

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

JAY COUNTY REGIONAL SEWER DISTRICT

JAY COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
01/09/2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2012-001 - Internal Controls Over Financial Transactions and Reporting	4
Finding 2012-002 - Internal Controls Over the Schedule of Expenditures of Federal Awards	4-5
Finding 2012-003 - Internal Controls Over Water and Waste Disposal Systems for Rural Communities - ARRA	6
Finding 2012-004 - Cash Management - Compliance Requirements	7
Finding 2012-005 - Reporting - Compliance Requirements	7-8
Corrective Action Plan.....	9-11
Audit Result and Comment:	
Board Minutes.....	12
Exit Conference.....	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Tim Kesler Ralph Frazee	01-01-11 to 01-31-13 02-01-13 to 12-31-14
President of the Board	Gerald Kirby Bob Brelsford Faron Parr	01-01-11 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE JAY COUNTY REGIONAL SEWER DISTRICT, JAY COUNTY, INDIANA

This report is supplemental to our audit report of the Jay County Regional Sewer District (District), for the period from January 1, 2011 to December 31, 2012. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the District. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the District, which provides our opinions on the District's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment as described below.

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 Audit Result and Comment contained herein describes the identified reportable instance 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.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

November 20, 2014

JAY COUNTY REGIONAL SEWER DISTRICT
FEDERAL FINDINGS

FINDING 2012-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the District related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the District to reduce risks to the achievement of financial reporting objectives. The District has not separated incompatible activities related to receipts, utility billings and collections, disbursements, and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Preparing Financial Statement:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the District's audited financial statement and then determining how those identified risks should be managed. The District 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 material misstatements, including notes to the financial statement.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the District Board to monitor and assess the quality of the District's system of internal control. The District Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the District at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the District has no process to identify or communicate corrective actions to improve controls.

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 2012-002 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The District 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 District 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 that the District omitted a \$610,000 loan, which is considered a part of the total grant award. Audit adjustments were proposed, accepted by the District, and made to the SEFA presented in this report.

JAY COUNTY REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

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.
- (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 the 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."

JAY COUNTY REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

**FINDING 2012-003 - INTERNAL CONTROLS OVER WATER AND WASTE
DISPOSAL SYSTEMS FOR RURAL COMMUNITIES - ARRA**

Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities - ARRA
CFDA Number: 10.781
Federal Award Number and Year (or Other Identifying Number): IN-704-00-02-Jay
Pass-Through Entity: Direct Grant

Management of the District 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: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Equipment and Real Property Management; Davis-Bacon Act; Period of Availability; Procurement, Suspension and Debarment; Reporting; and Special Tests And Provisions, including ARRA - Separate Accountability and ARRA - Presentation on the Schedule of Federal Awards. The failure to establish an effective internal control system places the District 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 grant.

Monitoring of internal controls over of the District's grant and loan was inadequate to verify proper compliance with federal requirements. The District's Board hired various firms and individuals to assist them in complying with federal requirements of their USDA grant and loan, but failed to monitor these persons to verify that the work was properly completed.

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, or 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.

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. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the District.

We recommended that the District's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

JAY COUNTY REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

FINDING 2012-004 - CASH MANAGEMENT - COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities - ARRA
CFDA Number: 10.781
Federal Award Number and Year (or Other Identifying Number): IN-704-00-02-Jay
Pass-Through Entity: Direct Grant

As a result of the District not establishing an effective internal control system related to Cash Management compliance requirements, federal funds were drawn down in advance without properly determining cash needs. The original drawdown on June 11, 2011, resulted in excessive cash on hand of \$31,900. Additionally, three of the ten draw requests submitted contained errors resulting in additional amounts being accumulated to the cash balance during the grant period. The District did not have policies and procedures in place to ensure that draw requests were for expenses occurring timely after the draw down of funds. The excessive cash balances ranged from \$31,900 to \$40,427 throughout the award period until the last construction payment was made on March 11, 2013.

