



STATE OF WYOMING

DEPARTMENT OF AUDIT

PUBLIC FUNDS DIVISION

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May 15, 2014

Board of Directors
c/o Jaclyn Stewart
Clearview I&S District
117 Mountain View Dr
Rock Springs, WY 82901

Dear Ms. Stewart:

We are issuing this audit report pursuant to the requirements of Wyoming Statute 9-1-507. This statute authorizes the Department of Audit to audit special districts. The district submits the Survey of Local Government Finances (census report) providing financial information to the Department of Audit each fiscal year in accordance with Wyoming Statute 9-1-507 (a) (vii).

Objective: The objectives of our audit were to determine if Clearview I&S District was in compliance with Wyoming State Statutes and to verify the accuracy of the census report.

Scope and Methodology: We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit was from July 1, 2012 to June 30, 2013 including the census report. We interviewed the board president and the clerk/treasurer of the district. The following list of tests was performed during the performance of the audit.

- Traced selected other revenues in the census report from receipting to bank deposits
- Vouched selected expenditures in the census report to supporting documentation and district board approval
- Performed bank reconciliation and verification
- Reviewed billing records for accuracy in billing and collecting.
- Reviewed the internal controls and computer controls

Based on the procedures identified above, a few weaknesses that threaten the security of public funds were identified. These findings are presented in the accompanying summary of findings and recommendations.

Clearview Improvement and Service District
May 15, 2014

This report is intended solely for the use of district management and the specified users listed; however, this report is a matter of public record and its distribution is not limited.

Public Funds

Public Funds

cc: Governor's Office
County Clerk

EXECUTIVE SUMMARY

The overall fiscal responsibility and accountability for the Clearview Improvement and Service District rests with the board of directors. This audit focused on Wyoming Statutes and how the district complied with them. The audit also determined the accuracy of the census report by reviewing supporting documentation. The areas specifically focused on were:

1. Compliance
 - Compliance with selected Wyoming Statutes
 - Other compliance
2. Accuracy
 - Cash and Investments
 - Revenues
 - Expenditures
 - Utilities

The audit found that there were significant issues with compliance of Wyoming Statutes, as well as Federal Law. The audit also found that the district is not accurate in its financial reporting.

Accounting Manual

Clearview Improvement and Service District was not able to provide a written accounting manual for the district.

Board Oversight

The district's board has failed to provide proper oversight ensuring the district is in compliance with federal and state statutes.

Transparency and Reporting

The district has not been accurate in its financial reporting.

For more detail on the areas audited, refer to each specific section in the rest of the report.

Prior to the year audited, Clearview Improvement and Service District (CISD) was the victim of fraudulent activity by a former employee. While CISD has made some modifications to try and prevent such losses in the future, the audit found that there are still several weaknesses that place the district's assets at risk.

Accounting Manual

It is essential to the district to have a set of written, board-approved policies. These policies allow the district to maintain their accounting and other systems with consistency, through turnover of board directors and staff, and to maintain the controls necessary to maintain compliance with various laws and regulations.

The board does not have a current written accounting policy available.

- The audit found significant problems with the methods of accounting used by the district. Due to the problems created with prior practices, CISD is unable to accurately determine balances of customers' past due accounts. To add to the district's confusion, the chart of accounts is not set up properly: items that should be classified as liabilities are set up as expenditures, assets were classified as revenues, and customer utility deposits are not recorded as reserved funds with an associated liability. (Wyoming Statute (W.S.) 9-1-510)
- The district currently uses two accounting systems, Caselle and Quickbooks, to maintain the records. Caselle is used to bill and record payment of customers, and Quickbooks is used to produce financial statements. While, in theory, one could be used to journal transactions into the other, the audit found that bank deposits would not match what was in Quickbooks nor Caselle. Reports within Caselle would not match, as receipts would not match payments applied.
- Of the 70 expenditures tested, the audit found that none of them had vouchers or perjury statements. 19 of those 70 tested expenditures (27%) could not be traced to the minutes. Four of the 70 tested expenditures had insufficient documentation, as no invoice could be produced. (W.S. 9-1-510)
- The audit also found that the district had not paid its payroll taxes or the federal withholding for its employees for the audit period. (IRS Publication 15) One employee had wages paid in 2012, but did not have a W-4 or I-9 on file. None of the board members had an I-9 on file. (Title 8 CFR 274a)
- There has not been an approved and written credit and debit card policy, nor has the board established a written investment policy. (W.S. 9-4-831(h))
- The audit found that there was no written IT policy. The district has not evaluated its information technology components. There is no written disaster recovery plan, and backups are not checked regularly.

