



STATE OF WYOMING

DEPARTMENT OF AUDIT

PUBLIC FUNDS DIVISION

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April 21, 2015

Board of Directors
c/o President John Scheuerman
Hanover Irrigation District
P.O. Box 965
Worland, WY 82401

Dear President Scheuerman:

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 – F-32 (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 purpose of our audit was to determine if Hanover Irrigation District (District) was in compliance with Wyoming State Statutes as they relate to the specific sections below 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, 2013 to June 30, 2014 including the Census Report. We interviewed the mayor, treasurer, and the contracted bookkeeper from the Hanover Irrigation District. The following lists the tests that were performed during the audit:

- Compared Census Report revenues to State of Wyoming and County Treasurer distribution reports
- Vouched selected expenditures in the Census Report to supporting documentation and District commissioners approval
- Performed bank reconciliation and verification
- Reviewed voided checks and bank statements for unusual transactions
- Reviewed the internal controls and computer controls

- Reviewed State Statutes applying to the District and compared to practices and procedures in place at the District

Based on the procedures identified above, several possible violations of the Constitution or State Statute were identified. These violations and additional findings are presented in the accompanying summary of findings and recommendations.

This report is intended solely for the use of 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 Hanover Irrigation District rests with the governing body. 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 and Internal Controls
 - Compliance with selected Wyoming Statutes
 - Other compliance with the Wyoming Constitution
 - Internal Controls
2. Accuracy
 - Cash, Investments, and Debt
 - Revenues
 - Expenditures

Compliance and Internal Controls

Several possible violations of Wyoming State Statutes were identified: No District commissioners had a surety bond during the audit period; the District did not use a June 30 fiscal year to develop the budget or report to the State, further, the budget was not signed and was overspent; the District did not have an investment policy; proper documentation and authorization was not obtained on sampled expenditures; employee files did not contain the required documentation.

Regarding internal controls, many weaknesses were identified. The District relied almost entirely on S&A Bookkeeping to carry out the accounting function of the District, resulting in the Commissioners not creating and maintaining a system of internal controls. No commissioner reviewed general ledger entries made by the bookkeeper prior to posting, compared the bank deposit slip to the general ledger, reviewed reconciliations and compared them to the general ledger, or confirmed the payments made from the bank account agree to what the governing body actually approved. Additionally, the bookkeeper received, recorded, and deposited all revenues. There was no written accounting policy, which would include a reimbursement and credit card or fuel card policy. An ex-employee of the District was the only signor on the District's certificate of deposit. The Census Report was knowingly populated with inaccurate data. The District did not utilize the budget for its intended purpose as there were two different budgets on file for the same year and neither were followed. There was no IT policy and procedures manual to outline what was required of the contracted bookkeeper in regards to computer controls and access to accounting files owned by the District. Further, in that regard, there was no written contract between S&A Bookkeeping and the District.

Accuracy

The District did not report its revenue, expenditures, or debt accurately on the Census Report. Based on analysis of the bank statements, revenue was underreported by \$11,393 and expenditures underreported by \$65,527. In regards to debt, the fiscal year 2013 ending balance did not agree to the fiscal year 2014 beginning balance on the F-32 as it should have. Further, the report required to be submitted to the court was inaccurate and the differences could not be explained.

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

COMPLIANCE AND INTERNAL CONTROLS

Bonding

No District commissioner had a surety bond during the audit period as required by W.S. 38-2-101 and 41-7-806. That exposed the District to unnecessary risk in the event there was a total loss of District funds as there would not be money coming in to continue operations. It is important to note after the audit period all commissioners were bonded. However, the treasurer was still not bonded in an amount to cover all of the Districts funds as required by W.S. 41-7-806.

Recommendation: As required by statute, all commissioners shall carry a surety bond. Additionally, the treasurer shall carry a bond in an amount to cover all monies coming into his possession or control. The amounts of surety bonds should be reviewed at least annually, as well as when new personnel are given access to District bank accounts. The process of determining the appropriate bond amounts should include an analysis of the risks the District faces as a result of the lack of internal controls, the amount the District would be paid if funds were misappropriated and if that amount is sufficient to continue District operations, the economic feasibility of carrying a higher dollar surety bond, and finally, State statute.

