

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

HELMER REGIONAL SEWER DISTRICT

STEBEN COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED
12/13/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Secretary/Treasurer	Susan Culler	01-01-15 to 12-31-15
	Kathy Dunafin	01-01-16 to 12-31-19
President of the District Board	Gary Simpson	01-01-15 to 12-31-17
	Walter Elkins	01-01-18 to 12-31-18
	Barry Simon	01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE HELMER REGIONAL SEWER DISTRICT, STEUBEN COUNTY, INDIANA

This report is supplemental to our audit report of the Helmer Regional Sewer District (District), for the period from January 1, 2015 to December 31, 2018. 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 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 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

November 26, 2019

HELMER REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS

UNTIMELY DEPOSITS

Condition and Context

The District deposited funds later than the next business day following the receipt of the funds. Of the 68 receipts tested, 50 receipts were deposited 4 to 15 days late.

Criteria

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

RECEIPT ISSUANCE

Condition and Context

Receipts were not issued for the collection of money during the audit period.

Criteria

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Report B45651.

Condition and Context

Bank account reconciliations were being performed monthly; however, reconcilements were not being performed on a monthly basis for all depository accounts. Bank reconciliation variances were noted for each year during the audit period. As of December 31, 2018, the adjusted bank balance was \$764 more than the ending fund 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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

HELMER REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

COMPENSATION AND BENEFITS

Condition and Context

The District had not adopted a salary ordinance for any year during the audit period. The Secretary/Treasurer is being paid at the beginning of each month for administrative duties for that month, which is in advance of the hours worked.

Criteria

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)

Compensation and any other payments for goods and services must not be paid in advance of receipts of the goods or services unless specifically authorized by law. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The District had not established an adequate system of internal controls related to financial transactions and reporting. A proper internal control system would include adequate control activities, control environment, performance of risk assessment procedures, and monitoring of internal controls. The District had not separated incompatible activities related to cash and investments, receipts, and financial close and reporting.

Cash and Investments

There were no controls in place to ensure that monthly bank reconciliements were being prepared accurately. There was no segregation of duties, such as an oversight, review, or approval process.

Receipts

The Treasurer was solely responsible for all aspects of receipting and depositing the monies of the District. There was no segregation of duties, such as an oversight, review, or approval process to ensure accuracy.

Financial Close and Reporting

The Treasurer entered and submitted the financial information for the District into the Indiana Gateway for Government Units financial reporting system, which was the source for the Annual Financial Reports (AFR) and financial statements. There was no evidence of a control, such as an oversight review, or approval process to ensure the accuracy of the information entered and submitted.

HELMER REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

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:

"The control environment is the basic commonality for all and comprises the integrity and ethical values of the political subdivision established by the oversight body and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control. The oversight body and management convey leadership expectations, and overall tone which are reinforced by all officials and management throughout the various offices and departments.

The control environment also contains the overall accountability structure for all employees through performance and reward measures. Within this structure, leadership demonstrates commitment to the political subdivision by having a process for attracting, developing, and retaining competent individuals. This component is static in that its underpinnings do not generally change with a given objective."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"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. . . ."

HELMER REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

"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. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

ANNUAL FINANCIAL REPORTS

A similar comment also appeared in prior Report B45651.

Condition and Context

The AFRs for 2015, 2016, 2017, and 2018 contained a number of errors and did not properly reflect the financial activity of the District. In total, the receipts, disbursements, and beginning and ending cash and investment balances reported were under/(over) reported as follows:

<u>Years</u>	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
2015	\$ 2,080	\$ 2,309	\$ 10,113	\$ (5,724)
2016	(5,724)	8,215	17,410	(14,919)
2017	(14,919)	4,732	10	(10,198)
2018	(10,198)	(1,214)	(768)	(10,644)

Audit adjustments were proposed, approved by management, and made to the financial statements.

Criteria

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](#)."

INTEREST ON INVESTMENTS

Condition and Context

The District's interest on investments was automatically added to the investment at each maturity date during the audit period. The District did not receipt the interest income into the financial records.

HELMER REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

FUND SOURCES AND USES

Condition and Context

The District transferred \$7,194 from the Bond/Interest fund to the General Fund to pay the prior audit bill, this is not a proper use of the fund.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

Condition and Context

District Board members were paid without the District withholding Social Security and Medicare taxes from their wages. Form W-2s, Wage and Tax Statements, were not issued to the District Board members for any year of the audit.

Criteria

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)

HELMER REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 26, 2019, with Kathy Dunafin, Secretary/Treasurer, and Barry Simon, President of the District Board.