

Indiana Office Inspector General (OIG)

Request for review of the Internal Control of the Indiana Finance Authority (IFA)

Submitted: Sept 29, 2023

Indiana OIG - Complaint - Brown County - Phase I Sewer Project - Potential Waste, Fraud, Abuse  
Mismanagement - Internal Controls

**PART 1 Summary**

The Indiana Finance Authority (IFA) State Revolving Fund (SRF) has recently approved initial funding for Brown County's Regional Sewer District's (BCRSD) Phase 1 project – with a projected total cost of around \$50 million. The approval process required a public hearing. The project was approved before the IFA:SRF reviewed the results from the hearing that are to include citizens' questions and concerns about the project and the BCRSD response.

(Reference: FY2024 Final First Quarter Project Priority List (PPL). <https://www.in.gov/ifa/srf/reports-and-ppls/>

The "**SRF Fund Loan Program Process**" identifies that a Technical and Environmental Review (Step 3) preceded approvals before projects are scored (Step 4) and the PERs approved (Step 5.)  
<https://www.in.gov/ifa/srf/files/srf-program-flowchart.pdf>

The required public hearing was conducted on July 8, 2023. Citizens were informed that their comments and questions could be submitted by July 14, 2023, and that the BCRSD would provide a response to the questions.

My comments and questions regarding the project are provided at the following.

[https://independentvotersofbrowncountyincom.files.wordpress.com/2023/05/20230714\\_1-public-hearing-comments-and-questions.pdf](https://independentvotersofbrowncountyincom.files.wordpress.com/2023/05/20230714_1-public-hearing-comments-and-questions.pdf)

The BCRSD stated at their last meeting on Sept 7, 2023, and again at their meeting on Sep 28, 2023, that they would be providing a response to the questions and that this response would also be forwarded to the IFA:SRF as required. Also to be provided to the IFA:SRF are any updates to the Preliminary Engineering Reports (PERs). The BCRSD has yet to post the reply to the questions on their website.

The intent of the internal control program is to provide citizens with some assurance on the effective and efficient use of tax dollars. In the case of the BCRSD PER projecting an estimated cost of approximately \$50 million for "JUST" Phase 1, it is not apparent that the internal controls of the

(IFA:SRF) are adequate for ensuring the optimum (effective and efficient) investment of tax dollars. Additional information supporting my complaint is provided below.

Further, since funding can also be provided by USDA's Rural Development Office, which also has to be compliant with statutes governing internal controls, inadequate controls at the IFA may have an adverse effect on acquiring federal funding.

## **PART II. Supporting Context and Detail - BCRSD Phase 1 Sewer Project – Inadequate Internal Controls**

The Brown County Regional Sewer District (BCRSD) and the Helmsburg RSD conducted a Public Hearing on July 8, 2023, to present their Preliminary Engineering Reports (PER) for requesting approximately \$50 million in funding from the Indiana Finance Authority (IFA) State Revolving Fund (SRF). This request is "just" for Phase 1. Link to the BCRSD website and map for Phase 1.  
<https://browncountyregionalsewerdistrict.wordpress.com/per/>

July 8, 2023. Presentation of the Phase I Project. Presentation slides by the HRSD, BCRSD, and their respective contractors.

<https://independentvotersofbrowncountyincom.files.wordpress.com/2023/05/bcrsd-publilc-hearing-7-7-23-final-presentation.pdf>

The deadline for public comments was July 14, 2023. My comments and questions following the public hearing are attached. The BCRSD has stated that responses to all the questions will be provided within the next few weeks. Copies are to be made available to the public and also forwarded to the IFA:SRF. I suspect I will have additional questions once I review the responses to my concerns and questions.

SRF Fund Loan Program Process. As of July 23, 2023, the HRSD and BCRSD projects are ranked on the IFA/SRF project priority list (attached). The "SRF Fund Loan Program Process" identifies that a Technical and Environmental Review (Step 3) preceded approvals before projects are scored (Step 4) and the PERs approved (Step 5.) <https://www.in.gov/ifa/srf/files/srf-program-flowchart.pdf>

The BCRSD has stated that their responses to questions for the public hearing have not been shared with the IFAS:SRF or the public. Consequently, it appears that Step 3 was completed without a review of the BCRSD's responses to the comments and questions resulting from the required Public Hearing on July 8, 2023. Consequently, any review would have been incomplete. Further, since the premise for BCRSD's PER is provided by the Brown County Wastewater Strategic Plan and Watershed Study, a review

of these documents would be critical in assessing the scope and reasonableness of the solutions identified in the PER.

County Wastewater Strategic Plan and Watershed Study.

