

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NEW PARIS CONSERVANCY DISTRICT

ELKHART COUNTY, INDIANA

January 1, 2012 to December 31, 2016



FILED

11/15/2018

TABLE OF CONTENTS

| <u>Description</u> | <u>Page</u> |
|---|-------------|
| Schedule of Officials | 2 |
| Transmittal Letter | 3 |
| Examination Results and Comments: | |
| Internal Controls over Financial Transactions and Reporting | 4 |
| Certification of Training on Internal Control Standards | 5 |
| Public Records Retention | 5 |
| Annual Financial Report | 6 |
| Board Minutes..... | 6 |
| Bank Reconcilements | 6-7 |
| Optical Images of Checks..... | 7 |
| Salary Schedule..... | 7-8 |
| Employee Service Record | 8 |
| Errors on Forms W-2..... | 8 |
| Approval of Claims | 8 |
| Mileage Claims | 8-9 |
| Official Response | 10-12 |
| Exit Conference..... | 13 |

SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---------------------------------------|-------------------|----------------------|
| Financial Clerk/Secretary | Diane K. Smith | 01-01-12 to 12-31-18 |
| Chairman of the Board of Directors | Gary L. Brumbaugh | 01-01-12 to 12-31-18 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NEW PARIS CONSERVANCY DISTRICT, ELKHART COUNTY, INDIANA

This report is supplemental to our examination report of the New Paris Conservancy District (District), for the period from January 1, 2012 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

October 3, 2018

NEW PARIS CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

There were deficiencies in the internal control system of the District related to financial transactions and reporting. The District had not established proper segregation of duties related to cash and investments, receipts, disbursements, including vendor and payroll, and transfers.

Cash and Investments

The District hired a consultant to prepare monthly bank reconcilements. There was no evidence of a review or approval process over the accuracy of the consultant prepared bank reconcilements.

Receipts

The Financial Clerk/Secretary was primarily responsible for receipting, depositing, and posting receipt collections of the District. There was no evidence of a control in place, such as an oversight, review or approval process over receipt collections.

Vendor Disbursements

The Financial Clerk/Secretary wrote and posted vendor checks that were paid in advance of the Board of Director's approval. The District had a policy in place for certain vendors to be paid in advance of the Board of Director's approval. However, there was no evidence of a control in place, such as an oversight, review, or approval process over advance payments of vendor claims.

Payroll Disbursements

The Financial Clerk/Secretary wrote and posted payroll checks that were paid in advance of the Board of Director's approval. The District had a policy in place for payroll obligations to be paid in advance of the Board of Director's approval. However, there was no evidence of a control in place, such as an oversight, review, or approval process over advance payments of payroll.

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. . . ."

NEW PARIS CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

CERTIFICATION OF TRAINING ON INTERNAL CONTROL STANDARDS

The Financial Secretary/Clerk certified on the Annual Financial Report (AFR) for 2016 that the District had adopted the minimum internal control standards as required by Indiana Code 5-11-1-27(e) and that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards. The written certification provided for audit of the internal control training received for the Financial Secretary/Clerk was dated on December 16, 2017, which occurred after the submission of the 2016 Annual Financial Report on February 27, 2017.

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](#)."

PUBLIC RECORDS RETENTION

District officials stated that supporting documentation of financial activity, which would fall under public records retention laws, was destroyed or contaminated by a sewage overflow in October 2017.

Indiana Code 5-15-5.1-10(a) states in part:

"Each agency and local government shall:

- (1) Make and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency and local government to protect the legal and financial rights of the government and of persons directly affected by the agency's activities and the local government's activities. . . .
- (5) Establish necessary safeguards against the removal, alteration, or loss of records; safeguards shall include notification to all officials and employees of the agency or local government that records in the custody of the agency or local government may not be alienated or destroyed except in accordance with:
 - (A) the provisions of this chapter; and
 - (B) if applicable, an order of the county commission of public records under [IC 5-15-6](#)."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

The unit must ensure it is adequately protected for all risks of loss. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

NEW PARIS CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT

The District utilized a modified accrual double-entry accounting system to record their financial activity. The District reported their financial activity into the Indiana Gateway for Government Units website, which is the source of the AFR and financial statements. The supporting documentation presented for audit did not sufficiently reconcile the differences between the accounting system and the AFR.

