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January 25, 2019

Board of Trustees
Dawn Lakes Regional Sewer District
3229 West 915 North
Huntington, IN 46750

This report is supplemental to the audit report of the Dawn Lakes Regional Sewer District (District), for the period from January 1, 2013 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Examination Findings that pertain to the District. It should be read in conjunction with the financial statement audit report of the District, which provides an 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 engaged private examiners under our review to perform the audit of the District and perform procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Examination Findings and Results contained herein describe the identified reportable instances of noncompliance found as a result of these procedures.

We have reviewed the Supplemental Audit Report for Dawn Lakes Regional Sewer District prepared by Crowe LLP, Independent Public Accountants, for the period January 1, 2013 to December 31, 2017. In our opinion, the Supplemental Audit Report was prepared in accordance with the guidelines established by the State Board of Accounts.

We call your attention to the findings in the report. Pages 3 through 5 contain nine Examination Findings and Results.

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

**COMPLIANCE EXAMINATION OF
DAWN LAKES REGIONAL SEWER DISTRICT**
Huntington County, Indiana
January 1, 2013 to December 31, 2017

DAWN LAKES REGIONAL SEWER DISTRICT
Huntington County, Indiana
January 1, 2013 to December 31, 2017

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DAWN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF OFFICIALS
January 1, 2013 to December 31, 2017

Office	Official	Term
President	Michael Stobb	01-01-13 to 12-31-17
Treasurer	Jill Cutshall	01-01-13 to 12-31-17

INDEPENDENT ACCOUNTANT'S REPORT

To the Indiana State Board of Accounts and
Management of Dawn Lakes Regional Sewer District

We have examined Dawn Lakes Regional Sewer District's ("Unit") compliance with the Indiana State Board of Accounts' *Accounting and Uniform Compliance Guidelines Manual For Special Districts* during the period January 1, 2013, to December 31, 2017. Management of the Unit is responsible for the Unit's compliance with the specified requirements. Our responsibility is to express an opinion on the Unit's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Unit complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Unit complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our qualified opinion.

Our examination does not provide a legal determination on the Unit's compliance with specified requirements.

Our examination disclosed material noncompliance with the *Accounting and Uniform Compliance Guidelines Manual For Special Districts* applicable to the Unit during the period January 1, 2013 to December 31, 2017, as described in items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, 2018-007, 2018-008 and 2018-009 on the following Schedule of Examination Findings and Results.

In our opinion, except for the material noncompliance described in the preceding paragraph, the Unit complied, in all material respects, with the aforementioned requirements during the period January 1, 2013 to December 31, 2017.


Crowe LLP

Indianapolis, Indiana
November 9, 2018

DAWN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF EXAMINATION FINDINGS AND RESULTS
January 1, 2013 to December 31, 2017

FINDING 2018-001: SEGREGATION OF DUTIES

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. . . ."

Condition: During inquiry with management, we noted that the Treasurer performs all administrative and accounting functions with little to no review by the Board. The Treasurer obtains receipts from a locked mailbox, logs payments, and deposits checks. The Treasurer prepares monthly bank reconciliations without review from the Board. The Treasurer also issues disbursements without approval from the Board.

FINDING 2018-002: UNRECONCILED BOND AND INTEREST BANK BALANCE

Criteria: 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."

Condition: During testing, we noted the Unit did not prepare bank reconciliations for the Bond and Interest bank account in 2016 and 2017. A material unreconciled variance was discovered in 2016. This was reconciled and corrected by management.

FINDING 2018-003: UNRECONCILED RECEIPT VARIANCES

Criteria: Chapter 1 of the Accounting and Uniform Compliance Guidelines Manual states in part, "At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee."

Condition: During testing, we noted that the 2013, 2016 and 2017 customer payment logs did not tie to sewage receipts reported on the Annual Financial Report by \$1,100, \$503 and \$840, respectively.

FINDING 2018-004: APPROVAL OF EXPENSES

Criteria: Indiana Code 5-11-10-1.6 states in part, "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless...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."

Condition: During testing of disbursements, Crowe noted the Unit does not approve expenditures throughout the year. The Treasurer disburses funds without any review or approval by the Board.

DAWN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF EXAMINATION FINDINGS AND RESULTS
January 1, 2013 to December 31, 2017

FINDING 2018-005: SURETY BOND

Criteria: Indiana Code 13-26-2-10 states in part "the commissioner shall issue an order directing that the district be established...(b) An order must do the following:...(2) provide requirements for sufficient bonds for all officers, trustees, or employees having power to dispense money of the district."

Condition: During testing, we noted that the Treasurer, who has the authority to disburse funds, does not have a surety bond.

FINDING 2018-006: MATERIALITY THRESHOLD

Criteria: SBOA State Examiner Directive 2015-6 requires political subdivisions to develop a materiality threshold policy approved through ordinance or resolution and policies and procedures to administer and report.

Condition: During testing, we noted that the Unit had not adopted a materiality threshold for the period under audit.

FINDING 2018-007: INTERNAL CONTROLS - TRAINING

Criteria: Indiana Code 5-11-1-27(h) states in part, "After June 30, 2016, the fiscal officer of a political subdivision shall certify in writing that: . . . (2) personnel, who are not otherwise on leave status, have received training as required by subsection (g)(2)."

Condition: During testing, we noted that the Unit had not met the minimum standards for training set in Indiana Code 5-11-1-27(h).

FINDING 2018-008: MINIMUM LEVEL OF INTERNAL CONTROLS

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. . . .*"

Condition: During testing, we noted that the Unit did not meet the minimum standards of internal control. Specifically, the Unit has not adopted required internal control standards and has no formal documentation of the implementation of a minimum level of internal controls standards.

DAWN LAKES REGIONAL SEWER DISTRICT
SCHEDULE OF EXAMINATION FINDINGS AND RESULTS
January 1, 2013 to December 31, 2017

FINDING 2018-009: BOND TRANSACTIONS

Criteria: Indiana Code 13-26-10-1 states, "A district may obtain money for the payment of the costs of the works or an improvement, enlargement, or extension of the works by the issuance of revenue bonds of the district. The principal and interest of the revenue bonds must be paid solely from the net revenues of the works."

Condition: During testing of bond transactions, we noted two conditions.

1. During testing, we noted that the Unit improperly recorded bond principal and improperly accounted for interest payments. The Unit corrected this error with an adjustment posted in 2014 and 2017. Additionally, in 2015, the Unit issued the Sewage Works Refunding Revenue Bonds, Series 2015. We noted that these bond proceeds in addition to the repayment of the 2005 Revenue Bonds were also accounted for incorrectly. This resulted in a material adjustment which was posted by management.
2. We also noted that Unit was not able to make a full bond payment in January 2015. As the Unit was struggling to make his payment, it was loaned \$2,112 by the Board of the local Homeowner's Association. Per the Treasurer, the decision was approved by both Boards; although, there is no documentation of this in either Organization's minutes. We noted that the Unit Treasurer is the Treasurer for both the Homeowner's Association and the Unit. Days after the loan was made, the Unit deposited \$1,248 of one customer's annual payment into the Homeowner's Association bank account.

DAWN LAKES REGIONAL SEWER DISTRICT
EXIT CONFERENCE
January 1, 2013 to December 31, 2017

The contents of this report were discussed on November 9, 2018, with Jill Cutshall, Treasurer, and Michael Stobb, President of the Board. The officials acknowledged the findings.