<https://browncountyregionalsewerdistrict.wordpress.com/strategic-plan/>

Audit – Financial Statement and Internal Controls. Regarding an independent review of IFAs internal controls, an audit completed June 20, 2022 of the IFA Annual Financial Statements included the following reference (p98): “In planning and performing our audit of the financial statements, we considered IFA’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IFA’s internal control. Accordingly, we do not express an opinion on the effectiveness of IFA’s internal control.” <https://www.in.gov/sboa/WebReports/B60201.pdf>

Too Late? Now that the project has been approved, how likely is it that the IFA:SRF will objectively review the BCRSD response and adjust the scope and extent of their approvals and level of funding? What have been the past practices and changes that were made as a result of comments deriving from a public hearing? Why would any credible analysis from which a decision is based exclude a review of the BCRSD's responses to questions and comments? And, would a review by the IFA:SRF of the answers ever go beyond the superficial level, e.g., questions were asked and responses were provided – nothing more needed?

State and Federal Funding. The BCRSD was recently informed by the IFA:SRF that they would get a grant to fund the next phase of planning for their "Phase 1" project – this would include the more detailed engineering reports needed for starting construction. The BCRSD was also told to identify their first collection project with a projected budget of around 8 (?) million. The BCRSD has also scheduled meetings with the USDA's Office of Rural Development to discuss funding options. Ref: BCRSD Board Meeting, Sept 7, 2023, Notes and Audio).

<https://independentvotersofbrowncountyin.com/2023/09/08/brown-county-regional-sewer-district-bcrsd-board-meeting-sept-7-2023/>

An option at this point could include limiting any additional Phase 1 funding to the western corridor pending a more detailed review of the justification of the need within the eastern corridor.

Support of elected officials? In addition to regulatory agencies, the BCRSD has been working to gain the support of State and federal elected officials who allegedly have indicated their respective support for the Phase 1 project. Could this perceived "support" result in undue influence regarding investigating my

complaint? Regardless, the respective offices of elected officials could be asked to confirm that the internal controls related to this project were adequate, with no changes needed. And, given the billions of federal dollars used to fund water-related projects within the country, this assurance by elected officials could also be reviewed by the Government Accountability Office (GAO) and respective agency Office of Inspector Generals (OIG). In support of compliance, the federal government incentivizes citizens with a 10% reward for recovered money.

### **Support for the Western Corridor and Opposition to the Eastern Corridor of Phase 1**

**Western Corridor - Helmsburg to Lake Lemon.** As I stated in my public comments (attached), I support the western corridor of the Phase 1 project (Helmsburg to Lake Lemon). Further, the commissioners of Monroe County have recently asked the BCRSD to extend their territory so that Monroe County citizens living in the area can also be provided with sewer service – thus adding even more paying customers.

**Eastern Corridor – Helmsburg to Bean Blossom to Woodland Lake.** I challenge the justification for the scope and extent of the proposed solutions for the eastern corridor – Helmsburg to Bean Blossom to Woodland Lake. Citizens should expect state and federal agencies (through the internal control program) to ensure an independent and objective analysis incorporating input from all key stakeholders (including customers and county citizens) to help overcome any inherent biases of the entities supporting and requesting taxpayer funding.

The fact that the IFA:SRF made decisions "before" reviewing comments and questions from the Public Hearing indicates a potential material weakness in internal controls. Further, it appears the scope of the IFA:SRF approval process is "limited" to the application requirements for funding (PER) and not the functional and technical merits to include a review of all the supporting documentation that justifies the need. The PERs and supporting documentation can also introduce county and state policy precedents. In this case, BCRSD allegations challenge the State's policies on soils and septic system permitting.

Other state agencies that could be involved in the review and approval process would include the Indiana Department of Health, which establishes septic system-related policies and regulations, and the Indiana Department of Environmental Health (IDEM), which oversees the RSDs and environmental policies covering water quality. An independent third-party review may also help overcome inherent biases of the submitting organizations (HRSD/BCRSD) and their contractors.

Inadequate internal controls at the State level would likely affect considerations of project funding by the USDA's Office of Rural Development. The federal government is also responsible for investigating claims of waste, fraud, and abuse of tax dollars. Penalties would likely include reimbursement from grantees.

The intent behind internal control policies is to ensure the effectiveness and efficiency of tax dollars. In this case, this can be supported with an independent and objective review of the applications and supporting justifications for funding. At the local level, bias can be introduced into the process by individuals with an agenda who are in positions where they can select contractors that support their biases. For instance, the current president of the BCRSD has acknowledged his commercial interest in expanding sewer service in the Bean Blossom area. The vice president of the BCRSD – a retired environmental engineer, has also expressed his bias regarding the efficacy of septic systems given the soils within Brown County.

### **Project History, Context, Motivation**

I've been following and documenting the status of these projects since 2016/2017. The "motivation" for sewer service in Bean Blossom (eastern corridor – Phase 1) over the past 20 years has been the desire of a few (including some elected officials) for development (a want) as opposed to a need.

My current timeline of post regarding "Phase 1."

<https://independentvotersofbrowncountyin.com/2023/05/15/bcrsd-project-on-trial-for-the-record/>

An older timeline of posts on the Bean Blossom project.