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](#)."

BOARD MINUTES

Board of Directors minutes presented for audit contained duplicate excerpts from prior Board of Directors minutes that did not reflect the substance of that day's meeting. Actions taken by the Board of Directors were unclear in the meeting minutes during the audit period. In 2014, the Board of Directors minutes disclosed discussions questioning the accuracy of the minutes; describing items that were either missing or inaccurate in the minutes.

Indiana Code 5-14-1.5-4 states in part:

". . . (b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes take, by individual members if there is a roll call.
- (5) Any additional information required under section 3.5 of 3.6 of this chapter or any other statute that authorizes a governing body to conduct a meeting using an electronic means of communication.

(c) The memoranda are to be available within a reasonable period of time after the meeting for the purpose of informing the public of the governing body's proceedings. The minutes, if any, are to be open for public inspection and copying."

BANK RECONCILEMENTS

The District hired a consultant to prepare monthly bank reconcilements. The consultant relied on the District to submit reports in order to prepare the bank reconcilements timely. The District was not timely in submitting reports to the consultant and as a result, bank reconcilements were completed several months later than the month being reconciled.

NEW PARIS CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

OPTICAL IMAGES OF CHECKS

The District did not have a method to verify checks being cleared from their financial institution to the disbursement information posted to the ledger. The District's financial institution did not provide on their bank statements, or in another electronic means, the front and back optical images of cleared checks.

Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference. . . .

(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a). . . ."

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."

SALARY SCHEDULE

The District did not have an approved salary schedule for compensation paid during the audit period.

Indiana Code 14-33-5-20 states in part:

"The board shall do the following: . . .

- (4) Prescribe the qualifications of, appoint, remove, and fix the compensation of the employees of the district. . . ."

NEW PARIS CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

EMPLOYEE SERVICE RECORD

Employee service records at the District were not used as prescribed for Employee's Service Record General Payroll Form No. 99A. Employee leave-time balances were not maintained.

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)

ERRORS ON FORMS W-2

The District made Health Savings Account contributions to the Financial Clerk/Secretary and the Operator for 2013 and 2014; however, the contributions were not reported on their Wage and Tax Statement, Internal Revenue Service Form W-2.

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

APPROVAL OF CLAIMS

Disbursements for electronic funds transfers and gross payroll were not included on the claims docket for approval by the Board of Directors. Therefore, these payments were not approved by the District's Board of Directors.

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: . . .

(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. . . ."

MILEAGE CLAIMS

The District did not use the prescribed form for mileage claims, General Form Number 101, or an approved alternative. The District created and used their own form as supporting documentation for mileage claims. The District's form required the same information as prescribed Mileage Claim General

NEW PARIS CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Form No. 101. However, the mileage claims submitted for reimbursement did not include odometer readings in order to verify the mileage traveled and the nature of business. The point-to-point travel on the forms did not include the physical location address to verify the travel.

The District reimbursed the Financial Clerk/Secretary for the following daily travel: bank, post office, work, post office, and bank. The daily travel consisted of 22 miles per day. The Financial Clerk/Secretary worked in the District's office on Monday, Wednesday, and worked remotely from a different location on Tuesday and Thursday. There was no deviation of miles traveled between days worked in the District's office and days worked remotely.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Subject: FW: NPCD Supplemental Response

From: Cherie Vogel (CVogel@btbhlaw.com)

To: npcsmith6100@yahoo.com

Date: Wednesday, October 24, 2018, 10:11 AM EDT

It isn't any document to download. It is just the unsent email attached. However, I just copied and pasted in case it is still an issue.

Dear Ms. Ross

Thank you for the opportunity of providing comments and observations related to your agency's examination results and comments on the audit of the New Paris Conservancy District. My observations and thoughts are being offered in my capacity as the attorney for the Governing Board of the New Paris Conservancy District and in consultation with and at the request of the Chairman Gary Brumbaugh, Financial Clerk/Secretary Diane Smith and Financial Consultant Karl Cender. Please consider this response as supplemental to and incorporating my original communication on these matters directed to Ms. Handshoe in my October 5 email. My comments are intended to provide additional information to your agency on the status of matters related to your examination comments and also to reflect intended remedial actions needing implementation. Chairman Brumbaugh has reviewed my comments and his approval is reflected by his signature accompanying this email. My comments and observations will be structured in accordance to your examination results and should be deemed supplemental to the information and documentation previously forwarded to your agency and referenced in my October 5 email to Ms. Handshoe.

