

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

JENNINGS NORTHWEST REGIONAL UTILITIES
JENNINGS COUNTY, INDIANA

January 1, 2010 to December 31, 2011



FILED
09/19/2014

TABLE OF CONTENTS

| <u>Description</u> | <u>Page</u> |
|--|-------------|
| Schedule of Officials | 2 |
| Independent Auditor's Report | 3-4 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance With <i>Government Auditing Standards</i> | 5-6 |
| Financial Statement and Accompanying Notes: | |
| Statement of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis | 9 |
| Notes to Financial Statement | 10-11 |
| Supplementary Information - Unaudited: | |
| Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis | 14-17 |
| Audit Results and Comments: | |
| Overdrawn Cash Balance - Clearing Fund..... | 18 |
| Cash Necessary to Balance - Clearing Account | 18-19 |
| Annual Financial Reports | 19 |
| Supplemental Audit of Federal Awards: | |
| Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance..... | 22-23 |
| Schedule of Expenditures of Federal Awards and Accompanying Note: | |
| Schedule of Expenditures of Federal Awards..... | 27 |
| Note to Schedule of Expenditures of Federal Awards | 28 |
| Schedule of Findings and Questioned Costs | 29-37 |
| Auditee Prepared Document: | |
| Corrective Action Plan | 39-41 |
| Exit Conference..... | 42 |

SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|------------------------|--|--|
| Utilities Manager | Jeffrey Fish Dan B. Wooton | 01-01-10 to 10-19-11 10-20-11 to 12-31-14 |
| Financial Controller | Dan B. Wooton | 10-20-10 to 12-31-14 |
| Office Manager | Dan B. Wooton Cindy Summerfield | 01-01-10 to 09-18-12 09-19-12 to 12-31-14 |
| Treasurer | Caddie Mathis Dorothy Vaughn Edwin Whitaker Brian Roney | 01-01-10 to 10-18-11 10-19-11 to 08-07-13 08-08-13 to 04-20-14 04-21-14 to 12-31-14 |
| President of the Board | Edwin Whitaker | 01-01-10 to 12-31-14 |



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE JENNINGS NORTHWEST
REGIONAL UTILITIES, JENNINGS COUNTY, INDIANA

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Jennings Northwest Regional Utilities (Utilities), which comprises the financial position and results of operations for the period of January 1, 2010 to December 31, 2011, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Utilities did not properly reconcile its record balance of cash to depository balances. The Utilities did not present for audit supporting documentation for disbursements recorded in the aggregate amount of \$1,518,863. The Utilities' records do not permit the application of other auditing procedures to ascertain if the financial statement is fairly stated.

Disclaimer of Opinion

Because of the significance of the matter discussed in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on this financial statement.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by Government Auditing Standards


In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 2014, on our consideration of the Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our engagement was conducted for the purpose of forming an opinion on the Utilities' financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* paragraph, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards referred to above.

Our engagement was conducted for the purpose of forming an opinion on the Utilities' financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to any auditing procedures and, accordingly, we express no opinion on them.


Paul D. Joyce, CPA
State Examiner

August 26, 2014



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE JENNINGS NORTHWEST
REGIONAL UTILITIES, JENNINGS COUNTY, INDIANA

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Jennings Northwest Regional Utilities (Utilities), which comprises the financial position and results of operations for the period of January 1, 2010 to December 31, 2011, and the related notes to the financial statement, and have issued our report thereon dated August 26, 2014. The opinion to the financial statement was disclaimed due to the Utilities not properly reconciling its record balance of cash to depository balances and did not present for audit supporting documentation for disbursements recorded in the aggregate amount of \$1,518,863.

Internal Control Over Financial Reporting

In planning and performing our engagement of the financial statement, we considered the Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-001, 2011-002, 2011-003, and 2011-004 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Utilities' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-001, 2011-002, 2011-003, and 2011-004.

Jennings Northwest Regional Utilities' Response to Findings

The Utilities' response to the findings identified in our engagement is described in the accompanying Corrective Action Plan. The Utilities' response was not subjected to the auditing procedures applied in the engagement to audit the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

August 26, 2014

FINANCIAL STATEMENT AND ACCOMPANYING NOTES

The financial statement and accompanying notes were approved by management of the Utilities. The financial statement and notes are presented as intended by the Utilities.

