

B37169

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

EXAMINATION REPORT  
OF  
EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
SWITZERLAND COUNTY, INDIANA  
January 1, 2009 to September 30, 2009



**FILED**  
07/01/2010



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Linda F. Elam Keith L. Penick	01-01-09 to 10-05-09 10-06-09 to 12-31-10
President of the Board	Keith L. Penick Shannon Burrows	01-01-09 to 10-05-09 10-06-09 to 12-31-10



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE EAST ENTERPRISE REGIONAL  
SEWER DISTRICT, SWITZERLAND COUNTY, INDIANA

We were engaged to examine the financial information of the East Enterprise Regional Sewer District (District), as of and for the nine month period ended September 30, 2009. These financial schedules are the responsibility of the District's management.

Financial records for the nine month period ended September 30, 2009, were incomplete and not reflective of the activity of the District's financial activities. The records did not provide sufficient information to examine or establish receipts, disbursements, ending balances, and the accuracy or correctness of the transactions. Accordingly, no financial activity was presented for the period ended September 30, 2009. Cash and investments presented at September 30, 2009, were based on balances shown on depository statements and not based on record balances prepared by management. As a result, the validity and accountability of cash and investments at September 30, 2009, could not be established.

Since District officials did not maintain adequate financial records, as discussed in the preceding paragraph, the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on the financial information.

STATE BOARD OF ACCOUNTS

May 19, 2010

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
SCHEDULE OF CASH AND INVESTMENT BALANCES  
ALL PROPRIETARY FUNDS  
September 30, 2009

	Cash and Investments 09-30-09
Proprietary Funds:	
Operating	\$ 4,036
Bond and Interest	201
Debt Service Reserve	26,696
Construction	<u>206</u>
Totals	<u>\$ 31,139</u>

The accompanying notes are an integral part of the financial information.

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides wastewater collection and treatment services.

Note 2. Fund Accounting

The District is required to report on its cash and investments and the results of its operations on a cash basis based on uniform compliance guidelines established by the Indiana State Board of Accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the District to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS  
 September 30, 2009

Capital assets are reported at actual cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Capital assets, not being depreciated:	
Land	\$ 24,242
Infrastructure	3,175
Buildings	7,734
Improvements other than buildings	<u>1,034,791</u>
 Total business-type activities capital assets	 <u><u>\$ 1,069,942</u></u>



EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 September 30, 2009

The District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Revenue bonds:		
1994 Sewage works revenue bond	\$ 348,000	\$ 25,270

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
EXAMINATION RESULTS AND COMMENTS

UNAUTHORIZED CHECKS

Crystal Elam Hollen, former Board member and Bookkeeper, wrote 36 District checks, totaling \$27,034.66, dated between January 22, 2009 and June 24, 2009, and written payable to Crystal Elam Hollen. The following is a summary of the checks written:

Period	Number of Checks	Amount
January 2009	1	\$ 154.00
March 2009	5	1,455.19
April 2009	10	8,674.39
May 2009	11	9,563.87
June 2009	9	7,187.20
	36	\$ 27,034.65

District officials confirmed to us that the above checks were not approved by the District Board, were in addition to compensation approved for Crystal Elam Hollen as Bookkeeper, and were not obligations of the District.

The following is additional information regarding the 36 checks:

1. Signatures on Checks

All checks were required to be signed by the District's Treasurer and the President of the Board. Each of the 36 checks had the signatures of "Linda Elam," former Treasurer, and "Keith Penick," former President of the Board. Linda F. Elam and Keith L. Penick confirmed to us that the signatures on each one of the 36 checks were not their signatures.

2. Check Endorsements

The checks were endorsed by Crystal Elam Hollen.

3. Removal of Check Carbons from District Checkbook

The check forms in use by the District include an original and a carbon copy. The original check is perforated for detaching from the carbon copy. The carbon copy is bound into the checkbook and is to be used for recording the checks to the District's accounting ledger. The carbon copies for each check were removed from the District's checkbook. Linda F. Elam, former Treasurer, confirmed that the check carbon copies were later recovered from Crystal Elam Hollen.

4. Omission of Checks from Accounts Payable Voucher Register

The Accounts Payable Voucher Register is a listing of checks that is submitted to the Board for approval. The 36 checks were not listed on the Accounts Payable Voucher Register. Linda F. Elam, former Treasurer, stated that the Accounts Payable Voucher

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Registers were prepared by herself or Crystal Elam Hollen. Linda F. Elam stated that she used the checks and the check carbon copies when she prepared the Accounts Payable Voucher Register. The checks and check carbon copies for the 36 checks scheduled above had been removed from the District checkbook (See item number 2: "Removal of Check Carbons from District Checkbook") and, accordingly, were not reported on the Accounts Payable Voucher Register.

5. Omission of Checks from the Account Status Report

At the District Board meeting held May 26, 2009, Keith L. Penick, former President of the Board, requested that the Board minutes include a list of District expenses. District officials confirmed that Crystal Elam Hollen began preparing Account Status Reports in June of 2009 that listed monthly expenses of the District. The Account Status Report presented for examination for the month ended June 30, 2009, did not include 9 checks written payable to Crystal Elam Hollen.

