

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

SPECIAL COMPLIANCE REPORT
OF
BARGERSVILLE WATER UTILITY
JOHNSON COUNTY, INDIANA
August 1, 2014 to September 30, 2016



FILED
07/01/2019

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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE BARGERSVILLE WATER UTILITY, JOHNSON COUNTY, INDIANA

This is a special compliance report for the Bargersville Water Utility (Utility), for the period August 1, 2014 to September 30, 2016, and is in addition to any other report for the Utility as required under Indiana Code 5-11-1. All reports pertaining to the Utility may be found at www.in.gov/sboa/.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The 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 25, 2019

BARGERSVILLE WATER UTILITY
RESULTS AND COMMENTS

PURCHASES OUTSIDE OF ACCOUNTING SYSTEM

The Meter Reader Supervisor (Supervisor) returned 600 water utility meters and related meter reading equipment, receiving a credit totaling \$95,000 over the period of January 2016 through June 2016. The Supervisor did not report the return to the Clerk-Treasurer's office. Subsequently, 60 purchase orders were issued against the credit for various utility parts and supplies. Of the 60 purchase orders issued, 46 of the purchase orders were created by the Supervisor outside the accounting system using his own numbering system that did not match the system-generated purchase order numbers; these purchase orders were used to purchase \$59,802.22 in various utility parts and supplies, therefore, bypassing the accounting system. The other \$35,197.78 was used to purchase utility parts and supplies through the normal claims process.

Any receipts, checks, purchase orders, or other forms that require numbering shall be either pre-numbered by an outside printing supplier or numbered by the unit's computer system with sufficient controls installed in the system to prevent unauthorized generation of the form or duplication of numbers.

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Town, Chapter 1)

PUBLIC PURCHASE DOCUMENTATION NOT RECORDED AND MAINTAINED

The Utility purchased water meters from September 2014 through September 2015, exceeding \$1,000,000 that qualified due to there being only a single vendor who offered software that was compatible with the existing utility equipment, to be made without soliciting bids under Indiana Code 5-22-10-8. However, the proper documentation required for this purchase was not recorded or maintained.

Indiana Code 5-22-10-3 states:

"(a) A purchasing agent shall maintain the contract records for a special purchase in a separate file.

(b) A purchasing agent shall include in the contract file a written determination of the basis for:

- (1) the special purchase; and
- (2) the selection of a particular contractor.

(c) Notwithstanding any other law, a governmental body shall maintain a record listing all contracts made under this chapter for a minimum of five (5) years. The record must contain the following information:

- (1) Each contractor's name.
- (2) The amount and type of each contract.
- (3) A description of the supplies purchased under each contract.

(d) The contract records for a special purchase are subject to audit by the state board of accounts."

BARGERSVILLE WATER UTILITY
RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS INVENTORY NOT MAINTAINED

The Town did not maintain a complete inventory of water meters or any other parts or supplies owned by the Utility, which reflected their acquisition values. The last inventory was completed in 2012.

Every city or town should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger, City and Town Form Number 211, segregated by departments of the city or town, i.e., fire department, police department, park department, street department, sanitation department, etc. Water, electric, gas, and sewage utilities are to be inventoried separately showing capital assets belonging to each utility. A complete inventory should be taken at least once a year for good internal control and for verifying account balances carried in the accounting records. (Cities and Town Bulletin, March 2014, Page 3)

INTERNAL CONTROL DEFICIENCIES

The Clerk-Treasurer was responsible for the Utility's bookkeeping functions (billings, collections, etc.). The Clerk-Treasurer also maintained a bank account for each utility and signed utility warrants. Water utility meters were returned and a substantial credit was received unbeknownst to the Clerk-Treasurer. A public purchase exceeded \$1,000,000 without being properly documented in accordance with Indiana statutes.

Due to the lack of sufficient monitoring of activities, the Town did not maintain a complete inventory of water utility meters or any other parts or supplies, non-system generated purchase orders numbers were utilized, and a single vendor was selected without adequate documentation; these activities were able to occur and not be identified timely.

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 exception 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. . . ."

BARGERSVILLE WATER UTILITY
EXIT CONFERENCE

The contents of this report were discussed on May 16, 2019, with Nancy Kehl, Clerk-Treasurer; Jane Brockes, Controller; Butch Barger, Utilities Administrator; and Steven W. Longstreet, former Clerk-Treasurer.