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JENNINGS NORTHWEST REGIONAL UTILITIES
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended December 31, 2010 and 2011

| Fund | Cash and Investments 01-01-10 | Receipts | Disbursements | Cash and Investments 12-31-10 | Receipts | Disbursements | Cash and Investments 12-31-11 |
|----------------------------|-------------------------------------|----------------------|---------------------|-------------------------------------|---------------------|---------------------|-------------------------------------|
| Water Operating | \$ 168,570 | \$ 1,085,445 | \$ 922,492 | \$ 331,523 | \$ 819,246 | \$ 861,390 | \$ 289,379 |
| Sewer Operating | 677,798 | 1,086,787 | 1,553,636 | 210,949 | 988,006 | 1,042,573 | 156,382 |
| Clearing | 3,478 | 270 | 525 | 3,223 | 27,444 | 35,558 | (4,891) |
| Water Bond Account | 53,405 | 154,587 | 155,436 | 52,556 | 158,526 | 157,035 | 54,047 |
| Water Debt Service Reserve | 166,946 | 485 | - | 167,431 | 360 | - | 167,791 |
| Water Customer Deposit | 16,907 | 27 | - | 16,934 | 18 | 1 | 16,951 |
| Sewer Customer Deposit | 23,364 | 36 | - | 23,400 | 23 | - | 23,423 |
| Payroll Account | 12,294 | 472,862 | 473,873 | 11,283 | 490,806 | 475,291 | 26,798 |
| Sewer Bond (Bony) | 897 | 727,949 | 570,701 | 158,145 | 303,656 | 199,868 | 261,933 |
| Sewer DSR | 59,684 | 17 | 59,701 | - | - | - | - |
| SRF ARRA Sewage Note 2009 | - | 3,130,742 | 3,130,742 | - | - | - | - |
| SRF ARRA Sewage Note 2009B | - | 2,950,266 | 2,950,266 | - | 2,692,305 | 2,692,305 | - |
| Lykins Retainage | - | 257,018 | - | 257,018 | 121,213 | 143,303 | 234,928 |
| Mitchell & Stark Retainage | - | 68,696 | - | 68,696 | 25,909 | 70,216 | 24,389 |
| Graves Retainage | - | 118,258 | - | 118,258 | 99,161 | 62,394 | 155,025 |
| Bradshaw Retainage | - | 16,528 | 16,528 | - | - | - | - |
| Totals | \$ 1,183,343 | \$ 10,069,973 | \$ 9,833,900 | \$ 1,419,416 | \$ 5,726,673 | \$ 5,739,934 | \$ 1,406,155 |

The notes to the financial statement is an integral part of this statement.

JENNINGS NORTHWEST REGIONAL UTILITIES
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Utilities were established under the laws of the State of Indiana. The Utilities operates under an appointed governing board and provides water treatment and wastewater treatment services.

The accompanying financial statement presents the financial information for the Utilities.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution, or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Utilities. It includes all expenditures for the reduction of the principal and interest of the Utilities' general obligation indebtedness.

Utility operating expenses which include all outflows for operating the utilities.

JENNINGS NORTHWEST REGIONAL UTILITIES
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Utilities may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the Utilities. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Utilities. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Utilities in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Utilities to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 3. Risk Management

The Utilities may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Utilities to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 4. Cash Balance Deficits

The financial statement contains one fund, Clearing fund, with a deficit in cash. This is primarily a result of bank fees and charges not yet reimbursed from the appropriate funds.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Utilities' Annual Reports for years prior to 2011 can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

For additional financial information, the Utilities' Annual Report information for years 2011 and later can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Utilities which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Utilities. It is presented as intended by the Utilities.

