

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MERRILLVILLE CONSERVANCY DISTRICT

LAKE COUNTY, INDIANA

January 1, 2015 to December 31, 2017



**FILED**

04/11/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
District Coordinator	Charles J. Stojakovich	01-01-15 to 12-31-18
Financial Clerk	Vickee Edwards	01-01-15 to 12-31-18
Chairman of the Board of Directors	Edward Yerga Kenneth Smith Edward Yerga	01-01-15 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF THE MERRILLVILLE CONSERVANCY DISTRICT, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Merrillville Conservancy District (District), for the period from January 1, 2015 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the District. It should be read in conjunction with our Financial Statements Audit Report of the District, which provides our opinions on the District's financial statements. This report may be found at [www.in.gov/sboa/](http://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 Audit 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 Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

March 28, 2018

MERRILLVILLE CONSERVANCY DISTRICT  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

There were several deficiencies in the internal control system of the District related to financial transactions and reporting. The lack of internal controls was a systemic issue throughout the audit period.

1. Lack of Segregation of Duties: The District had not separated incompatible activities related to Cash and Investments, Receipts, Payroll Disbursements, and Financial Close and Reporting. A separation of duties for each of these areas had not been designed or implemented to prevent or detect and correct errors.

- Cash and Investments - The reconciliation of the bank and ledger activity was prepared by one employee without an oversight or review process.

The bank reconciliations and ledgers excluded financial activity accounted for in a trust account for the \$5,741,000 proceeds of the 2017 refunding bond issue.

- Receipts - Daily utility payments were collected and a batch report of those collections was prepared. There was no documentation that utility collections and deposits were verified to the batch reports prior to posting the collections to the ledgers.
- Payroll Disbursements - One employee entered the hours worked and rates of pay for all employees into the computerized accounting system without evidence of a proper system of oversight or review to ensure that the employees were paid the correct amounts from the proper funds. One employee initiated, approved, and reconciled payroll transactions. The process lacked adequate oversight and approval of the transactions and reports generated based on the transactions.
- Financial Close and Reporting - The financial information was prepared and electronically submitted through Gateway without an oversight or review process to prevent, or detect and correct, errors.

The 2017 refunding bond issue, which had receipts of \$5,741,000 and disbursements of \$5,741,000, was not reported in a bond (proceeds) fund. Adjustments were proposed, approved by the District, and made to the financial statements.

2. Monitoring of Controls: An evaluation of the District's system of internal controls had not been conducted. Additionally, 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:

"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.

MERRILLVILLE CONSERVANCY DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

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. . . ."

"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."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

**COMPENSATION AND BENEFITS**

A similar comment appeared in prior Report B45653, entitled *COMPENSATION AND BENEFITS*.

The District's governing board had not approved a salary schedule fixing employees' compensation. A salary schedule was maintained by the District, and employees were paid according to the schedule; however, the schedule had not been formally adopted by the Board of Directors.

The District's Fiscal Officer and governing board had not approved payroll claims. Payroll claims were not included on the Accounts Payable Voucher Register and no other approval of payroll claims by the fiscal officer or Board of Directors was documented.

Indiana Code 14-33-5-18(a) states:

"The board may appoint, prescribe the duties, and fix the compensation of the following:

- (1) A secretary.
- (2) A financial clerk.
- (3) An engineer.
- (4) Employees that are necessary for the discharge of duties and responsibilities of the board."

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)

MERRILLVILLE CONSERVANCY DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

Indiana Code 5-11-10-1.6(a) states in part:

"As used in this section, 'governmental entity' refers to any of the following: . . .

(8) A conservancy district. . . ."

***ADOPTION OF AND TRAINING ON INTERNAL CONTROLS STANDARDS***

The District failed to adopt internal control standards and provide training to personnel over the internal control standards as required by Indiana Code 5-11-1-27(g).

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

MERRILLVILLE CONSERVANCY DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on March 28, 2018, with Vickee Edwards, Financial Clerk; Charles J. Stojakovich, District Coordinator; Edward Yerga, Chairman of the Board of Directors; and William Touchette, Board Attorney.