Budget

Although it was apparent the District commissioners knew the requirement to operate on a fiscal year ending on June 30, per W.S. 41-7-806 and 16-4-125(c), the District kept their books on a calendar year. Additionally, the District created the budget based off a calendar year, and actually had two budgets on file for the same period. However, the commissioners did not follow or use either budget, and, nonetheless, overspent both budgets for 2013 by a total of \$38,099 apparently violating W.S. 41-7-402(b) and W.S. 16-4-108(a) as no amendments were made prior to the expenditures. Auditors also noted the budget was not signed, nor was it verified under oath apparently violating W.S. 41-7-402. Finally, a copy of the budget hearing notice was not sent to the Wyoming Department of Audit (DOA) per W.S. 9-1-507(a)(viii).

Recommendation: The District must use a fiscal year ending June 30 for reporting and budgeting purposes. Budgeting is a valuable tool the District should use to monitor finances and help project the financial direction of the District. There should be one budget for the District. The commissioners should regularly monitor budget-to-actual reports to ensure they are not overspending. Budgets must be amended before “over-expenditures” are approved for payment per W.S. 16-4-108. The budget also needs to be verified under oath before the process is complete. Finally, the District needs to ensure a copy of the budget hearing notice is submitted to the DOA

Expenditures

Auditors randomly sampled 67 expenditures and found the following:

- 12 or 18% did not have perjury statements as required by the Wyoming Constitution, Article 16, Section 7
- 60 or 90% did not have president’s or treasurer’s signatures as required by W.S. 41-7-814
- 11 or 16% that should have an invoice did not (excluded four bank service charges from total items tested)
- 6 or 9% were determined to have been paid late potentially violating W.S. 16-2-602
- 12 or 18% did not have vouchers

In addition to the above findings, auditors noted itemized lists of expenditures were not included in the minutes when the bookkeeper presented the financial reports to the commissioners.

Recommendation: Commissioners should familiarize themselves with Wyoming Statutes and Wyoming Constitutional requirements that apply to the District. A perjury statement must be obtained for each expenditure. As the bills and checks are presented to the commissioners at each meeting for approval, it is recommended the president and treasurer sign the checks for payment at that time. Itemized invoices of expenditures must be presented prior to payment approval. An efficient method is a detailed list of expenditures provided to the commissioners at each meeting. Along with the list the bookkeeper should include the invoices that make up the list so one or all commissioners can review the invoice and agree it to the list.

Policies and Procedures

The District did not have written policies or procedures. More specifically, there was not a written accounting policy, investment policy (per W.S. 9-4-831(h)), reimbursement policy, credit/fuel card policy, records retention policy, disaster recovery policy, IT policy, or procedures in place to prevent or detect fraudulent activity. Regarding investment policies, the District did not see the interest bearing accounts or certificates of deposits as being investments, and, did not think an investment policy was necessary. Also, as the accounting function is outsourced and there is no written contract between the District and the bookkeeper, the District has no guaranteed access to District accounting records.

Recommendation: The District should develop and maintain written policies and procedures to include the subjects mentioned above, as well as a written contract between the District and the contracted bookkeeper. The contract should set forth what access the commissioners and the public have to District records (per W.S. 41-7-806), as well as any IT security controls that need to be in place at the bookkeeper's place of business. Once a formal set of policies and procedures have been adopted, the commissioners should review them annually and update as necessary. This would give the commissioners an opportunity to evaluate the effectiveness of current processes and procedures and would also help streamline District operations. If a critical employee was unable to be at work, or if the contracted bookkeeper ended the business relationship, there would be something to reference to carry on the daily operations of the District. Policies and procedures guide personnel and help to ensure management's objectives and goals are carried out. Without policies and procedures, the District exposes itself to unnecessary risk.

Lack of Segregation of Duties and Review

There was a lack of internal controls and commissioners involvement in District operations. Heavy reliance was placed on the contracted bookkeeper to carry out the majority of the accounting functions of the District, resulting in insufficient segregation of duties. The following demonstrates the lack of commissioner's involvement, review, and segregation of duties:

- The bookkeeper received, recorded, and deposited revenue not electronically deposited
- The commissioners did not compare unopened bank statements to financial information provided by the bookkeeper nor did they ask for the bank account login information for online banking
- The commissioners did not review journal entries prior to posting
- The commissioners did not do a comparison of payments made to payments approved by the commissioners to ensure the payments actually reflected the amount approved by the commissioners and were not altered
- The bookkeeper had full custody of the District back-up files