JENNINGS NORTHWEST REGIONAL UTILITIES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2010

| | Water Operating | Sewer Operating | Clearing | Water Bond Account | Water Debt Service Reserve | Water Customer Deposit | Sewer Customer Deposit | Payroll Account | Sewer Bond (Bony) |
|--|--------------------|--------------------|-----------------|--------------------------|-------------------------------------|------------------------------|------------------------------|--------------------|-------------------------|
| Cash and investments - beginning | \$ 168,570 | \$ 677,798 | \$ 3,478 | \$ 53,405 | \$ 166,946 | \$ 16,907 | \$ 23,364 | \$ 12,294 | \$ 897 |
| Receipts: | | | | | | | | | |
| Utility fees | 1,085,445 | 1,086,787 | - | - | - | - | - | - | - |
| Other receipts | - | - | 270 | 154,587 | 485 | 27 | 36 | 472,862 | 727,949 |
| Total receipts | <u>1,085,445</u> | <u>1,086,787</u> | <u>270</u> | <u>154,587</u> | <u>485</u> | <u>27</u> | <u>36</u> | <u>472,862</u> | <u>727,949</u> |
| Disbursements: | | | | | | | | | |
| Debt service - principal and interest | 155,436 | 667,008 | - | - | - | - | - | - | - |
| Utility operating expenses | 767,056 | 886,628 | - | - | - | - | - | - | - |
| Other disbursements | - | - | 525 | 155,436 | - | - | - | 473,873 | 570,701 |
| Total disbursements | <u>922,492</u> | <u>1,553,636</u> | <u>525</u> | <u>155,436</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>473,873</u> | <u>570,701</u> |
| Excess (deficiency) of receipts over disbursements | <u>162,953</u> | <u>(466,849)</u> | <u>(255)</u> | <u>(849)</u> | <u>485</u> | <u>27</u> | <u>36</u> | <u>(1,011)</u> | <u>157,248</u> |
| Cash and investments - ending | <u>\$ 331,523</u> | <u>\$ 210,949</u> | <u>\$ 3,223</u> | <u>\$ 52,556</u> | <u>\$ 167,431</u> | <u>\$ 16,934</u> | <u>\$ 23,400</u> | <u>\$ 11,283</u> | <u>\$ 158,145</u> |

JENNINGS NORTHWEST REGIONAL UTILITIES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2010
 (Continued)

| | Sewer DSR | SRF ARRA Sewage Note 2009 | SRF ARRA Sewage Note 2009B | Lykins Retainage | Mitchell & Stark Retainage | Graves Retainage | Bradshaw Retainage | Totals |
|--|--------------|---------------------------------|----------------------------------|---------------------|----------------------------------|---------------------|-----------------------|--------------|
| Cash and investments - beginning | \$ 59,684 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,183,343 |
| Receipts: | | | | | | | | |
| Utility fees | - | - | - | | | | | 2,172,232 |
| Other receipts | 17 | 3,130,742 | 2,950,266 | 257,018 | 68,696 | 118,258 | 16,528 | 7,897,741 |
| Total receipts | 17 | 3,130,742 | 2,950,266 | 257,018 | 68,696 | 118,258 | 16,528 | 10,069,973 |
| Disbursements: | | | | | | | | |
| Debt service - principal and interest | - | - | - | - | - | - | - | 822,444 |
| Utility operating expenses | - | - | - | - | - | - | - | 1,653,684 |
| Other disbursements | 59,701 | 3,130,742 | 2,950,266 | - | - | - | 16,528 | 7,357,772 |
| Total disbursements | 59,701 | 3,130,742 | 2,950,266 | - | - | - | 16,528 | 9,833,900 |
| Excess (deficiency) of receipts over disbursements | (59,684) | - | - | 257,018 | 68,696 | 118,258 | - | 236,073 |
| Cash and investments - ending | \$ - | \$ - | \$ - | \$ 257,018 | \$ 68,696 | \$ 118,258 | \$ - | \$ 1,419,416 |