Recommendations:

The board needs to ensure that a written accounting policy is prepared and approved. It should contain policies regarding debit and credit card usages, investment of funds, IT policies (including a disaster recovery plan), and a guide on how certain transactions should be accounted for.

The board needs to decide which computer program they want to continue to use, and then use that program exclusively. Then, they need to bring in an expert to set up their chart of accounts and instructions for month end and fiscal year end transactions. Regarding the account balances accrued by customers under the prior staff, the board also needs to decide if those balances are collectable. The board needs to consider writing off those accounts where it is unlikely that the district would be able to collect those accounts.

The board needs to ensure that all expenditures of the district have proper paperwork, including a voucher and a signed perjury statement. The board should also make sure that all expenditures approved are reflected in the minutes.

The board should ensure that all payroll taxes and associated interest are paid in full. All board members and employees need to have I-9's on file, and employees need to have a W-4 on file.

Board Oversight

The district's board of directors is responsible for the operations of the district, including the safeguarding of public funds. While employees may handle day to day operations of the district, ultimately, it is the elected board's responsibility to ensure that controls are in place to ensure that the operations are being done in compliance with applicable laws and that public funds are properly safeguarded.

Fraud generally requires three conditions to take place: the person committing the fraud needs to have some sort of pressure to commit the act, the ability to rationalize why they should take the assets, and the opportunity to act. The only thing that the district can really control is to remove the opportunity, and thus the charge to the board is to make sure that operations happen in a manner that removes the ability for fraud to take place.

- Discussions with CISD personnel indicated that the board does not review bank reconciliations nor does a member of the board occasionally open a bank statement. It was also apparent that board members are not familiar with specific items to look for on the various financial reports they receive. Board members also indicated that there was an issue with the lack of involvement of one board member with financial responsibilities.
- The clerk is in charge of keeping the books, but also handles money coming in. When it comes to handling cash, there are three essential functions: Having custody of cash, having the ability to authorize transactions, and keeping records of transactions. The best controls ensure that those functions are separate. However, when the clerk who receives customer payments, maintains the records, and is responsible for taking that deposit to the bank, there is a risk to the district's funds.

- Currently, no one on the district board or the district staff who has the ability to sign on the bank account or access to the checkbook has a surety bond. (W.S. 38-2-101)

Recommendations:

The board should consider ways to improve their ability to have oversight over district operations. Reports from the clerk should include a bank reconciliation and a copy of the bank statement. Board members should look for odd payments, unauthorized vendors, deposits that have not made it to the bank, and that dollar figures match the bank statement and can be shown to match the clerk's records. They should also make sure that only authorized signatures appear on checks. The board should also consider occasionally having someone other than the clerk opening up the mail. The board should also compare the listing of expenditures to the bank statement and reconciliation, and determine the cause for any discrepancy.

The board should also have someone besides the clerk verify deposits. Another individual should ensure that the cash collected matches what is in the accounting system, and then the other employee should take the deposit to the bank. The clerk then should save the deposit receipt, and make sure that matches district records.

The board is required by statute to have everyone with access to public funds to be bonded. Essentially, anyone that handles (or could handle) cash, including the ability to sign district checks, needs to be bonded. The board needs to determine an appropriate level of bonding, as the district risks any amount they have on hand over and above their bonding levels.

Transparency and Reporting

Key to the operation of any governmental body is the ability to maintain transparency in all of its activities. Special districts, whether they receive money from the state or operate off of user fees of its constituents are no exception. Included within the notion of transparency is the duty of each entity to report correctly its financial activity. Every year, the Department of Audit mandates that every local entity report its financial activity for the fiscal year on the Form F-32 Survey of Local Government. This information is required and also sent to the U.S. Census Bureau.

The audit found that the balances reported on the F-32 for the fiscal year audited were inaccurate with respects to the amount of cash the district began and ended the year, the amount of liability owed to the State Land Investment Board and as deposits, the amount the district had in revenue, and the amount the district expended. The inaccuracy in reporting is caused by the district maintaining two accounting programs that are not reconciled and the lack of board oversight to ensure that correct information is reported. The district also failed to file a self-audit with the Department of Audit. (W.S. 9-1-507)

Recommendation:

The board needs to make sure that the accounting system put into place meets their needs, personnel have adequate training in accounting procedures, and that the district is able to use their information systems to compile year end information. The board should also make sure that year end reports are correct, approved by the board, and submitted on time.

