

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
LEO-CEDARVILLE REGIONAL SEWER DISTRICT
ALLEN COUNTY, INDIANA
January 1, 2014 to December 31, 2014



FILED
11/30/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2014-001	
Internal Controls over Financial Transactions and Reporting.....	4-5
Finding 2014-002	
Internal Controls over the Preparation of the Schedule of Expenditures of Federal Awards	5-6
Corrective Action Plan.....	7-8
Exit Conference.....	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Amy Shuler Rick Neff	01-01-14 to 09-01-17 09-02-17 to 12-31-17
Financial Clerk	Laura Dever Melissa Dafforn	01-01-14 to 11-30-16 12-01-16 to 12-31-17
President of the Board	David Jones	01-01-14 to 12-31-17
Operations Manager	Basil Wisler Brad Carnes	01-01-14 to 07-10-16 07-11-16 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 LEO-CEDARVILLE REGIONAL
SEWER DISTRICT, ALLEN COUNTY, INDIANA

This report is supplemental to our audit report of the Leo-Cedarville Regional Sewer District (District), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the District. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the District, which provides our opinions on the District's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

October 16, 2017

LEO-CEDARVILLE REGIONAL SEWER DISTRICT
FEDERAL FINDINGS

FINDING 2014-001

Subject: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is not a repeat finding.

Condition

There were several deficiencies in the internal control system of the District related to financial transactions and reporting.

1. Lack of Segregation of Duties: The District had not separated incompatible activities related to monthly cash reconcilements and the financial information entered into the Gateway for Government Units financial system, which is the source for the Annual Financial Report (AFR) and financial statement. Cash reconcilements and the AFR were not being reviewed and checked for accuracy by another individual and documented to prove that a second review was performed.
2. Monitoring of Controls: The District had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the District to monitor and assess the quality of the system of internal control.

Context

The lack of adequate internal controls and lack of monitoring of controls were systemic issues, which occurred throughout the audit period.

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. . . .

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. . . ."

LEO-CEDARVILLE REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

"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. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Cause

Management of the District had not established a system of internal control related to monthly cash reconcilements and the financial information entered into the Gateway for Government Units financial system.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the District's management establish controls, including segregation of duties, related to monthly cash reconcilements and the financial information entered into the Gateway for Government Units financial system and establish a system to ensure that controls are monitored and evaluated periodically.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2014-002

Subject: Internal Controls over the Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

Repeat Finding

This is not a repeat finding.

Condition

The District did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The District was initially not aware that USDA loans were to be included on the SEFA.

Context

The lack of adequate internal controls and lack of monitoring of controls were systemic issues, which occurred throughout the audit period.

LEO-CEDARVILLE REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

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. . . .

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. . . ."

"A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Cause

Management of the District had not established and monitored a system of internal control related to the preparation of the SEFA that would have ensured proper reporting of the SEFA.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the District's management establish controls, including segregation of duties, related to the preparation of the SEFA and establish a system to ensure that controls are monitored and evaluated periodically.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**LEO CEDARVILLE
REGIONAL SEWER DISTRICT
P.O. Box 197
Leo, Indiana 46765**

Office: (260) 627-2084
Fax (260) 627-5591

CORRECTIVE ACTION PLAN

FINDING 2014-001

Melissa Dafforn – Financial Clerk

lcrsd.clerk@gmail.com

260-627-2084

September 26, 2017

Views of Responsible Official:

Description of Corrective Action Plan:

In regards to the finding regarding cash reconcilements, the District will now have the Director of O&M review and sign off on the bank reconciliation each month. The Financial Clerk and the Director of O&M go over the financials each month already so this will just be an additional step to make sure that everything is accurate and an additional person is verifying this information. This will be implemented beginning with the cash reconciliation for September 2017.

The finding for an additional signature and verification for the Annual Financial Report will be addressed and implemented in February of 2018 when the AFR is prepared for Gateway. The Financial Clerk will prepare the report as has been done in the past and the Secretary Treasurer for the District will then be given the report for review. Both the Financial Clerk and the Secretary Treasurer will sign off on the AFR before it is submitted and a copy of the report will go in a permanent file in the front office.

Anticipated Completion Date: Cash Reconciliation-October 6, 2017. Annual Financial Report will be sometime in February of 2018 when the report is generated for submittal into Gateway.

LCRSD is an equal opportunity provider and employer

FINDING 2014-002

Melissa Dafforn – Financial Clerk

lcrsd.clerk@gmail.com

260-627-2084

September 26, 2017

Views of Responsible Official:

Description of Corrective Action Plan:

The District was not aware that a SEFA filing was required. As a result of the audit, the District now knows that any federal money received either in the form of a grant or a loan requires this document to be filed. The District has made note of this and going forward a SEFA form will be submitted if any federal money is received.

Anticipated Completion Date: When and if federal money is received. No specific date can be provided.



(Signature)

Financial Clerk
(Title)

9-27-17
(Date)

LEO-CEDARVILLE REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 16, 2017, with Rick Neff, Treasurer; Melissa Dafforn, Financial Clerk; Brad Carnes, Operations Manager; and David Jones, President of the Board.