



STATE OF WYOMING
DEPARTMENT OF AUDIT

PUBLIC FUNDS DIVISION
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June 20, 2012

Lovell Irrigation District
c/o President Vance Leithead
510 Nevada Ave.
Lovell, WY 82431

Dear President Leithead:

We are issuing this audit report pursuant to the requirements of Wyoming Statutes 9-1-507. This statute authorizes the Wyoming Department of Audit to audit special districts. The district submits the Annual Survey of Local Government Financial Report (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 objective of our audit was to determine the Lovell Irrigation District was in compliance with Wyoming State Statutes and 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, 2010 to June 30, 2011 including the census report for the most recent completed fiscal year. We interviewed the secretary, from the Lovell Irrigation District. The following list of tests was performed during the performance of the audit.

- Compared census report revenues to State of Wyoming and County Treasurer distribution reports
- Traced selected other revenues in the census report from receipting to bank deposits
- Traced selected expenditures in the census report to supporting documentation and board approval
- Performed bank reconciliation and verification
- Reviewed the internal controls and computer controls

The Lovell Irrigation District is responsible for the accuracy and reliability of information submitted to the Wyoming Department of Audit. Our responsibility is to determine the accuracy of its presentation.

The accompanying audit of the Lovell Irrigation District for Audit Period: July 1, 2010 through June 30, 2011 presents the results of our audit.

This report is intended solely for the use of the specified users addressed in this letter; 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

This audit focused on Wyoming Statutes and how the Lovell 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:

- Cash and Investments
- Revenues
- Expenditures
- Other compliances

Accuracy

There were weaknesses in internal controls due to the lack of segregation of duties. The secretary was the main individual in charge of bookkeeping and reporting of financial information. The results of not having a proper review process of information resulted in many inconsistencies and internal control weaknesses:

- The District lacks controls over all financial reporting processes;
- Expenditures were not properly accounted for in the District's financial records;
- Differences were shown between the Census Report and those reported by 3rd party to the Department of Audit;
- The lack of documentation and approval of grants;
- No accounting policy was in place;

Other Compliance

The District was found to have been in violation of various statute compliances. There were several internal control weaknesses that could potentially lead to material errors and room for fraud to occur. Specifically, the lack of segregation of duties in all financial reporting processes. Other compliance weaknesses showed a lack of IT controls that could potentially lead to the loss of data, errors or deception of financial and District documentation.

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

CASH AND INVESTMENTS

Criteria: W.S. 9-4-817 through 9-4-831, W.S. 38-2-101

Objective: Determine if depositories and investments are legally acceptable.

Condition/Cause/Effect:

The depositories for the Lovell Irrigation District, for the most part, are legally acceptable by Wyoming State Statutes 9-4-817 through 9-4-831. However, it has been noted the district does not maintain bank applications nor was there record of the approval of the depositories by the board in the meeting minutes which is required by W.S. 9-4-817 (b)(ii). As such, it has been determined internal controls regarding the depositories are weakened by lack of official designations and supporting documentation.

Objective: Determine if cash and investments reported in the annual report are accurate and consistent with bank statements.

Condition/Cause/Effect:

The cash reported in the annual report is accurate and consistent with the bank statements. The district does not have investments. The cash reported on the annual report agreed to the bank statements, reconciliations, and general ledger without exception. As such, internal controls regarding the accuracy of cash and investments in the annual report are determined to be strong.

Objective: Determine if the processes in place have any potential weaknesses which might prevent the safeguarding of cash and investments.

Condition/Cause/Effect:

All depositories with which the District has transacted business during the current audit period have been determined and verified. Internal controls are assessed to be moderate in regards to the safeguarding of cash and investments. Although the depositories are deemed to be legally acceptable and the cash reported on the census report agrees to the bank statements and districts financial records, the district is not meeting specific statutory requirements. The district does not maintain an official investment policy nor have they established any accounting policies in regards to cash; there are no bank applications on file, and no official depository designation by the board. The financial report is presented to the governing board on the second Tuesday of February annually. It should be on or before the tenth day of July each year per W.S. 41-7-304.

Recommendations:

It is recommended the Lovell Irrigation District officially designate The Bank of Lovell as their depository. It is also recommended the bank application be maintained on file. The district should follow statutory requirements regarding official designation of depositories and creating and maintaining a current investment policy, as well as, presenting the financial report to the board on or before the tenth day of July each year per W.S. 41-7-304.

REVENUES

Criteria: W.S. 9-1-507, 16-4-201, 16-12-104

Objective: Determine if revenues are recorded, reported, and deposited at the correct amount.

Condition/Cause/Effect:

Due to the material variance in both areas of testing it is determined revenues are reported as incorrect. A weakness occurs in the internal controls from lack of an official accounting policy. All deposit slips were deposited in whole with no cash back to the bank. Comparison of the census report and the general ledger resulted in a \$60,137 or 34% difference. When 3rd party amounts deposited into the bank were compared to the census report it also resulted in a \$56,492 or 32% difference.

