

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
DECATUR COUNTY, INDIANA
January 1, 2010 to December 31, 2016



FILED
12/29/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Examination Results and Comments:	
Overdrawn Cash.....	4
Public Records Retention	4
Annual Financial Reports	4-6
Accounts Payable Vouchers.....	6-7
Internal Controls	7
Exit Conference.....	8

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent/Operator	Brandon Litmer	01-01-10 to 12-31-17
Utility Administrator	Darin Miley Bradley Jones	01-01-10 to 06-19-13 06-20-13 to 12-31-17
Treasurer	Frank Erdosy Scott Gibbs Kathy Tarzwell Frank Erdosy Greg Montgomery Kathy Tarzwell	01-01-10 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 09-20-17 09-21-17 to 12-31-17
President of the Board	William McVay Scott Gibbs Frank Erdosy	01-01-10 to 12-31-13 01-01-14 to 12-31-16 01-01-17 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE LAKE SANTEE REGIONAL WASTE
AND WATER DISTRICT, DECATUR COUNTY, INDIANA

This report is supplemental to our examination report of the Lake Santee Regional Waste and Water District (District), for the period from January 1, 2010 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

November 14, 2017

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN CASH

The financial statements presented in this report included the following funds with overdrawn cash balances as of December 31:

Fund	Years	Amount Overdrawn
Operating Acct - Water	2010	\$ 78,037
Operating Acct - Water	2011	66,781
Operating Acct - Water	2016	38,932
Operating Acct - Sewer	2016	19,787

The cash 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 unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

A similar comment also appeared in prior Report B37912, entitled *OVERDRAWN FUND BALANCES*.

PUBLIC RECORDS RETENTION

The District's financial records for the years 2010, 2011, and 2012 only consisted of a balance sheet of the month end account balances and an income statement of the total revenues and expenditures for each month. These financial statements did not include any detail or totals of the cash accounts' receipts and disbursements. The District purchased a new accounting software system in December 2012. Prior to the changeover in accounting software systems, the District did not print out a monthly or annual detailed general ledger of the accounts' transactions nor did the District maintain a backup copy of its computer files of the transactions.

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

ANNUAL FINANCIAL REPORTS

The following exceptions were noted in the filing of the District's Annual Financial Reports (AFR):

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

1. The District did not timely file the 2010 AFR with the State Examiner. The AFR was not filed until June 27, 2011, which was 118 days past the required due date. Two parts of the AFR were not prepared: Part 1 - Statement of Receipts, Disbursements, Cash and Investment Balances; and Part 4 - Actual Receipts and Disbursements by Fund - Utility Funds. Instead, the District filed a Wastewater/Water Balance Sheet as of December 31, 2010, and a Wastewater/Water Income Statement for the year ended December 31, 2010.
2. The District did not timely file the 2011 AFR with the State Examiner. The AFR was not filed until April 9, 2012, which was 40 days past the required due date. The 2011 AFR that was filed did not include any of the required information in Cash and Investment Combined Statements, Detailed Receipts and Detailed Disbursements sections. An amended AFR was filed October 10, 2017. The amended AFR only showed the ending cash balances of the District's accounts as of December 31, 2011.
3. The District did not timely file the 2012 AFR with the State Examiner. The AFR was not filed until October 10, 2017, which was 1684 days past the required due date. The 2012 AFR did not include all of the required information in Cash and Investment Combined Statements, Detailed Receipts and Detailed Disbursements sections. The only information included in the Cash and Investment Combined Statement section was the January 1, 2012 beginning cash and investment balance, the net change in the funds' receipts and disbursements and the ending cash and investment balance as of December 31, 2012.
4. The District did not timely file the 2013 AFR with the State Examiner. The AFR was not filed until April 15, 2014, which was 45 days past the required due date.
5. The AFRs for 2014, 2015, and 2016 contained a number of errors and did not match the records of the District. The differences between each AFR and the District's ledgers were as follows:
 - (a) In 2014, the Bond & Interest Acct - Water fund receipts and disbursements were each understated by \$101,304 on the AFR.
 - (b) In 2014, the Bond & Interest Acct - Sewer fund receipts and disbursements were each understated by \$149,952 on the AFR.
 - (c) In 2014, the Operating/Improvements - Other fund receipts were understated by \$84,816 and disbursements were understated by \$85,306, which resulted in the December 31, 2014 balance being understated by \$490.
 - (d) In 2015, the Operating Acct - Water fund receipts were overstated by \$1,336 and disbursements were overstated by \$1,115, which resulted in the December 31, 2015 balance being overstated by \$221.
 - (e) In 2015, the Operating Acct - Sewer fund receipts were overstated by \$729 and disbursements were overstated by \$471, which resulted in the December 31, 2015 balance being overstated by \$258.
 - (f) In 2015, the Operating/Improvements - Other fund balance as of January 1, 2015, receipts were overstated by \$490 and disbursements were understated by \$542 which resulted in the December 31, 2015 balance being overstated by \$1,032.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

(g) In 2015, the Operating Improvements - Water fund receipts of \$125,285 and the balance as of December 31, 2015, of \$125,285 were not included on the AFR.

Adjustments to the financial statements were proposed, approved by the Utility Administrator, and made to the financial statements on October 10, 2017.

6. On the 2013, 2014, 2015 and 2016 AFRs, all the District's receipts were reported as "Other Receipts" instead of in the proper classification, such as utility collections or transfers in. Most of the District's disbursements were reported as "Other Disbursements" instead of in the proper classifications, such as, utility operations, capital outlay, debt service, and transfers out.

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."

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)

ACCOUNTS PAYABLE VOUCHERS

The following items were noted in the sample of claims:

1. Accounts Payable Vouchers (Form 301 or 301-S) were not prepared and approved by the District Board for the District's debt payments, monthly sales tax remittance, and monthly postage for customer billings.
2. All of the claims tested did not have evidence to support receipt of goods or services.
3. Twenty-five percent of the claims tested did not have evidence to support that the Treasurer certified the claims as true and correct. This resulted in \$175,636 of expenditures which did not have evidence to support that the Treasurer certified the claims as true and correct.
4. Thirteen percent of the claims tested did not have evidence to support that the District Board allowed the payment. This resulted in \$166,673 of expenditures which did not have evidence to support that the District Board allowed the payment. All of these claims that were identified were for the transfer of funds per the District's bond ordinance.
5. Thirteen percent of the claims each year were paid prior the District Board approval. No resolution or policy was presented to authorize the payment of any claims prior to the approval of the District Board.

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 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. . . ."

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)

INTERNAL CONTROLS

The District did not have a proper system of internal controls in place to prevent or detect and correct errors on the Annual Financial Report (AFR). The District should have proper controls in place over the preparation of the AFR to ensure accurate reporting of the District's financial activities and cash and investment balances. Without a proper system of internal control in place that operated effectively, material misstatements of the AFR could have remained undetected.

Also, the District did not have a proper system of internal controls in place for the retention of detailed accounting records in 2010, 2011, and 2012. There were no financial accounting records to verify the proper posting of the detailed transactions for the receipts and disbursements.

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. . . ."

LAKE SANTEE REGIONAL WASTE AND WATER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 14, 2017, with Frank Erdosy, President of the Board; Kathy Tarzwell, Treasurer; Bradley Jones, Utility Administrator; Michelle Deaton, Administrative Support Specialist; and Barbara Jarman, Customer Support Specialist.