

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
FAIRWAYS REGIONAL WATER DISTRICT
LAKE COUNTY, INDIANA
January 1, 2011 to December 31, 2016



FILED
07/12/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Financial Clerk/Treasurer	Robert VanBaren	01-01-11 to 12-31-17
President of the Board	Richard L. Willard (Vacant) Helena Black	01-01-11 to 06-26-14 06-27-14 to 09-24-14 09-25-14 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF THE FAIRWAYS REGIONAL WATER DISTRICT, LAKE COUNTY, INDIANA

This report is supplemental to our examination report of the Fairways Regional Water District (District), for the period from January 1, 2011 to December 31, 2016. 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

March 28, 2017

FAIRWAYS REGIONAL WATER DISTRICT
EXAMINATION RESULTS AND COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

Robert VanBaren (VanBaren), Financial Clerk/Treasurer incurred and paid penalties and interest of \$545.67 to the Indiana Department of Revenue during the examination period for late remittance of sales tax on utility collections.

VanBaren also incurred and paid late fees of \$93.31 to Northern Indiana Public Service Company for late remittance of utility bills.

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 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 unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

We requested VanBaren reimburse the District for penalties, interest, and other charges incurred and paid by the Water District in the amount of \$638.98. Reimbursement of \$638.98 to the Township was made on June 27, 2017. (See Summary of Charges, page 12)

OFFICIAL BOND

The District had Surety Blanket Bond coverage in the amount of \$10,000 with Western Surety Company. The coverage began January 29, 2008, and continues until cancelled.

FINANCIAL STATEMENTS

The financial statements prepared by the District were not reflective of the cash and investment balances and related activities as recorded in the ledgers. In 2011, the cash and investment balances and activity of the Water Cash Operating fund was excluded from the financial statement. As of December 31, 2014, the Water Customer Deposits fund held a cash and investment balance of \$400, but this was excluded from the financial statement for 2015, as well as the related disbursements to clear the fund.

The discrepancies noted between the financial statements and ledgers, for years where differences were noted, are scheduled below:

	2011	2013	2014	2015	2016
Reported Cash and Investment Balances, January 1	\$ 76,913.00	\$ 70,818.00	\$ 76,458.00	\$ 103,874.00	\$ 85,327.00
Cash and Investment Balances per Ledger, January 1	<u>53,964.00</u>	<u>70,818.00</u>	<u>73,922.00</u>	<u>81,188.00</u>	<u>85,327.00</u>
Differences	<u>\$ 22,949.00</u>	<u>\$ -</u>	<u>\$ 2,536.00</u>	<u>\$ 22,686.00</u>	<u>\$ -</u>
Total Reported Receipts	\$ 23,788.00	\$ 103,178.00	\$ 118,074.00	\$ 104,073.00	\$ 105,605.00
Receipts per Ledger	<u>106,398.35</u>	<u>103,368.74</u>	<u>109,377.53</u>	<u>108,738.27</u>	<u>114,159.88</u>
Differences	<u>\$ (82,610.35)</u>	<u>\$ (190.74)</u>	<u>\$ 8,696.47</u>	<u>\$ (4,665.27)</u>	<u>\$ (8,554.88)</u>
Total Reported Disbursements	\$ 23,689.00	\$ 97,539.00	\$ 90,257.00	\$ 122,619.00	\$ 86,806.00
Disbursements per Ledger	<u>116,687.61</u>	<u>100,274.53</u>	<u>102,120.34</u>	<u>104,608.95</u>	<u>95,413.71</u>
Differences	<u>\$ (92,998.61)</u>	<u>\$ (2,735.53)</u>	<u>\$ (11,863.34)</u>	<u>\$ 18,010.05</u>	<u>\$ (8,607.71)</u>

FAIRWAYS REGIONAL WATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

The ledger activity was substantiated through examination testing procedures. Examination adjustments were proposed and accepted by District officials to bring the financial statements into agreement with the ledgers.

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

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

ADVANCE PAYMENTS

In July 2014, the Financial Clerk/Treasurer paid a utility company \$1,525.03 on an invoice for \$510.30 leaving a credit balance of \$1,014.73. Subsequent billings were paid in excess of amounts due, resulting in the District having a credit balance each month ranging from \$109.38 to \$524.08.

