



STATE OF INDIANA
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February 12, 2019

Board of Trustees
Fall Creek Regional Waste District
P.O. Box 59
9378 S 650W
Pendleton, IN 46064

This report is supplemental to the audit report of the Fall Creek Regional Waste 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 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 Fall Creek Regional Waste District prepared by Crowe LLP, Independent Public Accountants, for the period January 1, 2015 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. Page 3 contains two Examination Findings and Results. Management's response may be found on pages 5 through 8.

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

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

**COMPLIANCE EXAMINATION OF
FALL CREEK REGIONAL WASTE DISTRICT**

Madison County, Indiana
January 1, 2015 to December 31, 2017

FALL CREEK REGIONAL WASTE DISTRICT

Madison County, Indiana
January 1, 2015 to December 31, 2017

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FALL CREEK REGIONAL WASTE DISTRICT
SCHEDULE OF OFFICIALS
January 1, 2015 to December 31, 2017

<u>Office</u>	<u>Official</u>	<u>Term</u>
General Manager	Joseph E. Rowlett	01-01-15 to 02-29-16
	Teresa K. Hutton	03-01-16 to 12-31-17
Assistant General Manager	Teresa K. Hutton	01-01-15 to 02-29-16
	(Vacant)	03-01-16 to 11-16-16
	Jerry D. Kelley	11-17-16 to 12-31-17
Treasurer	Greg Valentine	01-01-15 to 12-31-17
President of the Board	Mark Jablonski	01-01-15 to 12-31-17

INDEPENDENT ACCOUNTANT'S REPORT

To the Indiana State Board of Accounts and
Management of Fall Creek Regional Waste District

We have examined Fall Creek Regional Waste 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, 2015 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, 2015 to December 31, 2017, as described in items 2018-001 and 2018-002 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, 2015 to December 31, 2017.

The Unit's responses to the findings identified in our examination are described in the accompanying Schedule of Examination Findings and Results. The Unit's responses were not subjected to the procedures applied in the examination of compliance and, accordingly, we express no opinion on them.


Crowe LLP

Indianapolis, Indiana
December 14, 2018

FALL CREEK REGIONAL WASTE DISTRICT
SCHEDULE OF EXAMINATION FINDINGS AND RESULTS
January 1, 2015 to December 31, 2017

FINDING 2018-001: 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 2018-002: 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: The Unit has no formal documentation of the implementation of the COSO framework, as set forth in the Uniform Internal Control Standards for Indiana Political Subdivisions.

FALL CREEK REGIONAL WASTE DISTRICT
EXIT CONFERENCE
January 1, 2015 to December 31, 2017

The contents of this report were discussed on December 14, 2018, with Teresa Hutton, General Manager, Jerry Kelley, Rebecca Hunter, Office Manager, Steve Unger, Attorney, and Mark Jablonski, President of the Board. The officials acknowledged the findings. The Official Response has been made a part of this report and may be found immediately following the findings on the previous page.



FALL CREEK REGIONAL WASTE DISTRICT

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January 29, 2019

Indiana State Board of Accounts
302 W. Washington Street
Room E-418
Indianapolis, IN 46204-2765

Re: Fall Creek Regional Waste District
2015 to 2017 Examination
Official Response

To Whom It May Concern:

The Fall Creek Regional Waste District (“District”) is pleased to learn that the third party auditor (Crowe) engaged by the State Board of Accounts (“SBOA”) issued an “unmodified” opinion with respect to the District’s financial statements – meaning the District’s financial records fairly presented, in all material respects, the finances and results of operations of the District during the audited periods. The District and its staff take great pride in continuing to maintain thorough and accurate financial practices and records.

As a part of the audit process, the auditor also reviewed various District records for compliance with the *Accounting and Uniform Compliance Guidelines Manual for Special Districts* (“CGM”). Except for the two findings discussed below – findings identified as fairly minor during the exit conference – the auditor found that the District complied, in all material respects, with the CGM during the audited periods. The District is pleased that no significant items were found, but the District and its staff nevertheless take great pride in its compliance record, and therefore write to address the two findings.

Finding 2018-01 concerns the District’s prior decision to not adopt a materiality threshold policy. A “materiality threshold” relates to the amount at which a governmental unit needs to report a discrepancy in funds to the SBOA. Under Indiana law, “all erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property shall be immediately reported to the state board of accounts.” I.C. § 5-11-1-27(j). However, the SBOA, through Directive 2015-6, allows political subdivisions to adopt materiality thresholds to avoid reporting all discrepancies. For example, a unit that adopts a materiality threshold of \$10,000 would not be required under the Directive to report financial discrepancies below that amount. Yet the Directive also contemplated that a unit *may not adopt* a materiality policy, in which case the threshold is \$0.00. (“[I]f a political subdivision does not develop a policy on materiality, then the threshold is \$0.00 and the political subdivision is required to report all irregular variances, losses, shortages, and thefts to the State Board of Accounts.”) As the District has historically not had any discrepancies in its finances, the District previously made the

determination that any discrepancy is not appropriate and therefore elected to not adopt a policy raising the materiality threshold. The District therefore disagrees with Finding 2018-01 to the extent that it suggests the District is prohibited from maintaining a materiality threshold of \$0.00 as the District elected. Nevertheless, the District understands from the exit interview that by not raising its materiality threshold, the costs of the District's audits will increase significantly. Therefore, in order to avoid unnecessary expenses from future audits, the District anticipates adopting a materiality policy as recommended by the auditor for purposes of audits. However, the District still plans to continue to maintain conservative internal policies such that any discrepancy would be addressed.