During an interview with the district's accountant, he explained the secretary provides him a general ledger, trial balance, and transactions report to fill out the F-32 on behalf of the district. The accountant only uses the trial balance QuickBooks report. Upon further review, the trial balance report was incomplete and only represented a fraction of the districts actual revenues because not all deposits had been entered at the time the report was generated. The secretary only inputs transactions into QuickBooks once a year, generally in December or January. This tardiness has resulted in incomplete reports being provided to fill out the F-32. In a letter sent with the F-32 on December 16, 2011, it was explained, to the Department of Audit, they were knowingly submitting an incorrect F-32 to avoid dissolution and the discrepancies would be reconciled. At the time of the letter, the district was over two months late in filing their F-32 to the Department of Audit and facing dissolution proceedings. Additional testing and review of the districts audit trail in QuickBooks revealed the district updated their financial records four days before the Department of Audit was scheduled to conduct the entrance interview.

Objective: Determine if the processes in place have any potential weaknesses which might prevent the safeguarding of revenues?

Condition/Cause/Effect:

The revenue process has been traced from collecting, depositing and recording. A weakness in the internal controls involves the lack of segregation of duties as all aspects of this process are performed solely by the secretary. Due to this weakness there is potential for lapping or other fraud to occur. Furthermore; a receipt is not written for every customer, and interest earnings are not recorded into QuickBooks. Finally, the district does not have a specific accounting policy regarding revenues.

Recommendations:

The Lovell Irrigation District should create, implement, and maintain a written accounting policy manual for the revenue process. This should include, but is not limited to, procedures that dictate the timeliness for recording revenues. It is also recommended the district hire a certified public accountant to review their financial records and fill out the census report to ensure it is reported on time and accurately. Additionally, the president or other board members should become actively involved in the revenue collection process to alleviate the lack of segregation of duties.

EXPENDITURES

Criteria: W.S. 9-3-427, Wyoming Constitution Article 16, Section 7;
Title 8 CFR 274a

Objective: Determine if all expenditures reported on the census report are accurate and authorized.

Condition/Cause/Effect:

All expenditures reported on the census report are not accurate and authorized. A weakness in internal controls is evidenced by the difference in the district's expenditures per their financial records and the expenditures reported on the census report. The district did not reconcile the numbers reported on the census report to their financial records in QuickBooks. The district knowingly provided inaccurate reports to the accountant. The accountant used these reports to fill out the census report and knowingly submitted an F-32 that was not accurate to the Wyoming Department of Audit. When compared to Lovell's financial records in QuickBooks, expenditures were under reported on the F-32 by \$134,344 of grant money. There are no official accounting policies in regards to expenditures or reimbursements. The district does not consistently require itemized documentation of claims before paying those claims. Further, expenditures are not approved by the board, the district does not require the use of perjury statements, and does not consistently use the control of dual signatures which are violations of W.S. 41-7-814 and Article 16 Section 7 of the Wyoming Constitution. Additionally, payments could not be traced to the minutes as being approved by the board for payment.

Objective: Determine if bids were conducted in accordance with statute.

Condition/Cause/Effect:

The secretary is aware there is a process that is supposed to be followed for obtaining bids, but does not know what that process is. The district relied on the engineers who managed their projects to conduct the bid process according to statutory requirements. As such, internal controls are determined to be weak in the area of conducting bids.

Objective: Determine if payroll records are in compliance with federal statutes.

Condition/Cause/Effect:

The district's payroll records are not in compliance with state and federal statutes 9-3-427 and Title 8 CFR 274a. The district claims all new employees are required to fill out W-4's and old employees are not; however, there was no record of any W-4's. The district does not require new employees to fill out form I-9. Pertinent employee information is not kept in one central location where it can be easily accessed and/or reviewed for completeness. The employee records are not in compliance with federal statutes; however, it has been determined during testing the district paid all employee withholding taxes for the period under audit. All amounts withheld were reconciled to payments made and those payments were traced to the bank statements. The secretary did not receive more checks than authorized.

Objective: Determine if all grants are being managed in accordance with grant requirements.

Condition/Cause/Effect:

A review of the general ledger uncovered no unusual items and it appears the district is in compliance with grant requirements; however, controls over the maintenance of the grants are weak. The district did not have the contract available for three grants, they had to be obtained from the grantor, or the reimbursement requests for any of the grants. Further, the district does not maintain separate accounts within QuickBooks to track expenditures for the grant project in order to report accurate and authorized expenditures. All grants in question were approved in 2009, outside of the audit period. The district was unable to provide grant contracts and there was no approval for the grants in the board meeting minutes, as such; it was undeterminable if expenditures were in accordance with grant requirements.

Recommendations:

The district should ensure the total expenditures reported on the census report reconcile to the total expenditures in their financial records. They should require itemized documentation for every claim before paying those claims. All claims should be presented to the board and documented in the minutes. It is recommended the district should adopt a formal bid policy, despite the cost of the automobile or project, to ensure statutory compliance. It is also necessary that the district's board is aware of the policy as a means of monitoring compliance. A completed W-4 and I-9 for every employee should be obtained. Those documents should be kept in an employee file that can be readily accessed and/or reviewed for completeness. The district should keep copies of all grant agreements, all requests for reimbursement, and the supporting documentation for the reimbursement. All information should be kept together and organized in such a way the district knows at any given time how much is left on any given grant. The district should create and maintain an account within QuickBooks that they can record grant expenditures so they can easily report to the grantor expenditures charged to the grant if asked.

