

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
SPENCER COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
10/24/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Nora L. Yeager	01-01-11 to 03-31-12
	Christian Decker	04-01-12 to 10-08-12
	Pam Helms	10-09-12 to 04-30-14
Superintendent	(Vacant)	01-01-11 to 08-13-12
	Chad E. Bailey	08-14-12 to 07-05-13
	Eleisha K. Shelton	07-06-13 to 12-31-13
President of the Board	John C. Wood	01-01-11 to 04-30-13
	Edward J. Ingram	05-01-13 to 04-30-14



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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE LUCE TOWNSHIP REGIONAL
SEWER DISTRICT, SPENCER COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Luce Township Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the District prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis of accounting noted above is a different basis than that used in the prior period.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the District for the period of January 1, 2011 to December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the District for the period of January 1, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the District's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records

INDEPENDENT AUDITOR'S REPORT
(Continued)

used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the District's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

September 23, 2013



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE LUCE TOWNSHIP REGIONAL
SEWER DISTRICT, SPENCER COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Luce Township Regional Sewer District (District), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated September 23, 2013, wherein we noted the District followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2.

Luce Township Regional Sewer District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

September 23, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the District. The financial statement and notes are presented as intended by the District.

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LUCE TOWNSHIP REGIONAL SEWER DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
Sewage General Operating	\$ 109,239	\$ 170,390	\$ 279,077	\$ 552	\$ 508,841	\$ 423,883	\$ 85,510
Sewage Debt Service Reserve	75,000	150,000	41,252	183,748	44,880	-	228,628
Sewage Bond and Interest	-	41,802	22,302	19,500	105,120	11,168	113,452
Sewage SRF Forgivable BAN Account	3,702,000	1,708,450	1,708,450	3,702,000	1,709,369	1,709,369	3,702,000
Sewage Construction Fund	56,498	-	-	56,498	944,592	974,744	26,346
Sewage OCRA DR2 Grant	-	7,821,607	7,821,607	-	1,242,288	1,242,288	-
Totals	\$ 3,942,737	\$ 9,892,249	\$ 9,872,688	\$ 3,962,298	\$ 4,555,090	\$ 4,361,452	\$ 4,155,936

The notes to the financial statement are an integral part of this statement.

LUCÉ TOWNSHIP REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The District was established under the laws of the State of Indiana. The District operates under an appointed governing board.

The accompanying financial statement presents the financial information for the District.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts may include the following sources:

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

LUCÉ TOWNSHIP REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements may include the following uses:

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The District may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the District. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the District. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the District in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize 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.

Note 3. Risk Management

The District may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENT
(Continued)

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the District to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 4. State Revolving Loans

The District has entered into a state revolving loan for \$3,012,000 and a forgivable bond anticipation note for \$3,702,000.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the District's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the District which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the District. It is presented as intended by the District.

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	Sewage General Operating	Sewage Debt Service Reserve	Sewage Bond and Interest	Sewage SRF Forgivable BAN Account	Sewage Construction Fund	Sewage OCRA DR2 Grant	Totals
Cash and investments - beginning	\$ 109,239	\$ 75,000	\$ -	\$ 3,702,000	\$ 56,498	\$ -	\$ 3,942,737
Receipts:							
Intergovernmental	150,000	-	-	-	-	-	150,000
Other receipts	<u>20,390</u>	<u>150,000</u>	<u>41,802</u>	<u>1,708,450</u>	<u>-</u>	<u>7,821,607</u>	<u>9,742,249</u>
Total receipts	<u>170,390</u>	<u>150,000</u>	<u>41,802</u>	<u>1,708,450</u>	<u>-</u>	<u>7,821,607</u>	<u>9,892,249</u>
Disbursements:							
Capital outlay	71,524	-	-	217,980	-	7,821,607	8,111,111
Utility operating expenses	56,706	-	-	-	-	-	56,706
Other disbursements	<u>150,847</u>	<u>41,252</u>	<u>22,302</u>	<u>1,490,470</u>	<u>-</u>	<u>-</u>	<u>1,704,871</u>
Total disbursements	<u>279,077</u>	<u>41,252</u>	<u>22,302</u>	<u>1,708,450</u>	<u>-</u>	<u>7,821,607</u>	<u>9,872,688</u>
Excess (deficiency) of receipts over disbursements	<u>(108,687)</u>	<u>108,748</u>	<u>19,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,561</u>
Cash and investments - ending	<u>\$ 552</u>	<u>\$ 183,748</u>	<u>\$ 19,500</u>	<u>\$ 3,702,000</u>	<u>\$ 56,498</u>	<u>\$ -</u>	<u>\$ 3,962,298</u>

