

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

COMPLIANCE REPORT
OF
JENNINGS NORTHWEST REGIONAL UTILITIES
JENNINGS COUNTY, INDIANA
January 1, 2012 to December 31, 2012



FILED
11/07/2014

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Results and Comments:	
Annual Report.....	4
No Financial Statement or Schedule of Expenditures of Federal Awards	4-5
Overdrawn Cash Balance - Clearing Fund.....	5
Cash Necessary to Balance - Clearing Fund	5-7
Cash Necessary to Balance - Water Utility and Sewer Utility Operating Funds	7-8
Internal Control Accounts Receivable	8
Condition of Records - Subsequent Period	8-9
Receipt Issuance and Deposits	9-10
Supporting Documentation	10
Exit Conference	11

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utilities Manager	Dan B. Wooton, Sr.	01-01-12 to 12-31-14
Financial Controller	Dan B. Wooton, Sr.	01-01-12 to 12-31-14
Office Manager	Dan B. Wooton, Sr. Cindy Summerfield	01-01-12 to 09-18-12 09-19-12 to 12-31-14
Treasurer	Dorothy Vaughn Ed Whitaker Brian Roney	01-01-12 to 08-07-13 08-08-13 to 04-20-14 04-21-14 to 12-31-14
President of the Board	Ed Whitaker	01-01-12 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

The Jennings Northwest Regional Utilities did not present a financial statement or Schedule of Expenditures of Federal Awards (SEFA) for the period January 1, 2012 to December 31, 2012. Because no financial statement and SEFA were prepared, we were unable to conduct an audit of the financial statement and the SEFA as required by OMB Circular A-133.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 26, 2014

JENNINGS NORTHWEST REGIONAL UTILITIES
RESULTS AND COMMENTS

ANNUAL REPORT

An Annual Report for 2012 was not filed with the State Examiner.

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."

NO FINANCIAL STATEMENT OR SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Jennings Northwest Regional Utilities (Regional Utilities) did not present a financial statement or a Schedule of Expenditures of Federal Awards (SEFA) for audit. Information presented for examination showed the Regional Utilities expended federal awards as follows:

Federal Grantor Agency: U.S. Environmental Protection Agency
Pass-Through Entity: Indiana Finance Authority
Program Title: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458 ARRA
Identifying No.: WW06324044
Total Federal Award Expended: \$599,104

Because no financial statement and SEFA were prepared, we were unable to conduct an audit of the financial statement and the SEFA as required by OMB Circular A-133. Without an audit being conducted, a Data Collection Form and a Reporting Package cannot be submitted to the Federal Clearinghouse and a Reporting Package cannot be submitted to the pass-through entity as required by OMB Circular A-133.

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 .320 states in part the following:

"(b) Data Collection. (1) The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. . . . A senior level representative of the auditee (e.g., State controller, director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of this part, the form was prepared in accordance with this part (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete. . . .

JENNINGS NORTHWEST REGIONAL UTILITIES
RESULTS AND COMMENTS
(Continued)

(c) Reporting package. The reporting package shall include the:

- (1) Financial statements and schedule of expenditures of Federal awards discussed in §___310(a) and §___310(b), respectively;
- (2) Summary schedule of prior audit findings discussed in §___315(b);
- (3) Auditor's report(s) discussed in §___505; and
- (4) Corrective action plan discussed in §___315(c).

(d) Submission to clearinghouse. All auditees shall submit to the Federal clearinghouse designated by OMB the data collection form described in paragraph (b) of this section and one copy of the reporting package described in paragraph (c) of this section.

(e) Additional submission by subrecipients. (1) In addition to the requirements discussed in paragraph (d) of this section, auditees that are also subrecipients shall submit to each pass-through entity one copy of the reporting package described in paragraph (c) of this section for each pass-through entity when the schedule of findings and questioned costs disclosed audit findings relating to Federal awards that the pass-through entity provided or the summary schedule of prior audit findings reported the status of any audit findings relating to Federal awards that the pass-through entity provided."

A copy of this report will be furnished to the Indiana Finance Authority, pass-through entity.

