



# STATE OF WYOMING

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## DEPARTMENT OF AUDIT

### PUBLIC FUNDS DIVISION

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April 21, 2015

Board of Directors  
c/o President Dan Madden  
Highland Hanover Irrigation District  
P.O. Box 982  
Worland, WY 82401

Dear President Madden:

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 Highland 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 and the contracted bookkeeper from the Highland 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 board approval
- Performed bank reconciliation and verification
- Reviewed voided checks and general ledger accounts 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 Highland Hanover Irrigation District rests with the governing body. This audit focused on Wyoming Statutes and how the Highland Hanover Irrigation 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: There were not enough members serving on the Board, the District did not have an accounting policy or an investment policy, bonding levels for District personnel were inadequate, the District did not use a fiscal year commencing on July 1 to develop the budget, the District overspent its budget for calendar year 2014, and proper documentation and authorization was not obtained on sampled expenditures. Regarding internal controls, the District relied almost entirely on the contracted bookkeeper to carry out the accounting function of the District, resulting in the Board not creating and maintaining a system of internal controls.

### **Accuracy**

The District reported its financial information materially accurately on the Census Report. However, the District did not appropriately fill out the debt section of the Census Report, reporting all debt under the expenditures section. Further, follow-up paperwork, specifically the Proof of Cash form, required by the Department of Audit was found to be inaccurate.

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

## **COMPLIANCE AND INTERNAL CONTROLS**

### **Policies and Procedures**

The District did not have written policies or procedures. More specifically, there was not an accounting policy, investment policy (per W.S. 9-4-831(h)), reimbursement policy, records retention policy, disaster recovery policy, IT policy, or procedures in place to prevent or detect fraudulent activity. During an interview with the Board President, it was evident there was a lack of understanding of processes and procedures in place. 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. 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.

**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 Board 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 that bookkeeper's place of business. Once a formal set of policies and procedures have been adopted, the Board should review them annually and update as necessary. This would give the Board 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.

### **Lack of Segregation of Duties and Review**

There was a lack of internal controls and Board 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. Also, any one Board member had the ability to make changes to District bank accounts. When the Board President was interviewed, several questions involving the District's accounting operations were referred back to the bookkeeper, as he was unable to answer them. The following demonstrates the lack of Board involvement, review, and segregation of duties:

- the bookkeeper received, recorded, and deposited revenue not electronically deposited
- the Board did not compare bank statements to financial information provided by the bookkeeper
- the Board did not review journal entries prior to posting
- the Board did not do a comparison of payments made to payments approved by the Board to ensure that payments actually reflected the amount approved by the Board and were not altered
- Although testing determined the District's account balances never exceeded the Federal Deposit Insurance Coverage (FDIC) limits, the Board relied on their depositories to monitor account balances, in order to ensure proper pledging was obtained on any amounts not covered by the FDIC.
- the bookkeeper had custody of the District back-up files
- when monthly meetings were cancelled, the bookkeeper would obtain only one board member's authorization for expenditures by driving to that individual's house, circumventing the approval process by the public and by the board as a whole

**Recommendation:** It is the fiduciary duty of the Board of Directors to protect the assets of the District and to ensure the objectives of the District are being 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 Board's lack of involvement and review decreased the protection of District assets and increased the risk of material misstatement or fraudulent activity going undetected. The Board needs to take a more active role in the District, thoroughly reviewing the financials regularly, perhaps at the monthly meeting. When a monthly meeting needs to be cancelled, there should be a procedure in place to have the expenditures voted on and authorized by a majority of the members. Their review should include comparisons of District books to bank statements and a review of journal entries. Expenditures need proper approval, meaning they need to be reviewed and voted on at public meetings. In addition, the District should separate as many of the daily tasks as economically possible. Further, the Board should monitor all funds on deposit and take appropriate action if those funds exceed FDIC limits. Finally, a member of the Board should have custody of the District backup files and at least one Board member should have a password to access District accounting records.

### **Compliance**

Auditors randomly sampled 83 expenditures and found the following:

- 100% did not have perjury statements as required by the Wyoming Constitution, Article 16, Section 7,
- 100% did not have dual signatures as required by W.S. 41-7-814
- 100% did not have the Board President's signature as required by W.S. 41-7-814

Although it was apparent that the District Board knew the requirement to operate on a fiscal year commencing on July 1, per W.S. 41-7-806, the District kept their books on a calendar year. Since the District budget was created on a calendar year, auditors reviewed the budget for 2014 and compared it to actual expenditures of the District, finding that the District overspent its budget by \$40,175. As the bookkeeper stated there were no amendments made to the budget, it appears the District was in violation of W.S. 41-7-402(b) and W.S. 16-4-108(a). In addition, the District had 27 expenditures prior to adopting the budget for 2014, which was an apparent violation of the Wyoming Constitution, Article 16, Section 7. Finally, there were not at least five board members serving, an apparent violation of W.S. 41-7-804(i).

**Recommendation:** Board members should familiarize themselves with Wyoming Statute 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 Board at each meeting for approval, it is recommended the Board President and one other Board member sign the checks for payment at that time. In addition, the District must use a fiscal year commencing on July 1 for reporting and budgeting purposes. The Board should regularly monitor budget-to-actual reports to ensure they are not overspending, and an amendment should be made if the District is on track to overspend its budget. Finally, there needs to be at least five members serving on the Board of Directors.

### **Bonding**

The District Treasurer was not bonded in an amount sufficient to cover all monies in the District's control, per W.S. 41-7-806. In addition, considering the District's average account balances, it was determined other members of the Board had insufficient bonding levels as well when considering the District's weak internal controls. The amounts of surety bonds for any individual only covered

2.94% of the District's total average cash. If any of the individuals were to misappropriate funds, the amount able to be recovered could be insufficient to continue District operations.

**Recommendation:** 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, and the economic feasibility of carrying a higher dollar surety bond.

## ACCURACY

### **Reporting**

Although the District had debt, the Debt Section of the Census Report was left blank. The amount of debt repayments was, instead, included in the Expenditures Section. Additionally, during testing auditors noted the bookkeeper was unable to provide detailed information about the District's debt. For instance, what was the outstanding balance at given period, interest rates, or if the debt is 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. Further, when asked about the other amounts that comprise this balance, it was found they are not debts at all. The amounts are payments for services rendered. Also, follow-up paperwork required by the Department of Audit, more specifically the Proof of Cash, did not agree to the Cash and Investment Section of the Census Report. This was because four of the six District accounts were not included on the Proof of Cash document.

**Recommendation:** When documents prepared by the District do not agree, it indicates to the public the District is not fairly representing the financial information of the District. It can decrease public confidence in the management of the District as well. A written procedure on how to fill out the Census Report and any follow-up paperwork should be created and maintained in the District office, 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.

**Auditee Response:**

Per phone conversation on June 25<sup>th</sup>, 2015 with President Dan Madden, the Highland Hanover Irrigation District board of directors has reviewed the audit report. It was discussed at the last board meeting for two hours. President Madden indicated there were items in the report they agreed with and some they did not. No details were given. President Madden indicated no written response would be submitted prior to the response due date because the governing body's schedules did not permit such time.