OTHER COMPLIANCE

Criteria: W.S. 16-2-102, 16-4-109, 16-4-111, 16-4-202 through 16-4-205, 16-4-401 through 16-4-407, 16-5-106

Wyoming Constitution Article 16, Section 6

Objective: Determine if there are other controls in place to prevent errors or deceptions.

Condition/Cause/Effect:

Based on the secretary interview, as well as, audit procedures performed it has been determined internal controls are weak in various areas of other compliance. The district does not have a formal accounting policy. Neither the president nor board members review an unopened bank statement on an annual basis. Additionally there is a lack in segregation of duties in the revenue collection process. The internal controls are determined to be weak as there is room for fraud to occur by the board not tracing the financial records to the bank information, not being involved in the accounting process and by the district not keeping/reporting accurate financial records. The false information reported on the self-audit

is a significant weakness in internal controls because it shows the district is not reporting what is actually going on and is reporting what they think should be the correct answers to the Department of Audit. Reporting false information raises questions relating to the financial reporting process in general. There is potential for fraud and/or material error to occur.

Objective: Determine if the policies and procedures, in place, concerning general information technology (IT) controls have potential weaknesses.

Condition/Cause/Effect:

The district does not have adequate policies and procedures in place to safeguard the IT process from fraudulent activity to occur. The district's computer is the secretary's personal computer. There are no policies pertaining to the IT applications and accounting system. There is a lack of segregation of duties as the secretary performs all IT duties relating to the accounting system. The secretary is the only one with access to and knowledge of the computer system. Access rights are not controlled and activity is not monitored or approved by the president or board members. The computer does not require a username or password to access it. Passwords are not changed regularly, there is not an automatic lockout after a specific number of failed log in attempts, and users are not logged off after a period of inactivity. QuickBooks does require a password; however, the secretary is the only one with this password. Physical access to the computer is not monitored. There are no procedures in place to add, modify or delete users. The district's computer does not monitor firewall traffic. A zip drive is used to store back up data but it is kept in an unlocked drawer in the secretary's home. There is not a formal disaster recovery plan or procedures set forth to restore data in the event of a loss. The district experienced a computer crash in the prior year and lost a significant amount of financial data; however, they have not made adjustments to develop and maintain a proper plan in the event of another computer crash. Although fraud was not detected throughout the course of the audit testing, lack of proper monitoring of the accounting system and inaccurate financial records allow for the occurrence and concealment of fraud.

Objective: Determine if the budgeting process used by the entity is in accordance with state statutes.

Condition/Cause/Effect:

Internal controls are assessed to be strong relating to the budgeting process in accordance with court requirements as the district's accountant, submits the approved budget to the district court on an annual basis satisfying the court's requirement. Although the district is in compliance with the court's requirements, the secretary, states in his interview there was a budget hearing held, posted, and an approved budget on file. The Lovell Irrigation District holds a budget hearing the second Tuesday of February. The only supporting documentation found was in the district's minutes stating the "budget was discussed." The District does not maintain a copy of the approved budget or any supporting documentation on file; however, the budget was submitted to the district court satisfying the court's requirements of the district pertaining to its budget. The budget hearing was submitted to the department of audit. The district is in violation of W.S. 16-4-109 (b) as the budget hearing is held in February. Although internal controls are strong relating to the budgeting process used by the entity being in accordance with court requirements, internal controls are weak relating to proper

record retention and reporting as the district reports on a calendar year basis rather than a June 30th year end.

Recommendations:

It is recommended the president and board members become more actively involved in the accounting process to eliminate the lack of segregation of duties. The board should also review an unopened bank statement on an annual basis to verify accuracy of the treasurer's report. Furthermore; the board needs to ensure information being reported in all financial aspects is accurate. It is recommended the president and board members become more actively involved in the IT accounting process to eliminate the lack of segregation of duties in this area as well. An IT policy should be determined, approved and properly monitored. The board should develop and maintain a proper disaster recovery plan. Physical access to the computer should be monitored and user names and passwords should be required to access the computer. Additionally, the district should meet more than once a year to discuss, finalize and approve the budget. Proper financial records, including a copy of the approved budget and documentation of the budget hearing should be maintained and kept on file for review. The district should change their reporting process to a June 30th year end rather than reporting on a calendar year basis. The budget hearing should be held in accordance with W.S. 16-4-109 (b).



samantha.jacobsen <samantha.jacobsen@wyo.gov>

Re: audit report

1 message

asayfam@tctwest.net <asayfam@tctwest.net>
To: samantha.jacobsen <samantha.jacobsen@wyo.gov>

Wed, Aug 29, 2012 at 10:02 PM

Audit Department

I have reviewed your report and will present it to the board of director of the Lovell Irrigation District. Thank you for your input. You have been helpful.

Stan Asay
Secretary
Lovell Irrigation District