7 CFR 3016.20 Standards for financial management systems states in part:

"(7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Surplus cash indicates noncompliance with the cash management requirement as set forth by the grant agreement, which could result in the loss of future federal awards.

We recommended that the District officials ensure that the time between the receipt and disbursement of federal funds is minimized according to the grant requirements.

FINDING 2012-005 - REPORTING - COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities - ARRA
CFDA Number: 10.781
Federal Award Number and Year (or Other Identifying Number): IN-704-00-02-Jay
Pass-Through Entity: Direct Grant

As part of the grant agreement between the District and the USDA - Rural Development, the District is required to submit an OMB Circular A-133 Audit and Annual Budget and Projected Cash Flow Reports to the USDA - Rural Development. The District has not filed any of these reports, although the OMB Circular A-133 Audit report requirement will be met with the late filing of this 2011-2012 report.

JAY COUNTY REGIONAL SEWER DISTRICT
FEDERAL FINDINGS
(Continued)

The District has agreed to the USDA - Rural Development's *Letter of Conditions* which states in part:

"A borrower that expends \$500,000 or more in federal financial assistance per fiscal year shall submit an audit performed in accordance with the requirements of OMB Circular A-133 . . . audits shall be submitted no later than 9 months after the end of the fiscal year . . .

Annual Budget and Projected Cash Flow: Thirty days prior to the beginning of each fiscal year, you will be required to submit an annual budget and projected cash flow to this office. You should submit two copies of Form RD 442-2, Statement of Budget, Income and Equity, Schedule 1, page 1; and Schedule 2, Projected Cash Flow. The only data required at this time on Schedule 1, page 1, is Columns 2 & 3. All of Schedule 1, page 2 and Schedule 2, Projected Cash Flow will be required. You may submit annual budgets on other financial statements for cash flow projections rather than Form RD 442-2. With the submission of the annual budget, you will be required to provide a current rate schedule, a current listing of the Board of Counsel member and terms."

The District is not in compliance with reporting requirements for this program. Failure to comply with these requirements could cause the District to be ineligible to receive future federal awards.

We recommended that officials prepare all required reports on a timely basis, and that they contact the USDA - Rural Development office regarding whether to file previously required reports.

JAY COUNTY REGIONAL SEWER DISTRICT

224 WEST WATER STREET

PORTLAND, IN 47371

CORRECTIVE ACTION PLAN

FINDING 2012-001—INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person for Corrective Action: Ralph Frazee, Treasurer

Contact Phone Number: 260-726-6909

Description of Corrective Action Plan:

The Jay County Regional Sewer District will segregate oversight duties for the financials so that the accountant/bookkeeper duties can be monitored to detect and prevent misstatements or irregularities. The Treasurer, (Ralph Frazee) will oversee the bank statement reconciliation on a monthly basis to insure that there is a check and balance of income and expenses.

The accountant will prepare a monthly report that shows amounts billed in relation to amounts received from customers of the sewer district.

All checks must be signed by two signatories. At the present time both the treasurer and a second board member sign checks (Ralph Frazee and Joe Sommers).

Claims are presented to the board for approval and must be voted on before payment. Utility bills are the exception due to the short time between billing and payment due time frame.

Accountant will complete Bank Reconciliation

Treasurer will review for accuracy and then will sign off

Bills turned into the Sewer District will be reviewed by the Sewer District Board members and approved by vote and recorded in the minutes.

Anticipated Completion Date: Some in place now, but all will be affirmed at December 8, 2014 board meeting

FINDING 2012-002 – INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person for Corrective Action: Ralph Frazee, Treasurer

Contact Phone Number: 260-726-6909

Description of Corrective Action Plan:

Effective November 21, 2014 the accountant/bookkeeper will assume duties of Grant Compliance Coordinator. She is taking training from USDA on the proper methods to monitor and complete reports needed to stay in compliance.

The accountant/bookkeeper will prepare financial statements that will be reviewed by both the Treasurer and a designated board member for completeness before presentation to the whole board for approval and noted in the board minutes.

The treasurer will oversee reports for cash receipts and disbursements for proper internal control.

