

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

COMPLIANCE ENGAGEMENT REPORT
OF

KANKAKEE RIVER BASIN AND YELLOW RIVER
BASIN DEVELOPMENT COMMISSION
PORTER COUNTY, INDIANA

January 1, 2019 to December 31, 2023



FILED
06/20/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Scott Pelath	01-01-19 to 12-31-24
Treasurer	Kevin Breitzke	01-01-19 to 06-30-19
	Billy Crase	07-01-19 to 06-30-22
	Mike Novotney	07-01-22 to 05-01-24
	Billy Crase (interim)	05-02-24 to 12-31-24
Chair of the Commission Board	Chris Knochel	01-01-19 to 06-30-19
	John McNamara	07-01-19 to 12-31-24



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TO: THE OFFICIALS OF THE KANKAKEE RIVER BASIN AND YELLOW RIVER
BASIN DEVELOPMENT COMMISSION, PORTER COUNTY, INDIANA

As authorized under Indiana Code 5-11-1, we performed certain procedures to the accounting records and related documents of the Kankakee River Basin and Yellow River Basin Development Commission (Commission), for the period of January 1, 2019 to December 31, 2023. The objective of this engagement was to determine compliance with applicable Indiana laws, regulations, and uniform compliance guidelines (Guidelines) established by the Indiana State Board of Accounts pursuant to Indiana Code 5-11-1-24. The objective of this engagement is not to opine on compliance or financial activity of the Commission as this engagement was not conducted in accordance with any standards established by an authoritative standard setting body, and, as such, we do not provide any opinions on compliance or financial activity.

Management is responsible for preparing and maintaining its accounting records and related documents in accordance with applicable Indiana laws, regulations, and Guidelines. Management's responsibility also includes, but is not limited to, complying with other applicable Indiana laws, regulations, and Guidelines concerning how it operates: authorized sources and uses of funds; what reports are required to be prepared and filed; and what depositories and investment types are allowable.

We fulfilled our responsibility as detailed in the first paragraph, using procedures that verified the appropriate accounting for and reporting of cash, receipts, and disbursements; and the appropriate sources and uses of funds in accordance with applicable Indiana laws, regulations, and Guidelines. Expanding the scope and nature of these procedures can and does occur in specific circumstances.

The Comments contained herein, if any, describe the identified reportable instances of noncompliance found during our engagement. Our procedures were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified. Any Official Response to the Comments incorporated within this report was not verified for accuracy.

The Schedule of Officials and Statements of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis (Statements) are informational only. The Statements have not been subjected to any procedures designed to express an opinion or provide any assurance on them, and, accordingly, we do not express an opinion or provide any assurance on them.

This report is intended solely for the information and use of management, governance, and others within the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record. Reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>, and the Commission's Annual Financial Reports filed by management can be found on the Indiana Gateway for Government Units financial reporting system website: <http://www.gateway.ifionline.org>.

The contents of this report were communicated to Scott Pelath, Executive Director; Billy Crase, interim Treasurer; and Stephanie Kuziela, Accountant, on June 13, 2024.



Beth Kelley, CPA, CFE
Deputy State Examiner

April 24, 2024

KANKAKEE RIVER BASIN AND YELLOW RIVER BASIN DEVELOPMENT COMMISSION
COMMENTS

INTERNAL CONTROLS

Condition and Context

Internal controls were not in place to ensure that the Commission complied with laws and regulations. The internal control deficiencies resulted in noncompliance over financial transactions and reporting, receipt issuance, approval of contract change orders, and capital assets detailed further in the comments below.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . ."

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the Commission related to financial transactions and reporting. The Commission had not established a system of internal controls related to financial reporting.

The Commission used QuickBooks, a generic accounting software application, to maintain the ledger of the Commission's financial activities, instead of the Ledger of Receipts, Disbursements, and Balances (form 358). The software system did not provide a record of receipts and disbursements by account number or the dates of the transactions. The software system cannot track activity by fund, so the Commission must use separate bank accounts to track the activity of the Commission's two funds. The reports from the software do not meet the requirements of the prescribed form.