<https://independentvotersofbrowncountyin.com/2018/10/10/regional-sewer-board-bean-blossom-sewer-project/>

In order to help justify funding, the BCRSD (formerly the Bean Blossom RSD) had to expand the territory to be serviced and "create" a need. To support this strategy, they contracted for a county-wide wastewater strategic plan and watershed study at a cost of over \$100,000. This plan was developed without any input from the public. The BCRSD refused to hold any public meeting to present the plan to the public. The contractor developing this plan was also selected to develop the Helmsburg PER. This wastewater strategic plan was used to justify the BCRSD application for funding (PER).

The county wastewater strategic plan was not vetted by any independent and objective group to help mitigate bias. Further, it does not align with the County Comprehensive Plan that requires approval by elected officials and public meetings.

Regarding the county wastewater strategic plan, is the proposed "Phase 1" project the best option for the county given our terrain and lack of population density? What would be the projected cost for

"future" phases? What will be the results on "water quality if Phase 1 is completed? What impact will inflation have on the government's ability to fund future projects in Brown County as well as within the State? What is the wastewater strategy for other counties in the State? Does the State intend to fund phasing out all septic systems in Indiana? If not, why not?

Regionalization? The BCRSD has supported a new plant in Bean Blossom as well as a plant in Helmsburg. The BCRSD board is under the impression that the State is demanding fewer plants (options?) in support of the BCRSD's "one-size-fits-all" strategy. What would be the justification for such a conclusion? It appears to be an unnecessary and expensive constraint.

Efforts to extend sewer service in the Bean Blossom area in the past have failed because of the lack of a documented need. In fact, the past two BCRSD Board presidents resigned after reinforcing this point. The BCRSD's recent attempts to build a new sewer plant in Bean Blossom failed when landowners refused to sell them land for a plant. The BCRSD then attempted to use parkland deeded to the county via the State. This option was rejected by the Department of Natural Resources (DNR). The PER for a new sewer plant in Bean Blossom was also ranked high on previous SRF project priority lists before it was canceled. The amount spent on this failed project by the BCRSD was around \$200K.

The failure to acquire land in Bean Blossom led to the current need to get service from Helmsburg. Without the support of the property owners in the Bean Blossom area, acquiring easements from residents may be a problem and lead to delays in providing any service in other areas, such as the western corridor, where the need is justified and the community supports service.

The USDA Rural Development Office is also involved with providing funding. I have also contacted this office regarding internal controls. As I understand it, they have been considering the State's internal control processes as their basis for justifying funding. If the State's internal controls are inadequate, this funding might indicate that the USDA Office of Rural Development's internal controls also need improvement.

### **In summary – Potential Waste, Fraud, Abuse, and inadequate internal controls**

(1) I have no issues with funding approvals of the western corridor (Helmsburg to Lake Lemon and across county lines). I am unaware of anyone in the county opposed to this subphase of the Phase 1 project. No objections were expressed at the Public Hearing. HRSD is receiving funding for a new plant for their existing customers (around 90), but they also need additional customers that have to be "granted" by the BCRSD. The HRSD plant can be expanded to support all of Phase I. The need that justifies that priority of service is represented by the western corridor – Helmsburg to Lake Lemon.

(2) I do challenge the scope and extent of the proposed solutions in the BCRSD "Phase 1" Project that sets precedents for the county, if not the State. An independent and objective assessment is warranted to ensure that the taxpayers are funding the most effective and efficient solutions for the respective problems.

(3) At this point, it does not appear that the internal controls for the IFA:SRFs project review, approval, and funding are adequate. They have yet to receive the questions from citizens as a result of the Public Hearing or the responses provided by the BCRSD. Their review, approval, and prioritization process does not indicate any in-depth study of the PERs (to include supporting documentation) submitted for funding.

(4) My expectation is that an independent and objective assessment of IFA:SRF's internal controls on the PER approval and funding process will result in providing a high degree of confidence in the efficient and effective use of tax dollars.

(5) Further, an independent and objective assessment of the quality of the BCRSDs PER itself is also warranted. The PER is supported by a county wastewater strategic plan and watershed study that has not undergone an unbiased, independent, and objective assessment of its merits. The engineering firms contracted to develop wastewater strategies, and PERs can also bid on future work. Nothing illegal, but this situation does create a bias and a potential conflict of interest. For instance, a strategy developed by septic system vendors and manufacturers would likely produce different options than strategies developed by engineering firms that design and build sewer plants and collection systems.

(6) Once it is available, I am looking forward to reviewing the BCRSD's response to the comments and questions arising from the Public Hearing. As citizens, we serve in the role of a Jurist. The BCRSD provided a one-sided closing argument (PER) advocating for their project. Citizens provided a counter-argument through comments and questions at a public hearing. What is missing is the third-party, independent, and objective analysis of the arguments presented that justify funding levels, which should be inherent through adequate internal controls.