IC 5-13-5-4(b) states in part:

"A public officer may draw a check or negotiable order of withdrawal upon a depository only for the following purposes . . . (3) The payment of a legal claim against a political subdivision . . ."

IC 5-13-14-3 states in part:

"A public officer who knowingly . . . draws any check or negotiable order of withdrawal against the funds except in the manner prescribed in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage that may accrue."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

On November 12, 2009, Linda F. Elam, mother of Crystal Elam Hollen, refunded \$27,034.65 to the District on Ms. Hollen's behalf. (See Summary, page 14)

ADDITIONAL EXAMINATION COSTS

Additional examination costs in the amount of \$4,181 were incurred by the State of Indiana to investigate unauthorized checks written payable to Crystal Elam Hollen, former District Board member and former Bookkeeper.

Examination costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

FINANCIAL REPORT OPINION MODIFICATION

Financial records for the nine month period ended September 30, 2009, were incomplete and not reflective of the activity of the District's financial activities (See Examination Result and Comment titled "Condition of Records"). Accordingly, no financial activity was presented for the period ended September 30, 2009. Cash and investments presented at September 30, 2009, were based on balances shown on depository statements and not based on record balances prepared by management. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CONDITION OF RECORDS

We noted the following deficiencies related to record keeping:

1. There were no financial transactions recorded in the Simplified Cash Journal (Utility Form 323) for the period January 1, 2009 through September 30, 2009.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

2. Depository reconciliations of the fund balances to the bank account balances were not presented for examination or were incomplete.

IC 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."

A similar comment was reported in the prior Reports B29593 and B34194.

FAILURE TO FILE ANNUAL REPORT

The Annual Financial Report (Form 15) that is prescribed to report the District's financial information was not filed with the State Board of Accounts for calendar year 2009.

IC 5-11-1-4 states in part:

"The state examiner shall require from every . . . local governmental unit . . . financial reports covering the full period of each fiscal year. These reports shall be . . . filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be filed electronically, in a manner prescribed by the state examiner . . ."

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CONTRACTS

Larry Stewart, Plant Operator, and Keith L. Penick, Treasurer, were compensated for performing various jobs for the District such as mowing the grass and electrical work. No written contracts for these services were presented for examination.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

A similar comment was reported in the prior Reports B29593 and B34194.

NO SALARY SCHEDULE

Approval of compensation paid to the Certified Operator and Bookkeeper were documented in the Board minutes but were not made part of a salary ordinance, resolution or salary schedule adopted by the Board.

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 statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

A similar comment was reported in the prior Reports B29593 and B34194.

ACCOUNTS RECEIVABLE CONTROL

The District does not maintain an accounts receivable control and no reconciliation procedures were performed to determine the accuracy of the detailed accounts receivable accounts.

When utility records are kept on a cash or single-entry basis, a separate control should be carried on General Ledger Sheet, General Form 315, in the front of the Consumer's Ledger. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 22)

Controls over the receipting, disbursing, recording, and accounting for financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

A similar comment was reported in the prior Reports B29593 and B34194.

NONCOMPLIANCE WITH BOND ORDINANCE

Bond Ordinance No. 1994-1, dated November 21, 1994, requires monthly deposits to a Bond and Interest Fund. District records presented for examination did not show transfers of funds being made during the examination period. As a result, the Bond and Interest Fund was underfunded in the amount of \$20,857 at September 30, 2009.

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Bond Ordinance No. 1994-1, Section 13, states in part:

". . . (a) there shall be transferred . . . and credited to the Bond and Interest Account an amount of Net Revenues at least equal to the sum of one-twelfth of the principal and interest on all then outstanding bonds payable from Net Revenues on the next succeeding principal and interest payment date, until the amount so credited shall equal the principal and interest payable during the next succeeding twelve calendar months."

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ADJUSTMENTS TO CUSTOMER ACCOUNTS

Adjustments were made to customer accounts. Adjustments were not approved by a second person or by the Board. The District also does not have a written policy covering procedures for writing off bad debts, uncollectible accounts receivable, or any other adjustments to a customer account balance.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs. Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

A similar comment was reported in the prior Reports B29593 and B34194.

RECEIPTS NOT DEPOSITED DAILY

Receipts were not deposited on a daily basis. We noted that during May of 2009 receipts were held 6 to 37 days before being deposited.

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

". . . all local officers . . . who collect public funds . . . shall deposit funds not later than the business day following receipt of funds . . ."

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on May 19, 2010, with Shannon Burrows, President of the Board; Keith L. Penick, Treasurer; Linda F. Elam, Board member; and Lynette McKinley, Board member.

The contents of this report were discussed on May 20, 2010, with Crystal Elam Hollen, former Board member and Bookkeeper. The official concurred with our findings.

EAST ENTERPRISE REGIONAL SEWAGE DISTRICT  
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Crystal Elam Hollen, former Bookkeeper: Unauthorized Checks, pages 8 and 9	\$ 27,034.65	\$	\$
Refunded by Linda F. Elam on behalf of Crystal Elam Hollen, former Bookkeeper, Deposited November 12, 2009	<u>-</u>	<u>27,034.65</u>	<u>-</u>
Totals	<u>\$ 27,034.65</u>	<u>\$ 27,034.65</u>	<u>\$ -</u>