JENNINGS NORTHWEST REGIONAL UTILITIES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2011

| | Water Operating | Sewer Operating | Clearing | Water Bond Account | Water Debt Service Reserve | Water Customer Deposit | Sewer Customer Deposit | Payroll Account | Sewer Bond (Bony) |
|--|--------------------|--------------------|-------------------|--------------------------|-------------------------------------|------------------------------|------------------------------|--------------------|-------------------------|
| Cash and investments - beginning | \$ 331,523 | \$ 210,949 | \$ 3,223 | \$ 52,556 | \$ 167,431 | \$ 16,934 | \$ 23,400 | \$ 11,283 | \$ 158,145 |
| Receipts: | | | | | | | | | |
| Utility fees | 819,246 | 988,006 | - | - | - | - | - | - | - |
| Other receipts | - | - | 27,444 | 158,526 | 360 | 18 | 23 | 490,806 | 303,656 |
| Total receipts | <u>819,246</u> | <u>988,006</u> | <u>27,444</u> | <u>158,526</u> | <u>360</u> | <u>18</u> | <u>23</u> | <u>490,806</u> | <u>303,656</u> |
| Disbursements: | | | | | | | | | |
| Debt service - principal and interest | 157,028 | 303,563 | - | - | - | - | - | - | - |
| Utility operating expenses | 704,362 | 739,010 | - | - | - | - | - | - | - |
| Other disbursements | - | - | 35,558 | 157,035 | - | 1 | - | 475,291 | 199,868 |
| Total disbursements | <u>861,390</u> | <u>1,042,573</u> | <u>35,558</u> | <u>157,035</u> | <u>-</u> | <u>1</u> | <u>-</u> | <u>475,291</u> | <u>199,868</u> |
| Excess (deficiency) of receipts over disbursements | <u>(42,144)</u> | <u>(54,567)</u> | <u>(8,114)</u> | <u>1,491</u> | <u>360</u> | <u>17</u> | <u>23</u> | <u>15,515</u> | <u>103,788</u> |
| Cash and investments - ending | <u>\$ 289,379</u> | <u>\$ 156,382</u> | <u>\$ (4,891)</u> | <u>\$ 54,047</u> | <u>\$ 167,791</u> | <u>\$ 16,951</u> | <u>\$ 23,423</u> | <u>\$ 26,798</u> | <u>\$ 261,933</u> |

JENNINGS NORTHWEST REGIONAL UTILITIES
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2011
 (Continued)

| | Sewer DSR | SRF ARRA Sewage Note 2009 | SRF ARRA Sewage Note 2009B | Lykins Retainage | Mitchell & Stark Retainage | Graves Retainage | Bradshaw Retainage | Totals |
|--|--------------|---------------------------------|----------------------------------|---------------------|----------------------------------|---------------------|-----------------------|--------------|
| Cash and investments - beginning | \$ - | \$ - | \$ - | \$ 257,018 | \$ 68,696 | \$ 118,258 | \$ - | \$ 1,419,416 |
| Receipts: | | | | | | | | |
| Utility fees | - | - | - | - | - | - | - | 1,807,252 |
| Other receipts | - | - | 2,692,305 | 121,213 | 25,909 | 99,161 | - | 3,919,421 |
| Total receipts | - | - | 2,692,305 | 121,213 | 25,909 | 99,161 | - | 5,726,673 |
| Disbursements: | | | | | | | | |
| Debt service - principal and interest | - | - | - | - | - | - | - | 460,591 |
| Utility operating expenses | - | - | - | - | - | - | - | 1,443,372 |
| Other disbursements | - | - | 2,692,305 | 143,303 | 70,216 | 62,394 | - | 3,835,971 |
| Total disbursements | - | - | 2,692,305 | 143,303 | 70,216 | 62,394 | - | 5,739,934 |
| Excess (deficiency) of receipts over disbursements | - | - | - | (22,090) | (44,307) | 36,767 | - | (13,261) |
| Cash and investments - ending | \$ - | \$ - | \$ - | \$ 234,928 | \$ 24,389 | \$ 155,025 | \$ - | \$ 1,406,155 |

JENNINGS NORTHWEST REGIONAL UTILITIES
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE - CLEARING FUND

The financial records presented for audit showed the Clearing fund with an overdrawn cash balance at December 31, 2011, in the amount of \$7,367. This amount did not agree with the cash and investment balance reported on the financial statement in the amount of \$4,891 because no evidence was presented for audit that an adjustment proposed for the financial statement ending December 31, 2009, in the amount of \$2,476 and approved by the Utilities management had been made to the Clearing fund's record cash balance.