OVERDRAWN CASH BALANCE - CLEARING FUND

The financial records presented showed the Clearing fund with an overdrawn cash balance at December 31, 2012, in the amount of \$10,722.47.

An analysis 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. These fees are charged to the bank account. Information was not presented for audit that the Clearing fund bank account was reimbursed by the Water Utility Operating fund and Sewage Operating fund for these fees that were withheld from credit card deposits.

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 FUND

The Regional 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, the Clearing fund's financial activity showed the following:

JENNINGS NORTHWEST REGIONAL UTILITIES
RESULTS AND COMMENTS
(Continued)

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.

Dan B. Wooton, Sr., Utilities Manager and Financial Controller, did not present reconciliations of the Clearing fund's record cash balance to the bank account balance during the year 2012. Our reconciliation of the Clearing fund's record cash balance to bank balance at December 31, 2012, based on records presented, showed a "cash necessary to balance" in amount of \$9,727.66. The following is a summarized bank reconciliation of the Clearing fund's record cash balance at December 31, 2012:

	<u>Amount</u>	<u>Notes</u>
Clearing Fund Record Cash Balance	\$ (10,722.47)	(1)
Year 2009 Audit Adjustments Not Posted	2,476.46	(2)
December Collections Not Posted to Records	29,883.72	(3)
Other Deposits not Posted to Ledger	<u>200.00</u>	
Adjusted Clearing Fund Record Cash Balance	21,837.71	
Net Bank Account Balance	<u>12,110.05</u>	(4)
Cash Necessary to Balance	<u><u>\$ (9,727.66)</u></u>	

Notes to schedule:

- (1) See Result and Comment titled "Cash Necessary to Balance - Clearing Fund."
- (2) Audit adjustments in the amount of \$2,476.46 were proposed by the Indiana State Board of Accounts and approved by Regional Utilities management for the period ending December 31, 2009. However, no information was presented that these adjustments were made to the Clearing fund's record cash balance.
- (3) This amount represents customer collections deposited, but not posted to the Clearing fund as of December 31, 2012, that were not transferred to the Water Operating and Sewage Operating funds until January of 2013.
- (4) The net bank account balance represents the bank balance adjusted for deposits in transit, outstanding checks, and known reconciling items.

We met with Dan B. Wooton, Sr., Utilities Manager and Financial Controller, on April 15, 2014. Dan B. Wooton, Sr., Utilities Manager and Financial Controller, presented what he described as "preliminary bank reconciliations" through December 31, 2013. However, Dan B. Wooton, Sr., Utilities Manager and Financial Controller, did not present a detail of the reconciling items between the record cash balance and the bank balance.

The lack of performing correct bank reconciliation for the Clearing fund was also reported in prior Report B37543 for the period ended December 31, 2009. The lack of performing complete reconciliations was also a condition during the years 2010 and 2011.

JENNINGS NORTHWEST REGIONAL UTILITIES
RESULTS AND COMMENTS
(Continued)

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)

CASH NECESSARY TO BALANCE - WATER UTILITY AND SEWER UTILITY OPERATING FUNDS

The bank reconciliations presented for the Water Utility and the Sewage Utility Operating funds showed the respective record balance of cash and the respective bank balances to be reconciled. However, the bank reconciliations contained unsubstantiated amounts of deposits-in-transit.

Using the substantiated deposit-in-transit amounts, the net "cash necessary to balance" for the two accounts was \$729.04 as shown in the following schedule:

	Water Utility	Sewer Utility	Total	Notes
Record Cash Balance:				
Operating fund	\$ 129,160.70	\$ 159,935.16	\$ 289,095.86	
Customer Deposit fund	16,963.16	23,441.10	40,404.26	
Adjustment to Cash	<u>100.00</u>	<u>100.00</u>	<u>200.00</u>	(1)
Adjusted Record Cash Balance	146,223.86	183,476.26	329,700.12	
Net Bank Balance	146,123.86	183,376.26	329,500.12	(2)
Adjustment to Net Bank Balance	<u>11,590.09</u>	<u>(12,119.13)</u>	<u>(529.04)</u>	(3)
Cash Necessary to Balance	<u>\$ 11,490.09</u>	<u>\$ (12,219.13)</u>	<u>\$ (729.04)</u>	(4)

