

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT

NOBLE COUNTY, INDIANA

January 1, 2018 to December 31, 2021



FILED

11/17/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Financial Clerk	Linda Keister	01-01-18 to 12-31-22
President of the District Board	Judy Weisenburger	01-01-18 to 12-31-18
	Jeffery Boyle	01-01-19 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE BEAR HIGH WOLF LAKE REGIONAL
SEWER DISTRICT, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the Bear High Wolf Lake Regional Sewer District (District), for the period from January 1, 2018 to December 31, 2021. 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 opinions 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

November 1, 2022

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B51801, entitled *BOARD APPROVAL AND REVIEW* and *ANNUAL FINANCIAL REPORT*.

Condition and Context

There were deficiencies in the internal controls of the District related to financial transactions and reporting. The District had not established an effective internal control system that separated incompatible activities related those areas. Failure to implement the internal controls could have enabled material misstatements to occur and remain undetected. During the audit period, the District contracted with a financial service agency that completed the upload of the District's financial information into the Indiana Gateway for Government Units (Gateway) financial reporting system, the monthly bank reconcilements, and collection and recording of receipts. There was no documented oversight or review process to prevent, or detect and correct, errors.

Cash and Investments

Monthly reconcilements were performed; however, there was no evidence of an internal control in place to prevent, or detect and correct, errors in cash and investments, such as an oversight, review, or approval process.

Receipts

The contracted financial service agency was responsible for preparing bank deposits, taking the deposits to the bank, entering all transactions onto the ledger, and preparing the bank reconciliation. There were no internal controls in place, such as an oversight, review, or approval of the daily deposits.

Financial Close and Reporting

The District had not established an effective system of internal control over the financial information entered into Gateway, which was the source of the Annual Financial Report and financial statements. The contracted financial service agency entered the financial information into Gateway, with no evidence of an internal control such as an oversight, review, or approval process to ensure its accuracy.

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.

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

CAPITAL ASSETS

Condition and Context

The District did not have a capital asset policy that detailed the threshold at which items are considered a capital asset. The District did not maintain a sufficient detailed listing of all capital assets owned that reflected their acquisition value. In addition, the District did not complete a physical inventory of its capital assets at least every two years.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

MATERIALITY THRESHOLD

A similar comment also appeared in the prior Report B51801, entitled *MATERIALITY THRESHOLD*.

Condition and Context

The District had not adopted a materiality threshold for the period under audit.

Criteria

In general, each political subdivision must develop their own policy on materiality because the causes of irregular variances, losses, shortages, and thefts are as broad and varied as the political subdivisions in which the incidents occur. . . .

Political subdivisions must recognize that variances, losses, shortages, and thefts may occur. If an incident occurs, it is imperative that the political subdivision have a policy in place that outlines the steps to be taken. Such a policy must include a materiality threshold at which point the political subdivision reports incidents to the State Board of Accounts.

The policy must be detailed, and it is essential that materiality thresholds distinguish between incidents involving cash and other types of assets. The policy needs to address maintenance of documentation and resolution of incidents that do not meet the materiality threshold.

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

The policy must also consider Ind. Code § 5-11-1-27(l), which requires public officials who have actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds to immediately send written notice of the misappropriation to the State Board of Accounts and the prosecuting attorney. There is *no* materiality threshold applicable to Ind. Code § 5-11-1-27(l). Thus, whenever a political subdivision has actual knowledge or is reasonably certain that a misappropriation of public funds has occurred (regardless of the dollar amount), the political subdivision must send written notice of the misappropriation to the State Board of Accounts and the local prosecuting attorney. Misappropriation occurs when an employee or in-house contractor of the political subdivision wrongly takes or embezzles public funds. When there is a known misappropriation or embezzlement of public funds by an internal actor, materiality is irrelevant. Indiana law requires the political subdivision to report the activity to the State Board of Accounts and the local prosecutor. Ind. Code § 5-11-1-27(l).

If 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. . . .

(Amended State Examiner Directive 2015-6)

CREDIT CARD POLICY

Condition and Context

The District used a credit card to purchase items without an approved credit card policy.

Criteria

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance/resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use should be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

7. Payment cannot be made on the basis of a statement, or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.
8. If authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

TRAVEL POLICY

Condition and Context

The District reimbursed travel to District Board members without an approved travel policy.

Criteria

Each unit must adopt a written travel policy in conformity with applicable laws. Reimbursement for lodging and meals must be based upon actual receipts for amounts paid unless otherwise authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

Condition and Context

The District did not have a policy concerning the procedures for collections and adjustments of customer accounts that were delinquent.

Criteria

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

BEAR HIGH WOLF LAKE REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2022, with Linda Keister, Financial Clerk; Jeffery Boyle, President of the District Board; Gary Gatman, District Board Secretary; Rick Krom, District Board member; and Susan Reichert, District Board member.