A review of the Clearing fund's bank activity noted that credit card fees were being charged by the bank for customers who pay their bill using a credit card, which may be one reason for the overdrawn cash balance. These fees were charged to the bank account. Information was not presented for audit that the Financial Controller had analyzed credit fees paid over the course of several years to determine if the Clearing fund bank account was reimbursed by the Water Operating fund and Sewer Operating fund for these fees.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CASH NECESSARY TO BALANCE - CLEARING ACCOUNT

The Utilities established a Clearing fund in its financial records and a Clearing fund bank account. The purpose of the Clearing fund and the Clearing fund bank account is to account for the receipt and deposit of collections received from customers. Collections are to be held in the Clearing fund bank account until subsequently transferred to the Water Utility Operating fund and the Sewage Utility Operating fund. The record cash balance recorded in the Clearing fund should reconcile with the cash balance in the Clearing fund bank account. However, a review of the Clearing fund's financial activity showed the following:

1. Customer collections deposited to the Clearing fund bank account were not being posted to the Clearing fund and transfers from the Clearing fund bank account were not being posted to the Clearing fund.
2. The primary activity being posted to the Clearing fund were credit card fees for customers paying with a credit card.

The Financial Controller did not present completed reconciliations of the Clearing fund's record cash balance to the bank account balance for all months for the years 2010 and 2011. Our reconciliation of the Clearing fund's record cash balance to bank balance at December 31, 2011, based on records presented for audit, showed a "cash necessary to balance" in amount of \$5,930. The following is a summarized bank reconciliation of the Clearing fund's record cash balance at December 31, 2011:

JENNINGS NORTHWEST REGIONAL UTILITIES
 AUDIT RESULTS AND COMMENTS
 (Continued)

| | Amount | Notes |
|---|------------|-------|
| Clearing fund record cash balance | \$ (7,367) | (1) |
| Year 2009 audit adjustments not posted | 2,476 | (1) |
| December collections not posted to records | 26,587 | (2) |
| Adjusted clearing account record cash balance | 21,696 | |
| Net bank account balance | 15,766 | (3) |
| Cash necessary to balance | \$ (5,930) | |

Notes to Schedule:

- (1) See Audit Result and Comment titled "Overdrawn Cash Balance - Clearing Fund."
- (2) This amount represents customer collections deposited, but not posted to the Clearing fund as of December 31, 2011, that were not transferred to the Water Operating and Sewage Operating funds until January of 2012.
- (3) The net bank account balance represents the bank balance adjusted for deposits in transit, outstanding checks, and known reconciling items.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ANNUAL FINANCIAL REPORTS

The Annual Financial Reports for 2010 and 2011 were not filed electronically until June 20, 2011, and May 22, 2012, respectively.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE JENNINGS NORTHWEST
REGIONAL UTILITIES, JENNINGS COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Jennings Northwest Regional Utilities' (Utilities) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2010 to December 31, 2011. The Utilities' major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Utilities' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Utilities' compliance.

Opinion on the Major Federal Program

In our opinion, the Utilities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period of January 1, 2010 to December 31, 2011.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-006 and 2011-007. Our opinion on the major federal program is not modified with respect to these matters.

The Utilities' response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Utilities' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance


Management of the Utilities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Utilities' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-005 to be material weaknesses.

The Utilities' response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Utilities' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

August 26, 2014

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the Utilities. The schedule and note are presented as intended by the Utilities.

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JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended December 31, 2010 and 2011

| Federal Grantor Agency/ Cluster Title/Program Title/Project Title | Pass-Through Entity or Direct Grant | Federal CFDA Number | Pass-Through Entity (or Other) Identifying Number | Total Federal Awards Expended 12-31-10 | Total Federal Awards Expended 12-31-11 |
|--|-------------------------------------|---------------------------|--|---|---|
| <u>Environmental Protection Agency</u> | | | | | |
| ARRA - Capitalization Grants for Clean Water State Revolving Funds Grant ID 2W-00E73001-0 | Indiana Finance Authority | 66.458 | WW06324003 WW06324004 | \$ 3,130,742 2,950,266 | \$ - 2,692,305 |
| Total for federal grantor agency | | | | <u>6,081,008</u> | <u>2,692,305</u> |
| <u>Department of Housing and Urban Development</u> | | | | | |
| CDBG - State-Administered CDBG Cluster ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants In Hawaii B10DC1800001R | Jennings County | 14.255 | ST-09-001 | <u>208,077</u> | <u>84,867</u> |
| Total federal awards expended | | | | <u>\$ 6,289,085</u> | <u>\$ 2,777,172</u> |

