

RESOLUTION OF THE BOARD OF TRUSTEES
OF THE LAKELAND REGIONAL SEWER DISTRICT NO. 2023-05
ADOPTING
THE INTERNAL CONTROLS POLICY AND
THE MATERIALITY POLICY

WHEREAS, IC 5-11-1-27(g) requires that the Indiana political subdivisions (within the meaning of IC 5-11-10.5-1) adopt the minimum level of internal control standards and internal control procedures for internal control systems of political subdivisions defined by the Indiana State Board of Accounts (the “**SBOA**”) to promote government accountability and transparency;

WHEREAS, the SBOA has developed and published the *Uniform Internal Control Standards for Indiana Political Subdivisions* providing clarifying guidance on the acceptable minimum level of internal control standards with all political subdivisions subject to audit by the SBOA;

WHEREAS, IC 5-11-1-27(g) further requires that officers and employees of a political subdivision whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity (the “**Personnel**”) receive training concerning the internal control standards and procedures adopted by the political subdivision;

WHEREAS, pursuant to IC 5-11-1-27(j), all erroneous or irregular *material* variances, losses, shortages, or thefts of political subdivision funds or property must be reported immediately to the SBOA;

WHEREAS, in furtherance of IC 5-11-1-27(j), the State Examiner Directive 2015-6, dated November 18, 2015, directs each political subdivision to develop its own policy on materiality, because the causes of irregular variances, losses, shortages, and thefts are as broad and varied as the political subdivisions in which the incidents occur, and specifies that materiality thresholds adopted by the political subdivision should distinguish between incidents involving cash and other types of assets;

WHEREAS, pursuant to IC 5-11-1-27(l), a public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including information obtained as a result of a police report, an internal audit finding, or another source indicating that a misappropriation has occurred, must immediately send written notice of misappropriation to the SBOA and the Prosecuting Attorney;

WHEREAS, the Lakeland Regional Sewer District (the “**District**”) is a political subdivision for purposes of IC 5-11-1-27;

WHEREAS, the District currently has an Internal Controls Policy which was adopted on February 21st, 2018 by resolution No. 2018-01, and in accordance with Principle 19 thereof, all control

deficiencies identified in an external audit must be addressed timely and appropriate adjustments to the internal controls system should be implemented as soon as feasible;

WHEREAS, in accordance with IC 5-11-1-27(g), the District has developed an Amended and Restated Internal Controls Policy in the form of Exhibit A attached hereto (the “**Internal Controls Policy**”), which adopts and implements the acceptable minimum level of internal control standards developed by the SBOA under IC 5-11-1-27(e), as published in the *Uniform Internal Control Standards for Indiana Political Subdivisions* manual, dated September 2015, and through which the District will be evaluated for sufficient internal controls;

WHEREAS, the District wishes to amend its Credit or Debit Card Policy in the from of the Exhibit D attached hereto;

WHEREAS, the District does not tolerate or condone any erroneous or irregular material variances, losses, shortages or thefts of its funds or property, but acknowledges that insignificantly small items may not justify the cost of the involvement of the SBOA; and

WHEREAS, in accordance with the State Examiner Directive 2015-6, dated November 18, 2015, the District has developed a Policy on Materiality in the form of Exhibit C, which was originally adopted on December 16th, 2016, remains unchanged and is ratified and confirmed as attached hereto (the “**Materiality Policy**”).

NOW, THEREFORE, BE IT RESOLVED, THAT:

- Section 1. The Amended and Restated Internal Controls Policy attached hereto and incorporated herein as Exhibit A be and is hereby adopted and approved in all respects.
- Section 2. If not already completed as of the date of this Resolution, all Personnel is hereby directed to undergo the training concerning the Amended and Restated Internal Controls Policy adopted and approved hereby and execute and deliver to the District a certification in the form of Exhibit B attached hereto.
- Section 3. The Materiality Policy attached hereto and incorporated herein as Exhibit C be and is hereby adopted and approved in all respects.
- Section 4. The Credit or Debit Card Policy attached hereto and incorporated herein as Exhibit D be and is hereby adopted and approved in all respects.
- Section 5. This Resolution shall become effective as of the date of its adoption.

[SIGNATURES ON FOLLOWING PAGE]

ADOPTED this 19TH day of JULY, 2023, by a vote of 6 "for", 0 "against", and 0 "abstained".