Finding 2018-02 concerns the District's adoption of internal controls, and the District disagrees with the finding. First, the District is fully compliant with I.C. § 5-11-1-27, which governs the issue. Pursuant to I.C. § 5-11-1-27(e), the SBOA "shall define the acceptable minimum level of internal control standards and internal control procedures for internal control systems of political subdivisions." The SBOA was also required to develop training materials under subsection (f). A political subdivision like the District, in turn, is required to ensure that "the internal control standards and procedures defined [by the SBOA] under subsection (e) have been adopted by the political subdivision," and that personnel have received the training required by subsection (g)(2). I.C. § 5-11-1-27(h). That is, the SBOA defines the standards and procedures, and the unit adopts them. Subsection (i) then sets forth the circumstances in which a comment should appear in an audit: (1) if the unit did not adopt the procedures and standards defined by the SBOA, or (2) if the personnel of the unit have not received the training.

The District has fully complied. The SBOA has adopted a *Uniform Internal Control Standards for Political Subdivisions* to comply with I.C. § 5-11-1-27(e) ("Section 27(e) Controls"). The District then adopted Ordinance 2016-5, which adopts the Section 27(e) Controls created by the SBOA verbatim. The District has also required its applicable personnel to undergo the training created by the SBOA.

Even if the District's strict adherence to I.C. § 5-11-1-27(h) was not enough, the District has also developed supplemental written policies and procedures of its own that address internal controls above and beyond the adoption of the Section 27(e) Controls. For example, following the adoption of the Section 27(e) Controls, the District has developed an Internal Controls Outline, Internal Control Procedure, and a Cash Handling Flow Chart, and has other long established policies and procedures as a part of its control environment. Although the District's internal documents may not include all of the "buzz words," these written policies include all five components of a "COSO framework" cited by the auditor. For example, and as a non-exhaustive list:

- Control Environment: The District's Internal Control Procedure explicitly sets forth the Board and Management's commitment to integrity and ethical values, the oversight of the internal control system, the commitment to recruit, develop, retain, and evaluate employees, and defines objectives clearly to identify the risks and risk tolerances, and methods of communication. In addition, the District's Board has taken up internal controls over numerous meetings, has established internal control standards, reviews the District's finances and accounts monthly, established an

organizational structure and responsibilities, yearly reviews budgets, a capital management plan, employee performance, and compensation to attract and retain competent employees, and holds individuals accountable where necessary. The Board of Trustees has also adopted additional financial controls such as a purchasing policy, an ordinance identifying prepaid claims, and a credit card policy. The principles of control environment are clearly present.

- Risk Assessment: In order to develop its financial policies and procedures, the District identified its risk tolerances (for example, setting its materiality threshold at \$0.00), analyzed the potential areas for risk and fraud, and has updated policies as appropriate. The Internal Control Procedure adoption process was itself a risk assessment, where the District defined objectives and risks, responded with defined objectives, and considered the potential for fraud, resulting in the internal controls documentation. Again, no missing risk assessment has been identified to the District, and any notion that the District did not engage in risk assessment is incorrect.
- Control Activities: The District designed its control activities and policies based on its size, budget, personnel, and risk areas, and then management implemented those activities based on its policies. The Internal Control Procedure sets forth specific control activities (based on its assessment) for billing, receipts, receiving payments, cash receipts, daily accounting, deposits, account balances, segregation of duties, budgets, payment authorization, purchases of supplies and equipment, credit card policy, a cash handling flow chart, reporting including periodic posting, bank statement, reconciliation of bank statements, treasurer's report to the Board of Trustees, and retention of records. The principles of control activities are all present, and no shortcomings in the specific control activities have been identified for the District.
- Information and Communication: The controls have been communicated from the top down, whether through the adoption of the control standards at the Board level, or required training of personnel. The Internal Controls Procedure identifies appropriate information based on its functions, and the District has developed a written departmental structure for communications appropriate for its size and function. Appropriate communication methods have also been developed for internal and external communications. Again, no information or communication shortcomings have been identified for the District.
- Monitoring Activities: The Board monthly reviews financial activities, monitors the budget and capital activities, conducts bi-annual rate reviews, and all deficiencies are expected to be remediated on a timely basis. Moreover, the Internal Control Procedure is set to provide monitoring opportunities for management and all responsible employees. The Internal Control Procedure also directs that all procedures are to be reviewed annually. Monitoring activities are clearly present.

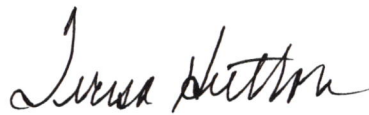
Although no set magic words or fixed documentation is required in a COSO framework – indeed, the SBOA's Section 27(e) Controls state that “no single method of control is universally

applicable” – the District clearly also has formal documentation of the implementation of a full COSO framework. Nevertheless, if there is a defined control or procedures that the District has not adopted, or if there is a specific shortcoming in the District’s controls or documentation, the District respectfully requests that the specific control or procedure be identified so that the District may review and implement it as appropriate. No such control or procedure has been identified for the District. The District stands ready to review, adopt, and/or implement such appropriate additional internal control procedures as may be identified by an auditor or otherwise by the SBOA.

Sincerely,



Mark Jablonski
Board President



Teresa Hutton
General Manager



Stephen Unger
District Attorney
Bose McKinney &
Evans LLP