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

JENNINGS NORTHWEST REGIONAL UTILITIES
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Utilities and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of regional water and sewer districts shall be conducted biennially. Such audits shall include both years within the biennial period.

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

| | |
|--|---------------|
| Type of auditor's report issued: | Disclaimer |
| Internal control over financial reporting: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Noncompliance material to financial statement noted? | yes |

Federal Awards:

| | |
|--|---------------|
| Internal control over major program: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Type of auditor's report issued on compliance for major program: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | yes |

Identification of Major Program:

| CFDA Number | Name of Federal Program or Cluster |
|----------------|--|
| 66.458 | ARRA - Capitalization Grants for Clean Water State Revolving Funds |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

| | |
|--|----|
| Auditee qualified as low-risk auditee? | no |
|--|----|

Section II - Financial Statement Findings

FINDING 2011-001 - INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENT

We noted deficiencies in the internal control system of the Utilities related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Utilities' audited financial statement and then determining how those identified risks should be managed. The Utilities has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements.

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The financial statement of the Utilities was prepared from information entered by the Utilities into the Gateway annual financial report. During the audit of the financial statement, we noted the following errors:

For the year 2010, the financial statement presented for audit either incorrectly reported or omitted from the statement numerous funds of the Utilities. In order to include all funds of the Utilities, increases were made to beginning fund balances in the amount of \$67,072, receipts in the amount of \$4,825,596, disbursements in the amount of \$4,278,751, and ending fund balances of \$613,917.

For the year 2011, the financial statement presented for audit either incorrectly reported or omitted from the statement numerous funds of the Utilities. In order to include all funds of the Utilities increases were made to beginning fund balances in the amount of \$1,060,414, receipts in the amount of \$3,919,421, disbursements in the amount of \$3,862,406, and ending fund balances of \$613,917.

Adjustments were proposed, accepted by the Utilities, and made to the financial statement presented in this report.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under Indiana Code 5-14-3.8-7."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

FINDING 2011-002 - CONDITION OF RECORDS

Financial records presented for audit were incomplete and not reflective of the activity of the Water and Sewer Operating funds. The records presented did not provide sufficient information to audit or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions as described below:

1. Cash disbursements from January to July of the year 2010 were posted in the aggregate on July 31, 2010, without identifying check numbers, vendor names, or vendor numbers. Information to cross reference these postings to the checks was not presented for audit. The aggregate postings were in the amount of \$1,130,547.84 for the Sewer Operating fund; \$388,315.04 for the Water Operating fund; which totaled \$1,518,862.88 for both of these funds.

JENNINGS NORTHWEST REGIONAL UTILITIES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

2. Collections for customer services are deposited in a bank account designated for the Clearing fund. The daily collections deposited into the Clearing fund's bank account were not recorded on the financial records. The only transactions recorded in the Clearing fund were interest earned and sometimes charges for credit card fees. The Clearing fund financial activity approximates \$1,800,000 per year in receipts and disbursements.
3. Bank reconciliations contained significant errors. The December 31, 2010 bank reconciliations for the Sewage and Water Operating accounts listed reconciling items for various items described as "posting errors." The posting errors listed totaled \$166,722. No supporting documentation was presented for audit to substantiate these errors. (Also see Finding 2011-003)
4. The accounts receivable trial balance, which is a detailed listing of utility customer accounts receivable balances, did not reconcile with the accounts receivable control balance recorded on the general ledger at December 31, 2010, and December 31, 2011, as shown in the following schedule:

| | 2010 | 2011 |
|-------------------------------------|------------|------------|
| Accounts receivable trial balance | \$ 698,771 | \$ 759,926 |
| Accounts receivable control balance | 503,368 | 533,928 |
| Variance | \$ 195,403 | \$ 225,998 |

Reconciling accounts receivable control balance to the detailed subsidiary ledger is a necessary internal control procedure to account for customers collections derived from billings for services.