The Commission's Accountant manually computed the receipt and disbursement classification on a QuickBooks report provided for audit, which had been used to prepare the Annual Financial Report (AFR). The system allowed the Commission to post and date the transactions after year end for the prior year. The after-the-fact posting caused the cash balance at year end to change and not agree to the AFR. Six checks totaling \$256,221, were dated December 29, 2021, but were not posted to the 2021 ledger until after the AFR for 2021 was submitted on February 25, 2022. Therefore, the disbursements per the 2021 AFR was understated by this amount.

KANKAKEE RIVER BASIN AND YELLOW RIVER BASIN DEVELOPMENT COMMISSION
 COMMENTS
 (Continued)

The Commission did not record voided checks properly. Check amounts from prior periods were changed to zero instead of changing the status of the check in the system. We were unable to determine the original amount of the voided checks from the ledger due to this method. This method of retroactively voiding checks also changed the cash balances at period-end dates.

Two ledgers were presented for this engagement. Because of the previously described issues, the totals of receipts, disbursements, and cash balances were different, and neither ledger agreed to the financial statement. The second ledger provided did agree to the reconciled bank balance at December 31, 2023, and to other year-end dates after considering voided checks, so the second ledger was used for this engagement. The differences between the ledger used and the AFR are noted below.

Years	Comparison of	Beginning Cash	Receipts	Disbursements	Ending Cash
2019:					
	Record	\$ 861,839	\$ 2,510,486	\$ 521,963	\$ 2,850,362
	Original Annual Financial Report	<u>861,483</u>	<u>2,510,486</u>	<u>579,666</u>	<u>2,792,303</u>
	Under (Overreported)	<u>\$ 356</u>	<u>\$ -</u>	<u>\$ (57,703)</u>	<u>\$ 58,059</u>
2020:					
	Record	\$ 2,850,362	\$ 223,682	\$ 1,193,326	\$ 1,880,718
	Original Annual Financial Report	<u>2,792,303</u>	<u>223,682</u>	<u>1,203,525</u>	<u>1,812,460</u>
	Under (Overreported)	<u>\$ 58,059</u>	<u>\$ -</u>	<u>\$ (10,199)</u>	<u>\$ 68,258</u>
2021:					
	Record	\$ 1,880,718	\$ 2,749,708	\$ 2,774,972	\$ 1,855,454
	Original Annual Financial Report	<u>1,812,460</u>	<u>2,749,708</u>	<u>2,518,751</u>	<u>2,043,417</u>
	Under (Overreported)	<u>\$ 68,258</u>	<u>\$ -</u>	<u>\$ 256,221</u>	<u>\$ (187,963)</u>
2022:					
	Record	\$ 1,855,454	\$ 2,728,098	\$ 2,951,043	\$ 1,632,509
	Original Annual Financial Report	<u>2,043,417</u>	<u>2,734,898</u>	<u>3,241,930</u>	<u>1,536,385</u>
	Under (Overreported)	<u>\$ (187,963)</u>	<u>\$ (6,800)</u>	<u>\$ (290,887)</u>	<u>\$ 96,124</u>
2023:					
	Record	\$ 1,632,509	\$ 3,807,393	\$ 3,297,313	\$ 2,142,589
	Original Annual Financial Report	<u>1,536,385</u>	<u>3,800,049</u>	<u>3,255,597</u>	<u>2,080,837</u>
	Under (Overreported)	<u>\$ 96,124</u>	<u>\$ 7,344</u>	<u>\$ 41,716</u>	<u>\$ 61,752</u>

KANKAKEE RIVER BASIN AND YELLOW RIVER BASIN DEVELOPMENT COMMISSION
COMMENTS
(Continued)

Adjustments were proposed, accepted by the Commission, and made to the Statements of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented later in this Report.