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	Sewage General Operating	Sewage Debt Service Reserve	Sewage Bond and Interest	Sewage SRF Forgivable BAN Account	Sewage Construction Fund	Sewage OCRA DR2 Grant	Totals
Cash and investments - beginning	\$ 552	\$ 183,748	\$ 19,500	\$ 3,702,000	\$ 56,498	\$ -	\$ 3,962,298
Receipts:							
Intergovernmental	150,000	-	-	-	-	-	150,000
Utility fees	124,690	-	-	-	-	-	124,690
Other receipts	<u>234,151</u>	<u>44,880</u>	<u>105,120</u>	<u>1,709,369</u>	<u>944,592</u>	<u>1,242,288</u>	<u>4,280,400</u>
Total receipts	<u>508,841</u>	<u>44,880</u>	<u>105,120</u>	<u>1,709,369</u>	<u>944,592</u>	<u>1,242,288</u>	<u>4,555,090</u>
Disbursements:							
Capital outlay	45,000	-	-	1,709,369	867,275	1,242,288	3,863,932
Utility operating expenses	228,883	-	-	-	-	-	228,883
Other disbursements	<u>150,000</u>	<u>-</u>	<u>11,168</u>	<u>-</u>	<u>107,469</u>	<u>-</u>	<u>268,637</u>
Total disbursements	<u>423,883</u>	<u>-</u>	<u>11,168</u>	<u>1,709,369</u>	<u>974,744</u>	<u>1,242,288</u>	<u>4,361,452</u>
Excess (deficiency) of receipts over disbursements	<u>84,958</u>	<u>44,880</u>	<u>93,952</u>	<u>-</u>	<u>(30,152)</u>	<u>-</u>	<u>193,638</u>
Cash and investments - ending	<u>\$ 85,510</u>	<u>\$ 228,628</u>	<u>\$ 113,452</u>	<u>\$ 3,702,000</u>	<u>\$ 26,346</u>	<u>\$ -</u>	<u>\$ 4,155,936</u>

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
 SCHEDULE OF LEASES AND DEBT
 December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Sewage:			
Revenue bonds	Sewage Works Revenue Bonds of 2010	\$ 3,012,000	\$ 128,240
Notes and loans payable	Bond Anticipation Note (Forgivable)	<u>3,702,000</u>	<u>-</u>
Total Sewage		<u>6,714,000</u>	<u>128,240</u>
Totals		<u>\$ 6,714,000</u>	<u>\$ 128,240</u>

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Sewage:	
Infrastructure	\$ 14,930,592
Buildings	45,000
Total Sewage	14,975,592
Total capital assets	\$ 14,975,592

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT

The Annual Report for 2012 contained a number of errors and did not properly reflect the financial activity of the District. The following errors were identified:

- The financial activity for the Community Development Block Grant was not reported on the financial statement.
- The Sewage General Operating Fund disbursements were understated by \$26,346.
- The Sewage Bond and Interest Fund receipts were understated by \$75,000 and the Sewage Debt Service Reserve Fund receipts were correspondingly overstated by \$75,000.
- Receipts and disbursements from the Sewage SRF Forgivable BAN Account Fund were included in the Sewage Construction Fund.
- The Schedule of Accounts Payable and Accounts Receivable in the Gateway Annual Report was not completed.

Audit adjustments were recommended and accepted by the Officials. The financial statement presented in this report reflects these adjustments and resulted in a presentation of the financial statement that is materially correct.

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."

PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The District did not have a proper system of internal control to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The District should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. During the audit of the SEFA, we noted the following errors:

- One grant was omitted from the SEFA.
- The federal grantor agency was not identified on the SEFA.
- A pass-through grant was incorrectly shown as a direct grant.

