances are not shown for any account.

Contracts: The District will ensure future contracts contain hourly rates by position when applicable and ensure corresponding billings contain the level of detail indicated (personnel identification, position

and total hours). The District will ensure a proper contract is in place for all service providers going forward.

Official Bond: The District will record the bond with the office of the Porter County Treasurer for 2016 and going forward. The District will ensure sufficient bond coverage is in place going forward based on 12/31 receipts.

Jennifer Beauchamp, Treasurer

DAMON RUN CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 20, 2016, with Jennifer Beauchamp, Treasurer, and John Barko, President of the District Board.