

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
KNAPP LAKE AREA CONSERVANCY DISTRICT
NOBLE COUNTY, INDIANA
January 1, 2012 to December 31, 2015



FILED
11/09/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kathleen Hagerman (deceased)	01-01-12 to 05-09-12
	Cindy Kennedy	05-10-12 to 01-14-15
	Tina Kreishner	01-15-15 to 10-12-16
	Carol Busche	10-13-16 to 12-31-17
President of the Board	Dean Bickel	01-01-12 to 12-31-17



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TO: THE OFFICIALS OF THE KNAPP LAKE AREA CONSERVANCY
DISTRICT, NOBLE COUNTY, INDIANA

This report is supplemental to our examination report of the Knapp Lake Area Conservancy District (District), for the period from January 1, 2012 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 Result and Comment contained herein describes 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 Result and Comment, incorporated within this report, was not verified for accuracy.

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

September 25, 2017

KNAPP LAKE AREA CONSERVANCY DISTRICT
EXAMINATION RESULT AND COMMENT

INTERNAL CONTROLS

The following deficiencies related to the internal control system of the District were noted:

1. Lack of Segregation of Duties: The District had not separated incompatible activities related to receipts, utility billings and collections, disbursements, and cash and investment balances. The failure to establish these controls could have caused material misstatements or irregularities to remain undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves identifying and analyzing the risks of material misstatement to the District's audited financial statements and then determining how those identified risks should be managed. The District had not identified risks to the preparation of reliable financial statements and, as a result, failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements. Monthly reconcilements, detail of receipts, detail of disbursements and a detail of Construction fund activity were not presented for examination. The records and activity of the Construction fund were recreated using bank statements and paid invoices.
3. Monitoring of Controls: Effective internal control over financial reporting required the District's Board to monitor and assess the quality of the District's system of internal control. The District Board had not performed either an ongoing or separate evaluation of the District's system of internal controls. The failure of the District Board to exercise its oversight responsibility placed the District at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls would have prevented or detect material misstatements in a timely manner.
4. The District had no process to identify or communicate corrective actions to improve controls.

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:

KNAPP LAKE AREA CONSERVANCY DISTRICT
EXAMINATION RESULT AND COMMENT
(Continued)

"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. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. . . ."

"An internal control structure must provide for the identification, capture, and exchange of information within the government . . . Internal communication allows supervisors to convey responsibilities and issues to their staff. In turn, staff and middle management alert upper management to potential problems . . ."

KNAPP LAKE AREA CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on September 25, 2017, with Carol Busche, Treasurer; Dean Bickel, President of the Board; Byron Rothgeb, Board member; and Nicholas Stanger, Board member.