John Stoney
[Signature]
[Signature]
[Signature]
Camille Shipley
[Signature]

[Signature], Secretary
Attest

EXHIBIT A
AMENDED AND RESTATED
LAKELAND REGIONAL SEWER DISTRICT
INTERNAL CONTROLS POLICY
(IC 5-11-1-27)

The purpose of this Policy (this “**Policy**”) is to communicate the Lakeland Regional Sewer District (the “**District**”) internal control objectives to all members of the Board of Trustees of the District (the “**Board**” or the “**Oversight Body**”), all officers of the District (collectively, the “**Management**”), and all employees of the District and to firmly commit the District to the internal control standards prescribed by the Indiana State Board of Accounts (the “**SBOA**”), as published in the *Uniform Internal Control Standards for Indiana Political Subdivisions* manual, dated September 2015, and through which the District will be evaluated for sufficient internal controls. This Policy establishes internal controls to reduce the risk of waste, abuse, mismanagement, errors, and fraud.

The five components that are recognized as basic to any internal control system and listed in IC 5-11-1-27(d) are: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring. If any of these five components is missing, true internal control is not achieved. Additionally, each of these five components is comprised of recognized principle elements. To have a complete component, the principles associated with each component should be present.

The system of internal control is meant to keep the District on course toward its mission and to minimize surprises. The system promotes efficiency, minimizes risks of asset loss, helps ensure the reliability of financial information, and compliance with applicable laws, rules, and regulations. While internal control is meant to keep the District focused on achieving its mission while avoiding surprises, there is a balance between effective controls and mission accomplishment. Costs associated with internal controls should not exceed their benefit, nor should controls be allowed to stifle mission effectiveness and timely action. Management will need to assess the costs, benefits, and risks when designing controls to develop a positive control environment and compensate for the risks of non-compliance, loss of assets, or unreliable reporting while accomplishing the District’s mission.

This Policy shall be provided to and reviewed by all employees, officers, and members of the Board of the District.

COMPONENT ONE: CONTROL ENVIRONMENT

The control environment is the foundation upon which all components of internal control are based. It sets the tone for the District's operations. The District has the responsibility to establish and maintain an adequate system of internal control, which is necessary for the District to discharge its responsibilities. Controls help ensure that assets are not exposed to unauthorized access and use, transactions are properly recorded in the financial records, and the resultant financial information is reliable. The governmental agencies and other external parties rely on financial information supplied by the District to make decisions toward, among other things, loans, grants, and other contractual relationships. The District's resources are dependent upon the adequate system of internal control. The safeguarding of the District's assets and the reliability which the others can place upon the District's financial records are dependent upon the effectiveness of the District's internal control process.

Principle 1. The Oversight Body and Management demonstrate a commitment to integrity and ethical values.

- A. The Oversight Body / Management will work to create an environment that fosters the development of "conscientious ethically-minded people who are committed to integrity, honesty, quality, responsibility, compassion, and fairness." The Oversight Body / Management should stress ethics, compliance with laws and regulations, and following internal controls.
- B. It is the policy of the District that its officers, employees, and Board members uphold the high standards of ethics and integrity. To that end, such persons shall:
 - a. Recognize that one of the chief missions of the District is to provide customers with cost effective quality service.
 - b. Uphold and implement policies and procedures adopted by the District, including without limitation this Policy and the Policy on Materiality.
 - c. Demonstrate the high standards of personal integrity, truthfulness, honesty, and fortitude in all activities in order to inspire confidence and trust in such activities.
 - d. Avoid and disclose any interest or activity that is in conflict with the conduct of their official duties.
 - e. Respect and protect privileged and/or confidential information to which they have access in the course of their official duties.
- C. It is the duty of every employee, officer, and Board member to report any erroneous or irregular variance, loss, shortage, or theft of the District's funds or property as soon as practical and in accordance with the District's Policy on Materiality.

- D. All investigations of allegations of fiscal misconduct are to be conducted in confidence. To the extent permitted by law, the names of those communicating information will not be revealed, unless the allegations turn out to be malicious in nature.

Principle 2. The Oversight Body oversees the entity's internal control system.

- A. The Oversight Body will oversee design, implementation, and operation of the District's internal control system.
- B. The Oversight Body should ensure that it has access to competent outside experts when it does not have requisite knowledge in applicable areas of expertise.
- C. The Oversight Body / Management will review the annual audit report for internal control issues and ensure appropriate action is taken to correct material deficiencies.

Principle 3. Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.

Management is responsible for documenting the organizational structure of the District, which incorporates an organizational chart and, if applicable, an outline of individual responsibilities (provided, that, nothing to the contrary contained in this Policy shall preclude the Management from assigning staff members to perform tasks outside their respective job descriptions).

Principle 4. Management demonstrates a commitment to recruit, develop, and retain competent individuals.