Criteria

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 51-15-1-1.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

RECEIPT ISSUANCE

Condition and Context

Inspection of the Commission's records determined that receipts were issued for amounts received until February 2020. After February 2020, the Commission did not issue any receipts for amounts received.

Criteria

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

CONTRACT CHANGE ORDERS NOT APPROVED

Condition and Context

The Commission Board awarded a \$1,432,703 contract for construction on January 20, 2022. Invoices paid on the contract noted six change orders totaling \$174,599. These change orders were not approved by the Commission Board as required.

KANKAKEE RIVER BASIN AND YELLOW RIVER BASIN DEVELOPMENT COMMISSION
COMMENTS
(Continued)

Criteria

Indiana Code 36-1-12-18 states:

"(a) If, in the course of the construction, reconstruction, or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor.

(b) If a licensed architect or engineer is assigned to the public work project, the change order must be prepared by that person.

(c) A change order may not be issued before commencement of the actual construction, reconstruction, or repairs except in the case of an emergency. In that case, the board must make a declaration, and the board's minutes must show the nature of the emergency.

(d) The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project.

(e) All change orders must be directly related to the original public work project.

(f) If additional units of materials included in the original contract are needed, the cost of these units in the change order must be the same as those shown in the original contract."

Indiana Code 5-14-1.5-4 states in part:

". . . (b) 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 section 3.5 or 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication.

(c) The memoranda are to be available within a reasonable period of time after the meeting for the purpose of informing the public of the governing body's proceedings. The minutes, if any, are to be open for public inspection and copying."

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 Cities and Towns, Chapter 1)

KANKAKEE RIVER BASIN AND YELLOW RIVER BASIN DEVELOPMENT COMMISSION
COMMENTS
(Continued)

CAPITAL ASSETS

Condition and Context

The Commission did not have a capital asset policy that detailed the threshold at which an item is considered a capital asset.

The Commission's detail ledger of its capital assets owned did not contain all assets or reflect the acquisition value. Six parcels of land were not included on the Commission's asset ledger. One parcel of land recorded in the asset ledger was recorded with a 2019 assessed value of \$275,000, instead of the acquisition value. The Commission reported \$905,500 for capital assets as of December 31, 2023.

The Commission did not have a physical inventory completed within the last two years.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

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STATEMENTS OF RECEIPTS, DISBURSEMENTS, AND CASH
AND INVESTMENT BALANCES - REGULATORY BASIS

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KANKAKEE RIVER BASIN AND YELLOW RIVER BASIN DEVELOPMENT COMMISSION
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Years Ended December 31, 2019 and 2020

Fund	Cash and Investments 01-01-19	Receipts	Disbursements	Cash and Investments 12-31-19	Receipts	Disbursements	Cash and Investments 12-31-20
General Fund	\$ 861,839	\$ 2,510,486	\$ 521,963	\$ 2,850,362	\$ 223,682	\$ 1,193,326	\$ 1,880,718
Totals	<u>\$ 861,839</u>	<u>\$ 2,510,486</u>	<u>\$ 521,963</u>	<u>\$ 2,850,362</u>	<u>\$ 223,682</u>	<u>\$ 1,193,326</u>	<u>\$ 1,880,718</u>

KANKAKEE RIVER BASIN AND YELLOW RIVER BASIN DEVELOPMENT COMMISSION
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Years Ended December 31, 2021 and 2022

Fund	Cash and Investments 01-01-21	Receipts	Disbursements	Cash and Investments 12-31-21	Receipts	Disbursements	Cash and Investments 12-31-22
General Fund	\$ 1,880,718	\$ 193,399	\$ 1,327,732	\$ 746,385	\$ 213,964	\$ 330,060	\$ 630,289
Special Assessment	-	2,556,309	1,447,240	1,109,069	2,514,134	2,620,983	1,002,220
Totals	<u>\$ 1,880,718</u>	<u>\$ 2,749,708</u>	<u>\$ 2,774,972</u>	<u>\$ 1,855,454</u>	<u>\$ 2,728,098</u>	<u>\$ 2,951,043</u>	<u>\$ 1,632,509</u>