- An ex-employee with no affiliation with the District was the only signatory on the CD
- The treasurer and president did not sign the Census Report as they had indicated during interview

Recommendation: The District Commissioners have a fiduciary duty to protect the District assets and ensure the District objectives are met. According to W.S. 41-7-303, "...it shall be their duty, to adopt bylaws, manage and conduct the affairs and business of the District..." The commissioners' lack of involvement and review decreased the protection of District assets and increased the risk of material misstatement or fraudulent activity going undetected. The commissioners need to take a more active role in the District. This can be accomplished by thoroughly reviewing the financials regularly. Their review should include comparisons of District books to bank statements and a review of journal entries. In addition, the District should separate as many of the daily tasks as economically possible. Further, a commissioner should have custody of the District backup files and at least one commissioner should have a password to access District accounting records. Finally, the commissioners need to update the signatory card on the CD account. It is recommended the CD account is reviewed each time there is turnover on the commissioners to ensure signatories are updated.

Payroll

Employee files were not complete. 14 out of 16 employees did not have a W-4 on file. The two W-4's on file were not complete as required information was omitted. Only two employees had the I-9 and of the two I-9's on file, only one was complete. Further, severance pay, annual payments to commissioners, and employee bonuses were not taxed as required. Finally, poor communication and commissioners' oversight helped cause payroll taxes for the 1st quarter in 2014 to be overpaid, demonstrated by a large refund from the IRS.

Recommendation: The District needs to create a written policy to include processes, procedures, and documentation required for employees and also how to calculate payroll taxes. The commissioners need to be diligent with ensuring the appropriate tax is being paid to the IRS by reviewing the IRS 941 forms and comparing payments to the IRS from the bank statements.

ACCURACY

Reporting

In the course of planning the audit, auditors found the District voted to start over in QuickBooks by creating a new company. This happened due to irreconcilable differences in the prior company and a lack of knowledge to correct them. According to bank statements, revenue was underreported on the Census Report by \$11,393 and expenditures by \$65,527. Further, the ending balance on debt from fiscal year 2013 did not agree to the fiscal year 2014 beginning balance on the Census Report. The bookkeeper was unaware of how she determined the reported debt numbers. This illustrates a weakness in the control environment as the commissioners were not sufficiently reviewing the Census Report to determine its accuracy. The weakness was elevated because the commissioners were not conducting a more thorough review despite terminating the prior bookkeeper for inaccurate data being reported. Additionally, the bookkeeper was unable to provide detailed information about the District's debt. For instance, what was the outstanding balance in a given period or interest rates, or if there was actually a debt? When asked if the amount reported as interest included principal, the bookkeeper could not provide that information because she didn't know.

It was also noted there were significant differences between what the District reported to the court versus the bank statements. The report was submitted to the court prior to the current bookkeeper accepting a position with the District. The differences could not be explained.

Recommendation: A written procedure on how to fill out the Census Report should be created and maintained in order to guide personnel on the proper reporting of District financial information. This should be included in the accounting manual previously mentioned. In regards to debt, the governing body should be aware at all times what the outstanding balance was to help ensure payments are being applied as the District intended. It is also recommended a commissioner review the receipts and disbursements report prior to submission to the courts. The review should include reconciliations to the books and bank accounts to ensure accuracy.

Auditee's response via email:

6/23/2015

State of Wyoming Mail - Hanover Irrig. District response to Audit Report



Hanover Irrig. District response to Audit Report

2 messages



Fri, Jun 26, 2015 at 4:42 PM

Hanover Irrigation District has not met since receiving the Audit Report, so this response does not reflect a board consensus. HID knows that it had, and still has issues that needs to be dealt with. One of them was the need to change bookkeepers which we did in 2014. This was the issue for quite a few of the discrepancies found. There are policy changes that need to be implemented which we will do.

One thing I don't understand is the need to change to a fiscal year, we [the board] are very busy this time of year as far as trying to grow a crop. The time needed to put a budget together is not there in June, also attendance at an annual meeting is lacking some years during what is a slower time of year as far as work load is concerned. Moving the annual meeting to a much busier time of year which would be necessary would not work as well in my opinion. We will review the Audit Report at our next meeting and start the process of coming into compliance on these matters.

John Scheuerman, HID President