- A. For the implementation of its projects the District utilizes third-party contractors under the supervision of the Management. The District is committed to selecting only highly competent, qualified, and reliable contractors who comply with applicable laws and regulations and the District's policies, including this Policy.
- B. The officers and members of the Board are selected and appointed in accordance with applicable laws and from the pool of candidates with relevant education and/or experience. All significant matters are communicated to the officers and members of the Board through regular meetings of the Board.
- C. The District is committed to providing to all applicable personnel all applicable trainings required by law to help keep them up to date with new laws, regulations, procedures, and technology, as applicable.

Principle 5. Management evaluates performance and holds individuals accountable for their internal control responsibilities.

Management / Oversight Body will work to address all acts of material noncompliance with the internal control procedures. All such violations will be noted in the District's records and appropriate corrective actions will be taken.

COMPONENT TWO: RISK ASSESSMENT

Principle 6. Management defines objectives clearly to enable the identification of risks and defines risk tolerances.

A. Current Objectives.

1. Ensure that the District's resources and assets are adequately safeguarded.
2. Provide services efficiently and effectively.
3. Reliability and integrity of financial information. Prepare accurate and timely internal and external reports necessary to meet legal and organizational responsibilities.
4. Comply in all material respects with applicable laws and regulations, contracts and grant agreements.
5. Economical and efficient use of the District's resources.
6. Provide for the long-term stability of the District.

B. Risk Tolerances.

There is zero tolerance for theft.

There is minimal tolerance for error.

Principle 7. Management identifies, analyzes, and responds to risk related to achieving the defined objectives.

To the extent any risks related to achieving the objectives defined pursuant to Principle 6 are identified, Management will analyze and respond to such risks by determining:

1. How likely is the risk to occur?
2. How will it impact the objective?
3. Is the risk based on complex or unusual transactions?
4. Is the risk based on actual and intentional fraud?

Once each risk has been identified and analyzed, the Management / Oversight Body will determine how to respond to each risk.

Principle 8. Management considers the potential for fraud when identifying, analyzing, and responding to risks.

- A. Management is committed to fraud prevention by utilizing a "trust but verify" approach. There is always a risk for misappropriations, record manipulation, and theft.

Accordingly, the potential for fraud, misappropriation, and outright theft is one of the primary considerations in designing, implementing, adjusting, and/or updating effective internal controls.

- B. Fraud responses will include statutorily required responses to fraud under IC 5-11-1-27(l) relating to the Report of Misappropriation of Funds to the SBOA and Prosecuting Attorney and, subject to the materiality thresholds set forth in the Policy on Materiality, IC 5-11-1-27(j) relating to the Report of Material Variances, Losses, Shortages or Thefts to the SBOA. Every person handling the District's revenue or other funds will be trained on the reporting of misappropriation of funds pursuant to IC 5-11-1-27(l) and material variances, losses, shortages, or thefts pursuant to IC-5-11-1-27(j).

Principle 9. Management identifies, analyzes, and responds to significant changes that could impact the internal control system.

The Management/ Oversight Body will from time to time consider technological developments, new programs, new accounting standards, new laws and regulations, financial fluctuations and other applicable changes to determine whether changes in internal controls need to be implemented to maintain the effective internal controls system and achieve the mission and objectives of the District. Recommendations for changes will be reviewed and implemented as necessary. The implementation will include requisite communication and may involve training for the personnel involved in the processes that require change.

COMPONENT THREE: CONTROL ACTIVITIES

Principle 10. Management designs control activities to achieve objectives and respond to risks.

A. Internal control principles.

1. *Segregation of duties.* While a complete separation of every function is ideal, the small size of the District does not always allow for ideal separation of duties. Accordingly, care should be taken to ensure that the appearance of malfeasance cannot be claimed. Thus, where feasible, duties shall be separated so that one person's work routinely serves as a check on another's work and a system is implemented, whereby no one person has complete control over a complete transaction from beginning to end. In addition, the Oversight Body may conduct random or periodic reviews and analysis of selected transactions, bank statements, cash receipts and cash disbursements summaries, as well as the related supporting documentation, and monthly reports.
2. *Authorization and approval.* Any person with approval authority in approving any transaction requiring his/her approval should follow these guidelines:

- i. The approver should review any relevant supporting documentation.
- ii. Any unusual items should be questioned to ensure that all necessary information is provided for justification prior to any approval.
- iii. The approver may not tell someone else to sign the approver's name.
- iv. In the case of electronic signatures, the approver's password should not be shared with another person.
- v. Authorization in certain cases can be delegated; however, this delegation of authority should be on a limited basis with established parameters.