KANKAKEE RIVER BASIN AND YELLOW RIVER BASIN DEVELOPMENT COMMISSION
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended December 31, 2023

Fund	Cash and Investments 01-01-23	Receipts	Disbursements	Cash and Investments 12-31-23
General Fund	\$ 630,289	\$ 804,079	\$ 693,990	\$ 740,378
Special Assessment	<u>1,002,219</u>	<u>3,003,314</u>	<u>2,603,323</u>	<u>1,402,210</u>
Totals	<u>\$ 1,632,508</u>	<u>\$ 3,807,393</u>	<u>\$ 3,297,313</u>	<u>\$ 2,142,588</u>



OFFICIAL RESPONSE

June 20, 2024

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Response to SBOA comments

Dear Indiana State Board of Accounts (SBOA):

Thank you again for your recent compliance engagement with the Kankakee River Basin and Yellow River Basin Development Commission (“the Commission”). The information provided is useful and will add reasonable redundancy and accuracy to the Commission’s financial recordkeeping.

The Commission particularly wishes to note its appreciation for Tyler Millington, the SBOA auditor assigned to conduct the review. His professionalism and thoroughness of communications were highly evident to both me and our accountant, Stephanie Kuziela. Because of his regularly reported observations, the Commission was able to initiate corrections and improvements even before the audit had concluded.

The following responses [shown in *italics*] are intended not as rebuttals but as context and further explanation for the reader. We trust they will be received in the spirit they are intended.

FINANCIAL TRANSACTIONS AND REPORTING

The Commission is grateful for SBOA’s assistance in rectifying numeric discrepancies in its Annual Financial Report uploaded to the state’s Gateway system. I am pleased to report that due to SBOA recalculations, the matter has already been corrected within Gateway.

The Commission’s accountant was already aware of a possible discrepancy that carried forward in its annual reports beginning 2019. During the review period, the Commission has undergone:

- 1) A complete statutory overhaul and restructuring;*
- 2) A transition from the Commission’s legal predecessor to its current configuration;*
- 3) A change in accountants;*
- 4) A change in accounting systems; and*

5) *A change in accounting methods (accrual basis to cash basis).*

Slightly more regular reviews might be worthwhile, as the Commission believes it would have benefitted from a final review of its legal predecessor in 2019. Perhaps the discrepancy could have been identified and corrected sooner. However, we understand that SBOA's ability to respond to numerous annual statutory changes is difficult. The key is that SBOA helped us reestablish numeric confidence going forward.

RECEIPT ISSUANCE

The Commission's accountant is procuring a paper receipt book that meets the SBOA standard.

CONTRACT CHANGE ORDERS NOT APPROVED

The Commission accepts the directive but is seeking additional SBOA and Attorney General's office guidance on how to best comply with it.

Our organization oversees capital projects to mitigate flooding along the Kankakee River. The work season is hectic and narrowly limited by fluctuating river depths, unpredictable weather conditions, and seasonal regulatory constraints. Since the Commission only meets four to six times a year, obtaining timely approvals could be a challenge.

If allowable, retroactive approvals would be an example of an efficient and cost-effective option.

CAPITAL ASSETS

At an upcoming Commission meeting, the staff intends to submit a formal capital assets policy to the Commission for consideration. The staff also intends to acquire a new appraisal of its Porter County Farm and reconsider the value of its Newton County property, which now primarily serves as a floodwater storage area.

Past figures have used property tax assessment values in reports, and in the case of the Porter County property, recent figures are no longer available.

Other than its farm properties, the Commission possesses few items with current values over \$1000. A formal policy will establish reasonable value thresholds while better valuing its land assets.

Should you have any questions or require any clarifications to the preceding comments, please do not hesitate to contact me. On behalf of the Commission, I thank you again for your service to the State of Indiana. It has been a pleasure working with you.

Sincerely,



Scott D. Pelath
Executive Director
Kankakee River Basin and Yellow River Basin
Development Commission