Notes to schedule:

- (1) Deposits made to new bank accounts were not recorded on the financial record.
- (2) The net bank balance prepared by Dan B. Wooton, Sr., Utilities Manager and Financial Controller, representing the bank balance adjusted for deposits in transit, outstanding checks, and known reconciling items.
- (3) This represents the unsubstantiated deposit-in-transit amount reported on the Financial Controller's bank reconciliation.
- (4) The "cash necessary to balance" of \$729.04 does not include unsubstantiated adjustments made prior to January 1, 2012, that reduced the record balance of cash.

JENNINGS NORTHWEST REGIONAL UTILITIES
RESULTS AND COMMENTS
(Continued)

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)

INTERNAL CONTROL ACCOUNTS RECEIVABLE

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, 2012, as shown in the following schedule:

	<u>2012</u>
Accounts Receivable Trial Balance	\$ 771,282
Accounts Receivable Control Balance	<u>551,723</u>
Variance	<u>\$ 219,559</u>

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.

The Regional 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.

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CONDITION OF RECORDS - SUBSEQUENT PERIOD

The following was noted in the Water Utility and Sewage Utility financial records for the period January 1, 2013 to September 30, 2013:

1. Financial activity (customer service billings, receipts, disbursements, etc.) for the Water and Wastewater Utilities had not been recorded on the General Ledger as of October 9, 2013.

JENNINGS NORTHWEST REGIONAL UTILITIES
RESULTS AND COMMENTS
(Continued)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

2. Bank reconciliations were not presented for audit.

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."

We met with Dan B. Wooton, Sr., Utilities Manager and Financial Controller, on April 15, 2014. He stated the records are currently posted through February 28, 2014, and he presented preliminary reconcilements of the bank accounts through December 31, 2013.

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.

At all times, the manual and 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)

RECEIPT ISSUANCE AND DEPOSITS

We noted the following instances of checks written to the Regional Utilities from a paying agent for the Indiana Housing Authority that were not deposited daily or was not deposited:

1. A check issued November 15, 2012, in the amount of \$49,000 was not deposited until December 6, 2012.
2. Five checks totaling \$35,557 on December 17, 2012, were not deposited until January 10, 2013. No receipts were written for these grant reimbursements to document the date actually received in the mail.
3. A check dated December 6, 2012, in the amount of \$8,763 for retainage on the Graves Plumbing contract. No receipt was written for the amount received and the amount received was not recorded on the financial records and was not deposited in any bank account of the Regional Utilities.

Dan B. Wooton, Sr., Utilities Manager and Financial Controller, stated the check was endorsed and then given to Graves Plumbing, as the retainage bank account was already closed out. A representative of Graves Plumbing confirmed to us on April 15, 2014, that Graves Plumbing received the check in the amount of \$8,763.

Indiana Code 5-13-6-1(c) states in part: "... all local officers ... who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the ... local boards of finance ..."

JENNINGS NORTHWEST REGIONAL UTILITIES
RESULTS AND COMMENTS
(Continued)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SUPPORTING DOCUMENTATION

We noted payments totaling \$14,750 were made to Bowman's Yardcare Plus/Bruce Bowman for mowing and yard repair during the year 2012. These disbursements did not include adequate supporting documentation or detailed invoices to support the payments. For example, the description of work performed on an invoice dated December 18, 2012, for \$3,850 stated "Yard Repair." There was no itemization as to how the amount claimed was determined such as: (1) date work was performed; (2) description and location of work; and (3) hours of work and hourly rate.

In addition, no contract was presented describing work to be performed and rate of compensation.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

JENNINGS NORTHWEST REGIONAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2014, with Dan B. Wooton, Sr., Utilities Manager and Financial Controller; Brian Roney, Treasurer; Ed Whitaker, President of the Board; and Cindy Summerfield, Office Manager.