LUCÉ TOWNSHIP REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

- One grant was not shown correctly as being part of a cluster.
- The federal program name was incorrect.
- The Catalog of Federal Domestic Assistance (CFDA) number was not provided.
- The identifying number was not provided.
- The SEFA did not indicate whether one grant was either an advance or a reimbursement grant.
- An adjustment was made to an amount reported disbursed for one grant.
- The disbursement amount reported for one grant was incorrect.

Audit adjustments were recommended and accepted by the District Officials, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the 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)

CREDIT CARDS

The District is using a credit card to purchase items without a credit card policy.

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

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

5. The designated responsible official or employee should 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, etc.
6. Credit cards should 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 board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should 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 should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE LUCE TOWNSHIP REGIONAL
SEWER DISTRICT, SPENCER COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Luce Township Regional Sewer District's (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of January 1, 2011 to December 31, 2012. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period of January 1, 2011 to December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3 to be material weaknesses.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

September 23, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the District. The schedule and note are presented as intended by the District.

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LUCE TOWNSHIP REGIONAL SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>U.S. Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Spencer County				
Luce Township Sewer Project		14.228	DR2-09-086	\$ 7,821,607	\$ 1,242,288
Total - U.S. Department of Housing and Urban Development				<u>7,821,607</u>	<u>1,242,288</u>
<u>U.S. Environmental Protection Agency</u>					
Capitalization Grants for Clean Water State Revolving Funds					
Luce Township Sewer Project	Indiana Finance Authority				
		66.458	WW10097001	1,705,944	2,041,611
Total - U.S. Environmental Protection Agency				<u>1,705,944</u>	<u>2,041,611</u>
Total federal awards expended				<u>\$ 9,527,551</u>	<u>\$ 3,283,899</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Luce Township Regional Sewer District and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of districts shall be conducted biennially. Such audits shall include both years within the biennial period.

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	CDBG - State-Administered CDBG Cluster Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROLS OVER PREPARATION OF THE FINANCIAL STATEMENT

The District did not have a proper system in internal control in place to prevent or detect and correct errors on the 2012 financial statement as generated by the Gateway Annual Report. The District should have proper controls in place over the preparation of the Annual Report to ensure accurate reporting of financial activity and supplementary information. Without a proper system of internal control in place that operates effectively, material misstatements of the financial activity and supplementary information included with the Annual Report could remain undetected. During the audit of the financial statement we noted the following omissions and errors:

LUCÉ TOWNSHIP REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- The financial activity for the Community Development Block Grant was not reported on the financial statement.
- The Sewage General Operating Fund disbursements were understated by \$26,346.
- The Sewage Bond and Interest Fund receipts were understated by \$75,000 and the Sewage Debt Service Reserve Fund receipts were correspondingly overstated by \$75,000.
- Receipts and disbursements from the Sewage SRF Forgivable BAN Account Fund were included in the Sewage Construction Fund.

Audit adjustments were recommended and accepted by the Officials. The financial statement presented in this report reflects these adjustments and resulted in a presentation of the financial statement that is materially correct.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the 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)

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."

***FINDING 2012-2 - INTERNAL CONTROLS OVER PREPARATION
OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The District did not have a proper system of internal control to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The District should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

LUCÉ TOWNSHIP REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

During the audit of the SEFA, we noted the following errors:

- One grant was omitted from the SEFA.
- The federal grantor agency was not identified on the SEFA.
- A pass-through grant was incorrectly shown as a direct grant.
- One grant was not shown correctly as being part of a cluster.
- The Catalog of Federal Domestic Assistance (CFDA) number was not provided.
- The identifying number was incorrectly shown as the program name.
- An amount was incorrectly shown as being passed through to a subrecipient.
- The disbursement amount reported for one grant was incorrect.

Audit adjustments were recommended and accepted by the District Officials, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the 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 of Indiana, Chapter 10)

OMB Circular A-133, Subpart C, section. 300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

OMB Circular A-133, Subpart C, section. 310(b) states in part:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program."