An inventory of assets has been collated and will be monitored and reported as required by Federal programs or CFDA.

Anticipated Completion Date: December 8, 2014

FINDING 2012-003 – INTERNAL CONTROLS OVER WATER AND WASTEWATER DISPOSAL SYSTEMS FOR RURAL COMMUNITIES – ARRA

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities – ARRA

CFDA Number: 10.781

Federal Award Number and Year: IN-704-00-02-Jay

Pass Through Entity: Direct Grant

Contact Person for Corrective Action: Ralph Frazee, Treasurer

Contact Phone Number: 260-726-6909

The Vice President will take over duties of Grant Administrator.

The Grant Administrator will monitor all claims for payment and audit the vouchers which will be turned over for payment. Claims must go through the complete board for approval and be signed off in the minutes before the Treasurer and a second board member will sign the check.

The Grants Administrator will maintain the inventory of assets as required by the Federal guidelines. Since completion of the Regional Sewer District project the Grant Administrator will work with the Grant Compliance Coordinator to maintain compliance with Federal guidelines for the grant.

Anticipated Completion Date: December 8, 2014

FINDING 2012-004 – CASH MANAGEMENT – COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities – ARRA

CFDA Number: 10.781

Federal Award Number and Year: IN-704-00-02- JAY

Pass Through Entity: Direct Grant

Contact Person for Corrective Action: Ralph Frazee, Treasurer

Contact Phone Number: 260-726-6909

The treasurer will oversee that the accountant/bookkeeper will make payments to the federal government on a timely basis.

The Vice-President of the Regional Sewer Board will be the Grant Administrator. The Grant Administrator will monitor cash balances to insure compliance with the cash management requirements as set forth by the grant agreement, which could result in loss of future federal awards.

Anticipated Completion Date: Plan will be in place by December 8, 2014.

FINDING 2012-005 – COMPLIANCE REQUIREMENTS

Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal systems for Rural Communities
CFDA Number 10.781
Federal Award Number and Year: IN-704-00-02-Jay
Pass-Through Entity: Direct Grant

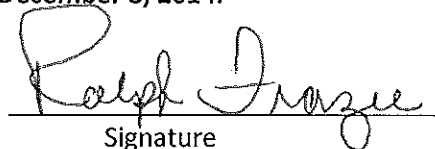
Contact Person for Corrective Action: Ralph Frazee, Treasurer
Contact Phone Number: 260-726-6909

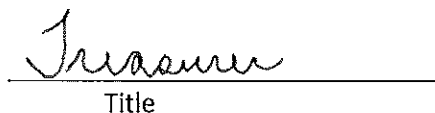
The Grant Coordinator is scheduled to take training with the USDA for reporting compliance requirements as required by OMB Circular A-133.

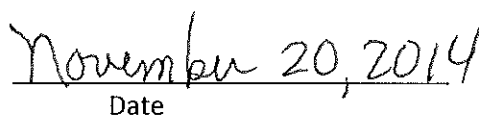
The accountant/bookkeeper is in contact with the USDA Rural Development regarding past due reports and is filing past due reports as required.

The President of the Regional Sewer Board will oversee that each of the duties assigned for the segregation of duties has been properly filled and request quarterly updates on the progress and compliance with Federal reporting requirements.

Anticipated Completion Date: Plan will be in place by December 8, 2014.


Signature


Title


Date

JAY COUNTY REGIONAL SEWER DISTRICT
AUDIT RESULT AND COMMENT

BOARD MINUTES

The minutes of the meetings of the District Board were not presented for all meetings. There were four scheduled meeting dates in which minutes were not presented for audit or no indication was given that a meeting was not held due to the lack of a quorum. Additionally, the minutes of the meetings of the District Board as presented for audit did not indicate they were the approved originals. The Board minutes presented did not contain the proper official signatures. Additionally, there is no evidence a permanent record of the meeting minutes is maintained.

Indiana Code 5-14-1.5-4(b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5."

JAY COUNTY REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 20, 2014, with Ralph Frazee, Treasurer, and Faron Parr, President of the Board.