

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

EXAMINATION REPORT
OF
DELAWARE REGIONAL WASTEWATER DISTRICT
DELAWARE COUNTY, INDIANA
January 1, 2008 to December 31, 2009



FILED
10/22/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	Pamela Shinn	01-01-08 to 12-31-10
Treasurer	Thomas McCarthy	01-01-08 to 12-31-10
President of the Board	Nancy Williams	01-01-08 to 12-31-09
	Tom Douthitt	01-01-10 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE DELAWARE REGIONAL WASTEWATER
DISTRICT, DELAWARE COUNTY, INDIANA

We have examined the financial information presented herein of the Delaware Regional Wastewater District (District), for the period of January 1, 2008 to December 31, 2009. The District's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The bank account reconciliation could not be reconciled to the financial statements at December 31, 2009. There was an unidentified difference of \$23,330 between the adjusted bank balance and the records. The cash receipts and billings could not be reconciled with the detailed accounts receivable balance at December 31, 2009, because a year end detail was not provided. We were unable to express an opinion on the financial statements, as of and for the year ended December 31, 2008, which resulted in questionable beginning balances for the current examination period.

In our opinion, except for the effects of the conditions described in the above paragraph, the financial information referred to above presents fairly, in all material respects, the financial information of the District for the years ended December 31, 2008 and 2009, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and the Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

July 22, 2010

DELAWARE REGIONAL WASTEWATER DISTRICT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL FUND TYPES
As Of And For The Years Ended December 31, 2008 And 2009

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
Operating	\$ 82,819	\$ 3,375,736	\$ 3,473,012	\$ (14,457)
Bond and Interest	26,210	896,751	1,009,418	(86,457)
Depreciaiton	365,050	6,462	183	371,329
Debt Service	898,257	68,651	-	966,908
Improvement	142,546	2,547	1,500	143,593
Retainage	173,624	2,827	-	176,451
Construction	(9,642)	-	-	(9,642)
Totals	<u>\$ 1,678,864</u>	<u>\$ 4,352,974</u>	<u>\$ 4,484,113</u>	<u>\$ 1,547,725</u>

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
Operating	\$ (14,457)	\$ 3,851,177	\$ 3,666,391	\$ 170,329
Bond and Interest	(86,457)	843,147	186,416	570,274
Depreciaiton	371,329	8,352	379,678	3
Debt Service	966,908	84,706	385,902	665,712
Improvement	143,593	403,628	145,816	401,405
Retainage	176,451	71	176,522	-
Construction	(9,642)	9,642	-	-
Totals	<u>\$ 1,547,725</u>	<u>\$ 5,200,723</u>	<u>\$ 4,940,725</u>	<u>\$ 1,807,723</u>

The accompanying notes are an integral part of the financial information.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides the following service: wastewater treatment.

Note 2. Fund Accounting

The District uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were 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.

State statute (IC 5-13-9) authorizes 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 4. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3)

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT
NOTES TO FINANCIAL INFORMATION
(Continued)

govern, through the PERF Board, most requirements of the system, and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

DELAWARE REGIONAL WASTEWATER DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
December 31, 2009

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets completed in the current and prior years have not been reported. Retroactive reporting of general infrastructure assets will occur by December 31, 2010.

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Infrastructure	\$ 3,404,647
Buildings	15,000
Improvements other than buildings	3,209,821
Machinery and equipment	<u>350,060</u>
Total Wastewater Utility capital assets	<u><u>\$ 6,979,528</u></u>

DELAWARE REGIONAL WASTEWATER DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2009

The District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Wastewater Utility:		
Revenue bonds:		
1981 Daleville Issue	\$ 531,000	\$ 59,550
1979 Westbrook Issue	484,000	63,200
2009 Royerton Issue	<u>11,517,145</u>	<u>-</u>
Total Wastewater Utility	<u>\$ 12,532,145</u>	<u>\$ 122,750</u>

DELAWARE REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATION

The following items were noted:

1. The adjusted bank account balance could not be reconciled to the financial statements at December 31, 2009. There was an unidentified difference of \$23,330 between the adjusted bank account balance and the records.
2. The cash receipts and billings could not be reconciled with the detailed accounts receivable balance at December 31, 2009, because a year end detail was not provided.
3. The ending balances from the prior year could not be determined to be correct and an adverse opinion was issued.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ERRORS ON CLAIMS

The following deficiencies were noted during a review of claims:

1. Claims were not prepared for all disbursements.
2. Claims were not adequately itemized. Disbursements were made from statements without any supporting invoices.
3. Disbursements were made without board approval. Dockets listing six of the claims tested were not signed by a majority of the board.
4. Disbursements were made without approval of the fiscal officer.

IC 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;

DELAWARE REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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."