Clearview Improvement and Service District

117 Mountain View Drive, Rock Springs, Wyoming 82901

Phone: 307-362-1140

August 14, 2014

Mr. Norm Bratton, Supervising Auditor
State of Wyoming, Dept. of Audit
Public Funds Division
Herschler Bldg, 3rd Floor East
122 West 25th Street
Cheyenne, Wyoming 82002

Dear Mr. Bratton:

While this may seem strange, the Board of Directors, on behalf of the staff and residents, of the Clearview Improvement and Service District wish to thank you and your staff for conducting the performance audit of the CISD for the period July 1, 2012 to June 30 2013. The Board was impressed with the professionalism and courtesy of the on-site audit staff and has looked forward to receiving the report. The district knew that such audit was necessary but, after inquiry, found that sufficient funding was not available to have one done commercially.

After careful study and discussion concerning the report, the Board has authorized me to prepare this response.

It would be easy to cast blame for the district's problems on the fraudulent activity of a single employee. However, many persons and agencies have culpability for the despicable condition of district affairs. We will not go into detail as to the root causes of District problems. We will only deal with items listed in the report.

Accounting Manual

The district staff is in the process of developing a Manual of Standard Operating Procedures. This is a budgeted item approved by the Board. No deadline has been set for completion of the Manual but preparation involves considerable research into district resolutions, state statutes, federal regulations and other pertinent material. This project requires an inordinate amount of staff time.

Resolutions concerning fiscal practices have been revised to accurately account for district revenue and expense. Billing and collection procedures have been defined in accordance with appropriate resolution and statute.

Customer Accounts

All customer accounts have been reviewed and adjusted as necessary to ensure accuracy. All accounts now include the name of the current landowner and stress landowner responsibility for

all debts and, to keep the district notified of any changes in ownership. Old/inactive accounts have been deleted from the system and/or archived.

Chart of Accounts

The general ledger has been set up in Caselle to properly log all revenue, expenditures, assets, liabilities, and reserves. The district worked with a Caselle CPA to ensure the accuracy of the general ledger. This process is effective as of July 1, 2014 to coincide with the current fiscal year.

Accounting Systems

The district currently uses both Caselle and QuickBooks. Caselle is the primary accounting and billing system. However, due to the expense of adding a payroll module to the Caselle system, the district elected to keep payroll in QuickBooks. Data is transferred to Caselle for budget tracking and dispersal. Employees keep track of time spent under the various GL codes for budget purposes.

The Caselle system has had many errors and deletions which prevented an accurate input of all receipts. All accounts have been verified as of July 1, 2014. Caselle has been closed out and the general ledger balanced for fiscal years 11, 12 and 13.

Expenditures

All expenditures are tracked in Caselle. Routine expenses such as gasoline, shop supplies, office supplies are verified with sales slips to the invoice, billing statement or purchase order. All payments are recorded and presented for approval at a regular public meeting. Under emergency conditions, purchase and work orders are approved by a board member either verbally or in writing. All such expenditures are approved at a regular meeting.

Payroll Taxes

The district is now in compliance with IRS requirements. All taxes have been remitted. All employees and board members have completed the required IRS forms.

Debit and Credit Card Policy

The district is in the process of reviewing credit card and debit card policy. The board by motion had previously approved a level of spending and specific use for said cards. Spending by debit card is noted and approved at a regular meeting.

The board had not created an investment policy as such. However, deposited funds are segregated by account for required reserve. Dedicated funds are held in a saving account until required. All funds are deposited in an insured institution as required by statute. Additional procedures and investment processes will be defined in the MoSOP. This will require additional research into appropriate statute.

Information Technology

IT is an ongoing project. Policy will be included in the MoSOP. The system is under review. Components are evaluated on an ongoing basis for efficiency and security. Caselle data is backed up off-site. The district is considering the addition of a central server for efficiency, convenience and security subject to availability of funds.

The district has purchased a recording system to record meeting proceedings in the computer. Meeting minutes will continue to be maintained in print form.

Caselle, financial, maintenance, payroll, work orders, correspondence, e-mail and other required records are kept in hard copy for at least one year and as required by statute and regulation. (Such records as available have aided the district in the recovery process.)

Recommendations

Paragraph 1 - covered above.

Paragraph 2 - covered above except account balances. All customer accounts are tied to the land owner by resolution. Past due accounts will continue to remain active after water service has been interrupted. Accruals will be required to be brought current prior to service being restored for any subsequent owner.

Paragraph 3 - covered above.

Paragraph 4 - covered above.