Compensation and any other payments for goods and services must not be paid in advance of receipts of the goods or services unless specifically authorized by law. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

DEPOSITS

Collections in excess of \$500 were not being deposited by the following business day.

Effective until July 1, 2015, Indiana Code 5-13-6-1(c) stated in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the several local boards of finance . . ."

Effective July 1, 2015, Indiana Code 5-13-6-1 states in part:

". . . (c) Except as provided in subsections (d) and (g), all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the several local boards of finance . . ."

(g) The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . .

FAIRWAYS REGIONAL WATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (2) A local officer of a political subdivision required to deposit funds under subsection (c) other than a township trustee. . . .

However, the funds on hand must be deposited not later than the business day following the day that the funds exceed five hundred dollars (\$500)."

COLLECTIONS AND RECEIPT ISSUANCE

The following conditions were noted related to collections and the issuance of receipts:

- Receipts issued did not indicate the date collections were received by the Financial Clerk/Treasurer, or the fund to which the collections should have been posted. Utility collections included collections that should have been posted to the Water Cash Operating fund, and collections that should be have posted to the Water Sales Tax fund.
- In 2011, customer deposits totaling \$700 were applied to outstanding utility bills. All of the collections were posted to the Water Cash Operating fund; none of the collections were posted to the Tax Fund.
- Receipts were posted in batches based upon deposit dates. By posting in batches, receipts were not posted to the accounting period, either the month or year, in which the collection was received.
- Receipts were not issued in numerical order.
- In cases where the duplicate receipt was blank, the original receipt was not retained. It could not be determined if the original receipt was issued or not, or if the original was voided.

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

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)

PAYROLL RELATED DISBURSEMENTS

Board members were paid \$45 per meeting through March 2015, and \$50 per meeting beginning in April 2015. The Financial Clerk/Treasurer, who was also a Board member, received \$10 per hour for performing the bookkeeping functions for the District.

The compensation paid did not have federal, state, or local taxes withheld, and the District did not pay Social Security and Medicare on the wages. Internal Revenue Service (IRS) Form W-2 - Wage and Tax Statements or IRS Form 1099 - Miscellaneous Income were not issued.

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 law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

FAIRWAYS REGIONAL WATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

DISTRICT BOARD ACTIVITIES

Board Minutes

Minutes for meetings from January 1, 2011 to December 31, 2011, January 2012, April and June 2013, April 2014, July 2015, and May 2016 were not presented for examination.

Organization

Prior to August 28, 2014, the Board did not have rules and resolutions or bylaws to address the management and operation of the Water District. As such, the Board was not formally electing a President, Secretary, or Treasurer.

Indiana Code 13-26-5-3(a) states in part:

"The board may by rules and resolutions provide the following:

- (1) The procedure for the board's actions.
- (2) The manner of selection of the board's president, treasurer, and secretary and other officers or employees of the district, including the titles, terms of office, compensation, duties, number, and qualifications. . . ."

After August 28, 2014, the Board did not comply with the bylaws they adopted for operation of the District as follows:

- On September 25, 2014, the Board elected a President and Vice President. From the minutes made available for examination, no other elections of officers were held.

Per the District Bylaws: "Each calendar year by a majority vote, the board of trustees shall elect one of its members as President, Vice-President, Treasurer, and Secretary."

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

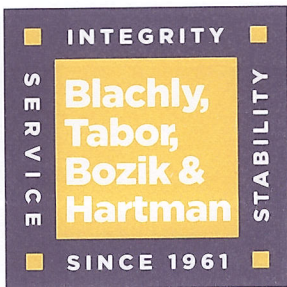
CAPITAL ASSETS

The District has not maintained capital asset records. The Board has not adopted a capitalization policy.

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)

FAIRWAYS REGIONAL WATER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on March 28, 2017, with Nathan Vis, Attorney; Robert VanBaren, Financial Clerk/Treasurer; and Helena Black, President of the Board.