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT OVER MAJOR PROGRAMS

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
and Non-Entitlement Grants in Hawaii
CFDA Numbers: 14.228
Pass-Through Entity: Spencer County
Award Numbers: DR2-09-086 (Years 2011 and 2012)

Federal Agency: U.S. Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Numbers: 66.458
Pass-Through Entity: Indiana Finance Authority
Award Numbers: WW10097001 (Years 2011 and 2012)

Management of the District has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii program. This includes the following compliance requirements: Allowable Activities; Allowable Costs; Cash Management; Davis Bacon; Equipment and Real Property Management; Matching, Period of Availability; Procurement, Suspension and Debarment; Reporting; and Special Tests and Provisions. Management of the District has also not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements

LUCÉ TOWNSHIP REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

that have a direct and material effect to the Capitalization Grants for Clean Water State Revolving Funds program. This includes the following compliance requirements: Allowable Activities; Allowable Costs; Cash Management; Equipment and Real Property Management; and Real Property Acquisition. The failure to establish an effective internal control system places the District at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the District.

We recommended that the District's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the programs.



9523 W Old State Road 66
PO Box 353
Hatfield, IN 47617
Phone: 812-359-4234
Fax: 812-359-4815

September 23, 2013

Corrective Action Plan

Auditee Contact Person: Pam Helms

Title of Contact Person: Treasurer

Phone Number: (812) 359-4234

Expected Completion Date: December 31, 2013

Section II-Financial Statement Findings

Finding 2012-1, INTERNAL CONTROLS OVER PREPARATION OF FINANCIAL STATEMENT

We will review our office procedures for internal control and attempt to implement, at least on a sample basis, steps to provide segregation of duties over the preparation of the Financial Statement. We are in the process of hiring a second full-time person in order to have better segregation of duties which we believe will assist in preventing or detecting and correcting errors. We expect to duties reassigned by November 30, 2013. We are a small unit and management has determined that the cost associated with employing additional staff necessary to properly segregate duties would outweigh the benefits of additional internal control measures. We acknowledge and assume the risks inherent with the current design of the business office.

Finding 2012-2, INTERNAL CONTROLS OVER PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We will review our office procedures for internal control and attempt to implement, at least on a sample basis, steps to provide segregation of duties over the preparation of the Schedule of Expenditure of Federal Awards (SEFA). We are making an effort to obtain a better understanding of what information is to be reported in the Schedule of Expenditures of Federal Awards and have been in the process of implementing an excel file to capture the necessary information. We expect to have this excel file established and updated monthly by November 30, 2013. We are a small unit and management has determined that the cost associated with employing additional staff necessary to properly segregate duties would outweigh the benefits of additional internal control measures. We acknowledge and assume the risks inherent with the current design of the business office.

Section III-Major Program Finding

Finding 2012-3, INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT OVER MAJOR PROGRAMS

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

CFDA Numbers: 14.228

Pass-Through Entity: Spencer County

Award Numbers: DR2-09-086 (Years 2011 and 2012)

Federal Agency: U.S. Environmental Protection Agency

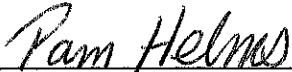
Federal Program: Capitalization Grants for Clean Water State Revolving Funds

CFDA Numbers: 66.458

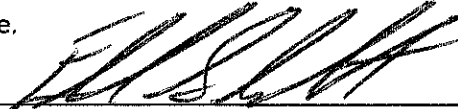
Pass-Through Entity: Spencer County

Award Numbers: WW10097001 (Years 2011 and 2012)

We have recently reviewed our procedures for and internal control and have reorganized our office staff in order to implement, at least on a sample basis, steps to provide segregation of duties over compliance requirements related to federal grant administration. We expect to have these procedures established by December 31, 2013. We are a small unit and management has determined that the cost associated with employing additional staff necessary to properly segregate duties would outweigh the benefits of additional internal control measures. We acknowledge and assume the risks inherent with the current design of the business office.



Pam Helms, Treasurer



Eleisha K. Shelton, Office Manager

LUCE TOWNSHIP REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on September 23, 2013, with Pam Helms, Treasurer; Nora L. Yeager, former Treasurer; Christian Decker, former Treasurer; John C. Wood, former President of the Board; and Eleisha K. Shelton, Superintendent. The officials concurred with our audit findings.

The contents of this report were discussed on October 2, 2013, with Edward J. Ingram, President of the Board. The official concurred with our audit findings.