Because of the matters described above, the Utilities' records did not permit the application of other auditing procedures to ascertain if the financial statement is fairly stated.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records, and financial statements and incorrect decision making.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

JENNINGS NORTHWEST REGIONAL UTILITIES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

FINDING 2011-003 - UNSUPPORTED ADJUSTMENTS TO CASH ACCOUNT

The December 31, 2010 bank reconcilements for the Sewage and Water Operating accounts listed reconciling items for various items described as "posting errors." The posting errors listed totaled \$166,722. No supporting documentation was presented for audit to substantiate these errors.

The actual adjustments made to the Sewage and Water Operating record cash balances on January 1, 2011, totaled \$186,391. No supporting documentation was presented for audit to substantiate these adjustments. Assuming that the errors identified by the Financial Controller were correct, an excess adjustment in the amount of \$19,669 was made reducing the record cash balances as shown in the following schedule:

| | Water Utility Operating | Water Utility Operating | Total |
|--|-------------------------------|-------------------------------|-------------|
| Errors identified by controller | \$ 47,932 | \$ 118,790 | \$ 166,722 |
| Adjustments to the record cash balance | 59,007 | 127,384 | 186,391 |
| Excess adjustment | \$ (11,075) | \$ (8,595) | \$ (19,669) |

The Financial Controller stated that he was unable to present supporting documentation for the adjustments because this information was stored in the previous computer system that can no longer be accessed.

Public records, financial statement information and supporting information generated through a computer system should be printed out on paper, printed to disk or maintained on-line at the end of each reporting year and retained for audit. Information must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

A proper reconciliation of the record balance of cash to the bank balance requires adequate supporting documentation of errors listed as reconciling items to support any adjustments to the record balance of cash.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

FINDING 2011-004 - INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Utilities did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Utilities should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: assistance for the year 2010 in the amount of \$6,289,085 was omitted from the SEFA and assistance for the year 2011 was understated in the amount of \$412,832. Audit adjustments were proposed, accepted by the Utilities, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III - Federal Award Findings and Questioned Costs

FINDING 2011-005 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

Federal Agency: Environmental Protection Agency
Federal Program: ARRA - Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number: 2W-00E73001-0
Pass-Through Entity: Indiana Finance Authority

Management of the Utilities has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Davis-Bacon Act; Matching; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions.

The failure to establish an effective internal control system places the Utilities at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Utilities.

We recommended that the Utilities' management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

FINDING 2011-006 - DAVIS-BACON ACT

Federal Agency: Environmental Protection Agency
Federal Program: ARRA - Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number: 2W-00E73001-0
Pass-Through Entity: Indiana Finance Authority

The Utilities included provisions in their construction contracts that the contracts were subject to the Davis-Bacon Act and that the contractors were required to submit certified weekly payrolls. However, the Utilities did not present for audit all of the certified payrolls for two of their construction contractors.

No certified payrolls were provided for one contractor for the period of January 21, 2010 to April 19, 2010, and no certified payrolls were provided for a second contractor for the period of December 4, 2011 to December 31, 2011.

40 CFR 31.36(i) states in part:

"*Contract provisions.* A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. . . .

- (5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)"

29 CFR 5.5(a)(3) states in part:

"(ii) (A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls submitted shall set out accurately

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number). The required weekly payroll information may be submitted in any form desired. Optional Form WH-347 is available for this purpose from the Wage and Hour Division Web site at <http://www.dol.gov/esa/whd/forms/wh347instr.htm> or its successor site. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. . . .

(B) Each payroll submitted shall be accompanied by a 'Statement of Compliance,' signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following: . . .

- (iii) The contractor or subcontractor shall make the records required under paragraph (a)(3)(i) of this section available for inspection, copying, or transcription by authorized representatives of the (write the name of the agency) or the Department of Labor, and shall permit such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, the Federal agency may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR 5.12."