Blachly, Tabor, Bozik & Hartman, LLC

April 21, 2017

Randall J. Zromkoski
Craig R. Van Schouwen
Jeffrey S. Wrage
Ethan S. Lowe

Paul D. Joyce
State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

Scott R. Bozik
Angelica C. Schultis
Nathan D. Vis
Colby A. Barks

RE: Fairways Regional Water District

Dear Mr. Joyce:

OF COUNSEL
Duane W. Hartman
David L. Hollenbeck
Kingsley G. Regnier
Patrick Lyp

Please find enclosed and below, the written response of the Board of the Fairways Regional Water District. The Board commends the State Board of Accounts for their thorough and professional review.

Response to: COLLECTIONS AND RECEIPT ISSUANCE

The Board understands the requirement to make deposits in excess of \$500.00 by the end of the next business day, the sums are received. The Board will strive to achieve compliance with that in the coming fiscal years.

Quentin A. Blachly
(1934 -1997)
James S. Bozik
(1935 - 2012)
Glenn J. Tabor
(Retired)

Response to: PAYROLL RELATED DISBURSEMENTS

In March of 2015, the Board took official action via a motion during public meeting to increase the Board member pay. Same measure will be reduced to a salary resolution at the April 2017 meeting.

Response to: SUPPORTING DOCUMENTATION FOR DISBURSEMENTS

The Board understands there may be minimal invoices which lack or have lost backup supplemental documentation. The Board acknowledges same will be provided in the fiscal years moving forward and acknowledges any payments/disbursements in all prior years, have received the full approval at every meeting, ensuring there has not been abuse of any payments.

Response to: PENALITIES, INTEREST AND OTHER CHARGES

The Board acknowledges a series of late penalties accrued over the past five years for the Indiana Department of Revenue and to NIPSCO. The Board will ensure moving forward same are remitted in a timely fashion and will require the financial clerk/treasurer to remit the late sums to the Department of Local Government Financing.

56 Washington, Suite 401
Valparaiso, IN 46383
219.464.1041
219.464.0927 fax

Merrillville Office
219.738.2824

Fort Wayne Office
260.459.3288



Blachly, Tabor, Bozik & Hartman, LLC

Paul D. Joyce
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Response to: FINANCIAL STATEMENTS

The District has maintained the same set of books/accounting methods since prior to 2011. Recognizing this methodology does not comport with the now recognized form observed in the Gateway System, the Board will move towards a system that conforms with the Gateway System accounting methodologies.

Response to: ADVANCE PAYMENTS

The turnaround period offered from NIPSCO to pay invoices is extremely short and to avoid late penalties the Clerk Treasurer would remit an estimated amount per month to avoid late penalties and ensure payment. The Board will set up required system as prescribed.

Response to: DEPOSITS

See prior statement regarding collections in excess of \$500.00.

Response to: COLLECTIONS AND RECEIPT ISSUANCE

The Board acknowledges the recommendations and will implement procedures to respond to same.

Response to: PAYROLL RELATED DISBURSEMENTS

The Board acknowledges the suggestions provided and will work with an accountant to issue Form W2's or Form 1099's moving forward.

Response to: DISTRICT BOARD ACTIVITIES/BOARD MINUTES

Board minutes from 2011 through 2012 were maintained by scanning them into a computer system. This computer system failed as did its backup resulting in a loss of some records. A duplicate system of storage has been implemented.

Beyond the above, for the last three and a half years, the Board President has been Helena Black, the Board Vice President, Charles Ganczak; the Board Secretary, Paul Hurckes; and the Board Treasurer, Robert VanBaren.



Blachly, Tabor, Bozik & Hartman, LLC

Paul D. Joyce
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Response to: CAPITAL ASSETS

The Board will adopt a capitalization policy at their April 2017 meeting.

Respectfully submitted,

On behalf of the Fairways Regional Water
District Attorney

By:

A handwritten signature in black ink, appearing to read "NDV's", is written over a horizontal line.

Nathan D. Vis

ndv@btbhlaw.com

NDV:cd
cc: Client

FAIRWAYS REGIONAL WATER DISTRICT
SUMMARY OF CHARGES

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Robert VanBaren, Financial Clerk/Treasurer:			
Penalties, Interest, and Other Charges, page 4	\$ 638.98	\$ 638.98	\$ -