Board Oversight

The Board is reviewing oversight policy. The board has been restructured to better provide for more effective oversight procedures. Staff is providing additional training for board members to better understand fiscal procedures. However, keeping competent board members has been and will continue to be problematic. Frequently, new board members are only interested in hot-button issues and are not willing to spend the time necessary to learn the ins and outs of district operations.

Current statutes do not provide for the removal from office of an incompetent or recalcitrant board member. This was the major impediment to removal of the board in power during the period of theft and other fraudulent activities. The current board and staff are attempting to bring this need for a removal process to legislative attention. The district has written a resolution providing such a process modeled after the removal process available to municipal government and is seeking a legislator to carry it forward.

Clerical/Financial

The dual position of district clerk and financial secretary was set up to enable the accurate accounting of billing and receipts. This arrangement has been very successful for accounting practice and will remain as such. The position of Internal Auditor verifies the receipts and dispersals at least monthly. Bank deposits are verified against receipts. Deposit slips are audited weekly. A unique spreadsheet has been created to track and verify deposits by check number and tallied against Caselle and bank statements.

Do to the nature of board members work-a-day responsibilities it is not possible for a board member to routinely make the bank deposit. This is done alternatively by the I.A.

Bonding

The district is not aware of a statutory requirement for bonding personnel, especially board members. The district has a provision in its insurance policy concerning theft. Other misappropriations apparently are not recoverable or prosecutable.

All current district personnel strive to follow all rules of law.

Transparency and reporting

All operations of the district are open and available for public scrutiny. The district has, when errors are found, corrected such errors where possible. Duties of the I. A. include a review of all operating procedures and the correction of any errors. These are brought to the attention of the board and the clerk.

The district has noted substantial errors in several areas. Frequently an error found in one area will have a ripple effect throughout district reports. This occurred in the preparation of the F-32 in question. This issue has been noted in the current budget.

The district was not aware of the requirement for a self-audit. This report will note here that the office of the state auditor is required by statute to make training available to all special districts. This office has not been able to find any notification that said training is available. The requirements that special districts must meet are detailed in a wide range of statutes, notably Title 9, Title 18, Title 16, Title 22. Not to mention the myriad of regulations laid down by local, state, and federal agencies. No layman can be expected to know or, even how to find, the statutes and regulations applicable to district operations. (As an aside, it took me personally over 200 hours of research to determine which laws previous administrations had broken before a new board could be put in place.)

Recommendations

This board believes that it has put in place the needed reforms and processes to ensure that all public monies are properly accounted for. Much of this was accomplished during the budgeting process. Staff duties and reporting sequences have been reassigned to more properly track receipts and expenditures, as well as regulatory process requirements. This has been an on-going process for the past 30 months and will continue as such.

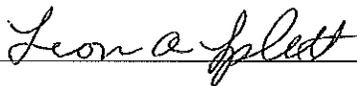
Noted reforms include the provision that facsimile stamps are not allowed. All documents are required to have two original signatures. Renter waivers have been rewritten to detail the accountability of the land owner. Governing resolutions have been updated to agree with statutory intent. Specific policy has been codified by resolution to ensure proper accounting of receipts and expenditures.

The board has, as required by statute, appointed the offices of president, secretary, and treasurer. Due to the recalcitrant nature of one board member the board found that it needed to combine the offices of treasurer and secretary. Staff includes the positions of clerk/financial secretary and of water operator/engineering technician/internal audit. These staff positions report directly to the board of directors. Cross checks involve the clerk reviewing paperwork of the water operator/engineering technician and the internal auditor that of the financial secretary

Summation

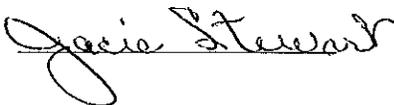
The Clearview Improvement and Service Districts exists for the sole purpose of providing approved utilities and improvements to the landowners and residents of the district as well as the customers of the several businesses located within the district. The Board and staff of the CISD do not take this responsibility lightly. They are also aware that there is a limit to what the district can charge its customers for the services it provides. Funding for operations is limited. Required infrastructure repairs and maintenance have placed a severe strain on the operations budget. On December 31, 2013 the district was, for all intents and purposes, bankrupt. The board had to make a choice as to whether or not to let the district fold. The decision was made by the board to keep operating. As of this writing the district is solvent. All funds are properly accounted for. The Board believes that safeguards in place to prevent any misappropriation of funds. They are keenly aware that mistakes will be made but believe that the crosschecks are in place to detect and correct them as they may occur.

Report Prepared by: Leon A Splett, Internal Auditor



Approved: August 14, 2014

Jaci Stewart, President



Dale Ann Fisher, Secretary/Treasurer