3. *Reconciliations.*

- i. Account reconciliations shall be performed on a regular basis.
- ii. To the maximum extent feasible and practicable, the reconciliation should be reviewed by someone other than preparer.
- iii. All unusual reconciling items (difference noted during the reconciliation process) should be reported to Management, researched, resolved appropriately, and documented.

4. *Custodial and security arrangements.*

- i. To the maximum extent feasible, responsibility for physical security/custody of the District's assets should be separated from record keeping/accounting for those assets.
- ii. Access to data and information systems should be protected by adequate authentication and authorization controls.

5. *Expenditures / disbursement activities; Fixed Assets.*

- i. Prior to payment, claims for payment must be reviewed and approved by an appropriate individual with approval authority.
- ii. Invoices or other receipts should be attached to each claim to support the disbursement.
- iii. Any fixed asset purchase or disposal must be authorized by the appropriate body/persons with approval authority.

6. *Credit Card Transactions*

- i. A member of the Management or employee designated by the Oversight Body oversees the issuance and use of the credit cards, bank cards, and debit cards.

- ii. To the maximum extent feasible, the designated member of Management or employee has responsibility for physical security/custody of the District's credit cards, bank cards, and debit cards.
- iii. The designated member of Management or employee maintains an accounting system or log which includes 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, and that sufficient documentation is provided for those amounts charged.
- iv. All payments made by credit cards, bank cards, or debit cards must be reconciled in accordance with this Policy and such reconciliation made available for inclusion for a claim to the Board to pay the credit card or bank card statement OR to ratify the claim as paid by debit card.

Principle 11. Management designs the political subdivision's information system and related control activities to achieve objectives and respond to risks.

To achieve its objectives, the District may utilize information technology ("IT") systems as an integral part of its internal control system, which, once implemented, should follow the following general guidelines:

- 1. To the extent practicable and feasible, the IT system should set permissions that allow only certain users to perform certain tasks with respect to the following functions: accounting records and reports, purchasing/receiving/disbursement approval, cash receipts, billing and accounts receivable.
- 2. User ID and password sharing should be prohibited with respect to the following functions: accounting records and reports, purchasing/receiving/disbursement approval, cash receipts, billing and accounts receivable.
- 3. Proper safeguards should be established to prevent loss of data in the event of a failure of the IT system.

Principle 12. Management implements control activities through policies.

All of the District's policies and procedures, including this Policy and the Materiality Policy, should be documented in writing, communicated to all relevant persons, and available to all members, officers, agents, and stakeholders of the District. Any variances from established procedures should be brought to Management's attention.

COMPONENT FOUR: INFORMATION AND COMMUNICATIONS

Principle 13. Management uses quality information to achieve the entity's objectives.

Management is responsible for identifying the District's information requirements and evaluating the reliability and timeliness of relevant data from both internal and external sources and review, as well as evaluating whether data has been processed into quality information that allows Management to make informed decisions.

Principle 14. Management internally communicates the necessary quality information to achieve the entity's objectives.

- A. The primary sources of internal communications within the District are the meetings of the Board and the District's formal policies and procedures used to fulfill its mission and objectives, including without limitation this Policy and the Materiality Policy. In addition to the foregoing, the District will provide its applicable personnel with trainings required by law to help keep them up to date with new requirements and regulations. The information necessary for the contractors and employees to carry out their responsibilities in accordance with the District's mission and objectives is also communicated internally through meetings, e-mails, memoranda, and other appropriate under the circumstances information delivery system. Reports containing personally identifiable information or other protected or confidential information should be made available through communication methods that restrict internal and external access. As part of such communications, a clear message should be conveyed that control responsibilities are to be taken seriously and that failure to comply with established practices may result in the termination of relationship with the person found to be in violation thereof.
- B. All officers, employees, and Board members of the District whose official duties include receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the District or a governmental entity must be trained on internal controls in accordance with IC 5- 11-1-27(g).

Principle 15. Management externally communicates the necessary quality information to achieve the entity's objectives.

The District strives to lead in the areas of financial transparency and accountability. By adopting standards and investing in systems that meet and sometimes exceed State mandated minimums, the District provides its stakeholders and other relevant parties with quality information.

The credibility of the District, the Board, and the officers of the District is at stake whenever information is released to outside parties. It is important that information communicated to outside parties is as accurate as possible, which involves many different layers of internal controls. Further, the District must communicate effectively with external parties, such as auditors, creditors, contractors, suppliers, regulators and other stakeholders. To this end, Management should (1) ensure that only authorized individuals provide information to

external parties; (2) ensure that restricted information is provided only to authorized external parties; and (3) redact non-disclosable information when requested under the open door statutes.