The Utilities did not have controls in place to reduce the risks of noncompliance with Davis-Bacon Act compliance requirements, as described in Finding 2011-005.

Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Utilities.

We recommended the Utilities establish procedures to comply with the grant agreement and Davis-Bacon Act compliance requirements.

FINDING 2011-007 - SPECIAL TESTS AND PROVISIONS

Federal Agency: Environmental Protection Agency
Federal Program: ARRA - Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number: 2W-00E73001-0
Pass-Through Entity: Indiana Finance Authority

The Utilities set up retainage funds for each construction contractor. The Utilities paid each contractor from three different sources including federal award number 2W-00E73001-0 that is funded by ARRA. However, in the retainage funds the sources of funding were commingled and when retainage was paid, the records did not identify the ARRA funds associated with federal award number 2W-00E73001-0.

2 CFR 176.210(a) states in part: ". . . recipients agree to maintain records that identify adequately the source and application of Recovery Act funds."

JENNINGS NORTHWEST REGIONAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Utilities did not have controls in place to reduce the risks of noncompliance with Special Tests and Provisions as described in Finding 2011-005.

Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Utilities.

We recommended the Utilities establish procedures to comply with the grant agreement and the Special Tests and Provisions compliance requirements.

AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the Utilities. The document is presented as intended by the Utilities.



Corrective Action Plan August 26, 2014

FINDING 2011-1 – INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENT

Dan B. Wooton Sr.
Financial Controller/Utilities Manager
(812) 346-5500

Internal controls, safeguards, and segregation of duties have been put in place according to the Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10

FINDING NO. 2011-2 - CONDITION OF RECORDS

Dan B. Wooton Sr.
Financial Controller/Utilities Manager
(812) 346-5500

The errors reported were largely due to changing of computer system and *inadvertent* deletion of records. The computer system has been in place and in the process of being set correctly now. Safeguards have been put in place to create redundant copies of digital records.

FINDING 2011-3 – UNSUPPORTED ADJUSTMENTS TO CASH ACCOUNT

Dan B. Wooton Sr.
Financial Controller/Utilities Manager
(812) 346-5500

Supporting documentation for the aforementioned adjustments were unable to be presented due to a suspected *inadvertent* loss of computer files. Safeguards have been put in place to prevent any further instances like this. Credit Card transactions were sporadically posted to the bank side of the clearing account, and now has been remedied. New procedures are currently being developed for a more precise and effective reconciliation of the clearing account.



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FINDING 2011-004 - INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Dan B. Wooton Sr.
Financial Controller/Utilities Manager
(812) 346-5500

The current JNRU staff was not involved in the administration nor were they aware of all of the compliance, tracking, and documentation requirements entailed with grant procedures due to utilities' lack of experience with the federal grant process. Training will be sought in order to better understand this process in the future as the need arises.

FINDING 2011-005 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

Dan B. Wooton Sr.
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The current JNRU staff was not involved in the administration nor were they aware of all of the compliance, tracking, and documentation requirements entailed with grant procedures due to utilities' lack of experience with the federal grant process. Training will be sought in order to better understand this process in the future as the need arises.

FINDING 2011-006 - DAVIS BACON

Dan B. Wooton Sr.
Financial Controller/Utilities Manager
(812) 346-5500

The current JNRU staff was not involved in the administration nor were they aware of all of the compliance, tracking, and documentation requirements entailed with grant procedures due to utilities' lack of experience with the federal grant process. Training will be sought in order to better understand this process in the future as the need arises.



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FINDING 2011-007 – SPECIAL TESTS AND PROVISIONS

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The current JNRU staff was not involved in the administration nor were they aware of all of the compliance, tracking, and documentation requirements entailed with grant procedures due to utilities' lack of experience with the federal grant process. Training will be sought in order to better understand this process in the future as the need arises.

A handwritten signature in cursive script that reads "Dan B. Wooton Sr." is positioned above the printed name.

Dan B. Wooton Sr.
Financial Controller/Utilities Manager

Date: August 26, 2014

JENNINGS NORTHWEST REGIONAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Dan B. Wooton, Financial Controller; Brian Roney, Treasurer; and Edwin Whitaker, President of the Board.