OVERDRAWN FUND BALANCES

The Operating Fund is made up of three subsidiary components: the Daleville Operating, the Westbrook Operating and the Royerton Operating. The Royerton Operating was overdrawn by \$144,760 at December 31, 2008, resulting in a net overdrawn balance of \$14,457. The Bond and Interest Fund is also made up of three subsidiary components: the Daleville Bond and Interest, the Westbrook Bond and Interest and the Royerton Bond and Interest. The Royerton Bond and Interest was overdrawn by \$191,377 at December 31, 2008, resulting in a net overdrawn balance of \$86,457. The Construction Fund was also overdrawn at December 31, 2008, by \$9,642.

The 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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

PENALTIES, INTEREST, AND OTHER CHARGES

The District was not paying withholding taxes to the Internal Revenue Service in the correct amounts, nor were all payments made in a timely manner. As a result, the District paid penalties and interest totaling \$712.83. The Office Manager repaid \$712.83 on July 26, 2010.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ORDINANCES AND RESOLUTIONS

1. The District has established rate ordinances for each of its three service areas. It was noted that many accounts were not being charged amounts as specified in the rate ordinance. Business accounts in Daleville were being multiplied by a factor of 7.48, which is not mentioned in the rate ordinance. The businesses in Chesterfield were not being adjusted by the multiplier.

DELAWARE REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. The District is to charge a 10% fee on all delinquent accounts; however, the unit removed penalties from some delinquent accounts without approval from the governing board.
3. Partial payments were being made for tap fees; however, there was no ordinance or policy to support the practice of accepting partial payments.
4. The board minutes indicated charges for tap fees for the Westbrook District (Cammack Project) were \$4,000; however, we noted customers were charged \$4,350.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

COMPENSATION AND BENEFITS

1. Time cards did not contain detail information.
2. Time cards were not maintained for all employees.
3. Time cards were not approved by the appropriate official.
4. Forms 99A, Employee Service Records, were not maintained for all employees.
5. Payments to some employees did not agree with the salary resolution presented for examination.
6. Errors were noted on the earnings records. These errors caused Federal tax for one employee to be understated by \$15 and Social Security taxes for another employee to be understated by \$542 on their respective W-2 forms.
7. Payments were made to board members without deductions for payroll taxes.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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)

DELAWARE REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

INTEREST ON INVESTMENTS

In some instances, interest earned on investments was automatically added to the principal and was not entered in the records.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

BOND ORDINANCE REQUIREMENTS

The District is required to comply with bond ordinance requirements. The operating funds shall be credited on the last day of the calendar month a sufficient amount of the revenues of the wastewater works so that the balance shall be sufficient to pay the expenses of operation, repair and maintenance for the next succeeding two calendar months. The bond and interest funds shall be credited on the first day of each calendar month in an amount equal to one-tenth of the interest and principal payable on the next succeeding principal and interest payment date. The operating funds and bond and interest funds were underfunded in the amounts of \$108,051 and \$26,778, respectively, at December 31, 2009.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances, at December 31, 2009, reflected an unidentified difference of \$23,330.

IC 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."

CREDIT CARD

The District is using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.

DELAWARE REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

TRAVEL POLICY

A travel policy was not presented for examination.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes.
(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

INVESTMENT MATURITY LIMITATIONS

The District purchased certain investments which have a stated maturity in excess of two years.

IC 5-13-9-5.6 states in part: ". . . investments made under this chapter [IC 5-13-9] must have a stated final maturity of not more than: . . . two (2) years . . . after the date of purchase or entry into a repurchase agreement."

PRESCRIBED FORM

The Register of Investments, Form 350, was not in use.

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

DELAWARE REGIONAL WASTEWATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS – BOARD MEMBERS

Claims supporting payments to board members for attending meetings did not note the specific date of the meetings, but only the number of meetings.

IC 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."

INTERNAL CONTROLS – ACCOUNTS RECEIVABLE

We noted the following concerning the controls over the receipting, disbursing, recording, and accounting for the financial activities:

1. The detailed accounts receivable amounts did not agree with the accounts receivable per the trial balance by \$190,406, as of December 31, 2008.
2. The Trial Balance report, which would show the amounts due for customers, was not presented for examination as of December 31, 2009. A detail of account balances was printed at the end of each billing cycle, which is the 15th of the month for the Westbrook and Daleville service centers and at the end of the month for the Royerton Service Center.
3. No combined trial balance for the end of the month was presented for examination and cash receipts and billings could not be reconciled to a detail balance of amounts owed.

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines for Special Districts, chapter 10)

DELAWARE REGIONAL WASTEWATER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on July 22, 2010, with Thomas McCarthy, Treasurer; Pamela Shinn, Office Manager; and Max Abrell, Director. The officials concurred with our findings.