COMPONENT FIVE: MONITORING ACTIVITIES

Principle 16. Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.

Management should implement a system of monitoring that includes:

1. Periodic checks to determine if controls are in place and working effectively.
2. Documenting deficiencies in the internal control processes and remediating them in accordance with this Policy and the Materiality Policy.

Principle 17. Management remediates identified internal control deficiencies on a timely basis.

- A. Breaches of internal controls are subject to significant levels of internal scrutiny. Any suspected abuse, mismanagement, errors, or fraud shall be reported to the President or Treasurer of the District (unless such abuse, mismanagement, error or fraud involves the President or Treasurer, in which case it shall be reported to the other members of the Management / Oversight Body). If informed of a material breach of internal controls, a timely investigation shall be undertaken and such breach shall be addressed in accordance with the applicable laws, this Policy, and the Materiality Policy, and the District's policies and procedures should be adjusted, as necessary, to prevent such breaches in the future.
- B. All control deficiencies identified in an external audit must be addressed timely and appropriate adjustments to the internal controls system should be implemented as soon as feasible.

EXHIBIT B

INTERNAL CONTROL TRAINING CERTIFICATION

I, _____ (name),

_____ (title), hereby certify
that I received the following training concerning internal controls standards and procedures as
required by IC 5-11-1-27(g)(2):

Title of Training

Time Spent

_____	_____
_____	_____
_____	_____
_____	_____

Date: _____

Signature

*This certification may be printed, signed, and retained in paper form or electronically. If signed electronically, the executing person must designate his/her signature by typing the last four (4) digits of his/her social security number in the signature line.

EXHIBIT C

POLICY ON MATERIALITY

All erroneous or irregular variances, losses, shortages or thefts of the funds or property of the Lakeland Regional Sewer District (the “**District**”) or funds or property the District holds in trust shall be reported in accordance with this Policy and the Internal Controls Policy of the District.

Materiality Threshold for Cash Items. It is the policy of the District for the Treasurer of the District, upon prior notice and presentment to the District’s Board of Trustees (the “**Board**”), to report to the Indiana State Board of Accounts (the “**SBOA**”) any erroneous or irregular variances, losses, shortages, or thefts of cash equal to or more than Three Thousand (\$3,000). In addition, all erroneous or irregular variances, losses, shortages, or thefts of cash that occur more than once a month and that total in the aggregate to Three Thousand Dollars (\$3,000) or more shall be reported by the Treasurer, upon prior notice and presentment to the Board, to the SBOA. Exceptions shall be made for inadvertent clerical errors that are identified timely and promptly corrected without loss to the District.

Materiality Threshold for Non-Cash Items. It is the policy of the District for the Treasurer, upon prior notice and presentment to the Board, to report promptly to the SBOA any erroneous or irregular variances, losses, shortages, or thefts of non-cash items in excess of Six Thousand Dollars (\$6,000), estimated market value, except for those resulting from inadvertent clerical errors or misplacements that are identified timely and promptly corrected with no loss to the District, and except for losses from genuine accidents.

Resolution of Incidents. The Treasurer of the District shall investigate all erroneous or irregular variances, losses, shortages or thefts, regardless of whether they meet the materiality thresholds established by this Policy. Upon conclusion of each such investigation, the District will (i) implement procedures designed to prevent the recurrence of such incidents to the extent it deems necessary and prudent to do so; and (ii) take appropriate disciplinary action against the person responsible for the incident. All items not reported to the SBOA shall be resolved at the Board level with appropriate documentation retained by the District.

Monitoring by the Board. The Board shall monitor, as it deems necessary, compliance with this Policy and process for reporting material items.

EXHIBIT D

CREDIT OR DEBIT CARD POLICY

LAKELAND REGIONAL SEWER DISTRICT

ADOPTED JULY 19, 2023

1. No more than one (1) credit or debit card shall be issued in the name of the District.
2. At all times the Treasurer shall maintain custody and control of card issued in the name of the District. Provided however, the Treasurer may also authorize the use of the credit card by the District's Office Administrator at the Treasurer's discretion.
3. Use of the card for any purpose is limited to a transaction amount of One Thousand Dollars (\$1,000.00) unless prior authorization is given by the Board President. Such approval shall be documented in writing. No transaction shall be artificially divided to avoid the transaction amount limitation.
4. The authority granted to the Treasurer hereunder is not subject to the requirements District's Small Purchase Policy as amended from time to time.