Regarding the internal controls over financial transactions and reporting, NPCD would respond as follows:

Cash and investments: The district will implement a system whereby a board member will review the monthly bank reconciliation completed by the financial consultant and initial and date that reconciliation to document the review.

Receipts: A board member (or the financial consultant) will review and trace a deposit amount into the financial accounting system (or printout of financial journal) and initial deposit slip to document the review.

Vendor Disbursements: An updated board resolution will be prepare to document the permitted bills, invoices and payroll that can be paid in advance of formal board approval. A board member will initial the vendor or payroll claim prior to the financial clerk sending the check out, so there is documentation (internal controls) over the disbursements prior to the approval given by the board

at the next monthly board meeting.

Payroll Disbursements: The same internal control will be put in place as referenced above for vendor claims, and at the next subsequent board meeting, the board of directors approves the payment of all payable claims including those claims made in advance and signs the register of claims for all payroll disbursements.

Certification of Training on internal control standards: The district will implement the clerk completing the internal control standard training within 60 days of each fiscal year in preparing the written certification in a timely manner.

Public Record Retention: The district is in the process of constructing a new administration building which will house the records in a secure location., separate from the wastewater treatment facility structure. Older records will also be stored in a secured facility until such time as the district petitions for authority to destruct records pursuant to Indiana law.

Annual financial report: The district will maintain supporting documentation of its work papers to support the differences between the districts accrual base accounting to the cash basis annual financial report and keep them available for audit purposes.

Board Minutes: The district attorney will review with the financial clerk/secretary the requirement of IC 5-14-1.5-4 so as to assure that minutes of board meetings clearly document the actions taken by the Board and are maintained in compliance with Indiana law.

Bank Reconciliations: The district will implement as a requirement that the financial clerk/secretary submit the financial records of the district after the close of each month in a timely manner to the financial consultant so that the monthly bank reconciliation can be prepared in a timely manner. **Optical images of checks:** The district will request its financial institution to provide the front and back optical images of all cleared checks which shall be provided to the district along with its monthly bank statement so that the district is able to keep copies of all cleared checks.

Salary schedule: Annually, prior to the beginning of each year, the board will approve a salary schedule for compensation paid to all employees.

Employee service record: The conservancy district will require the financial clerk to maintain the general payroll form 99-B to document the employee service and leave time balances.

Errors on W2: The conservancy district will henceforth include the health savings account contributions to the district employees in its form W2.

Approval of Claims (disbursements) The district will implement a policy that all electronic fund transfers and gross payroll be included in the claims docket for board approval

Mileage Claims: The conservancy district will implement a policy that mileage claims include the information that is required in general form 101. The district will request the mileage claims include the nature of the business and include the odometer readings to verify the mileage traveled.

Obviously, it is the intention of the governing board of the New Paris Conservancy District to maintain and implement procedures ensuring full and complete compliance with Indiana law and your agency's requirements. The governing board is fully committed to accomplishing that task. Financial Consultant Karl Cender and I are available to assist the governing board in that endeavor. Your agency's audit comments will facilitate a closer scrutiny and involvement of the board in the financial matters of the conservancy district. Thank you for this opportunity to provide comments on behalf of the governing board. Your agency's willingness to work with the conservancy district in effectuating responses to each of your comments would be greatly appreciated.

David L. Hollenbeck

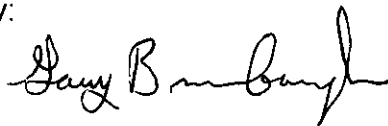
Blachly Tabor Bozik & Hartman

56 Washington Ste 401

Valparaiso, IN 46383

Acknowledged and approved by:

Gary Brumbaugh, Chairman



Board of Directors

New Paris Conservancy District

Dear Ms. Ross

Thank you for the opportunity of providing comments and observations related to your agency's

NEW PARIS CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 3, 2018, with Gary L. Brumbaugh, Chairman of the Board of Directors, and Diane K. Smith, Financial Secretary/Clerk.