

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
FREELANDVILLE REGIONAL SEWER DISTRICT
KNOX COUNTY, INDIANA
January 1, 2019 to December 31, 2023



FILED
10/22/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	Ada Sandusky	01-01-19 to 08-11-20
	Jayne Ann Beeman	08-12-20 to 12-31-24
Treasurer	Josh Trotter	01-01-19 to 12-31-19
	Curt Kixmiller	01-01-20 to 12-31-20
	CJ Hayes	01-01-21 to 12-31-23
	Scott Page	01-01-24 to 12-31-24
President of the District Board	James Streeter	01-01-19 to 12-31-19
	Josh Trotter	01-01-20 to 12-31-20
	Curt Kixmiller	01-01-21 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE FREELANDVILLE REGIONAL
SEWER DISTRICT, KNOX COUNTY, INDIANA

This report is supplemental to the audit report of the Freelandville Regional Sewer District (District), for the period from January 1, 2019 to December 31, 2023. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the District. It should be read in conjunction with the Financial Statement Audit Report of the District, which provides our opinions on the District's financial statement. This report may be found at www.in.gov/sboa/.

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 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.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

October 2, 2024

FREELANDVILLE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The internal control process is based on fundamental principles that operate as a whole but are best understood when analyzed individually. The five components basic to any internal control system are: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components of internal control are necessary to form a complete internal control process.

Deficiencies, as discussed below, in the District's internal control system were noted in the control activities and monitoring components.

Control Activities

Financial Close and Reporting

Financial information is required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units financial reporting system, which was the source of the District's financial statements. The District had not designed an oversight, review, or approval process over financial close and reporting that would prevent or detect and allow for correction of errors.

As a result of this deficiency, the financial statements presented for audit contained the following errors:

- General fund receipts were overstated by \$32,909 in 2021.
- General fund receipts in 2020 and General fund disbursements in 2019, 2020, and 2022 were understated by immaterial amounts.

Audit adjustments were proposed, accepted by the District, and made to the financial statements presented in the Financial Statements Audit Report of the District.

Receipts

As the District's only employee, the Office Manager was solely responsible for handling the District's receipts, including receiving funds and issuing receipts, preparing and making deposits, and posting the receipts to the ledger. The District had not designed an oversight, review, or approval process over receipts that would prevent or detect and allow for correction of errors.

Monitoring Activities

The District did not conduct ongoing or periodic evaluations of its internal control system. As such, the District had no means by which to determine whether each of the five components of internal control was present and functioning or to make changes to existing policies and procedures as necessary.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

FREELANDVILLE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

INTERNAL CONTROLS OVER COMPLIANCE

Condition and Context

Internal control deficiencies resulted in the noncompliance over the annual financial report - late submission; annual financial report - other information; adoption of, and training on, internal control standards; certification on internal control standards; materiality threshold; and compensation and benefits discussed further in the comments below.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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FREELANDVILLE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

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ANNUAL FINANCIAL REPORT - LATE SUBMISSION

Condition and Context

The District's Annual Financial Reports for 2019, 2020, and 2022 were not filed electronically until July 3, 2020, May 28, 2021, and March 9, 2023, respectively, which were 125, 88, and 8 days past the due date, respectively.

Criteria

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Other information is required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units financial reporting system. The information submitted by the District contained multiple errors as identified below.

Schedule of Leases and Debt

The District incorrectly reported its outstanding debt as notes and loans payable instead of general obligation bonds in the AFR filed for each year of the audit period.

The District made a principal payment of \$40,125 in 2019 but did not report the amount as reductions in the AFR. The District overstated the reductions reported in its 2020, 2021, and 2022 AFRs by \$36,748, \$36,033, and \$35,307, respectively, and understated the reductions reported in its 2023 AFR by \$8,581. Accordingly, the ending principal balance reported each year was incorrect.

The District understated the principal due within one year reported in its 2019 AFR by \$40,827, and overstated the principal due within one year reported in its 2020, 2021, and 2022 AFRs by \$36,033, \$19,829, and \$19,088, respectively. The District incorrectly reported the entire remaining principal balance of \$1,546,686 as the principal due within one year in its 2023 AFR when the bond does not mature until 2056, resulting in an overstatement of \$1,502,925.

The District chose to omit the Schedule of Leases and Debt from its Financial Statements Audit Report.

FREELANDVILLE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

Schedule of Payables and Receivables

The District did not report any accounts receivable at December 31, 2020, and did not report any accounts payable as of December 31, 2021, 2022, and 2023, which did not agree with the documentation provided for review. The unreported amounts were all immaterial.

Criteria

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

ADOPTION OF, AND TRAINING ON, INTERNAL CONTROL STANDARDS

Similar comments also appeared in prior Reports B52258 and B54402, entitled *MINIMUM LEVEL OF INTERNAL CONTROLS* and *INTERNAL CONTROLS - TRAINING*.

Condition and Context

The minutes from the April 2020 District Board meeting indicated that internal control standards were adopted, but there was no formal documentation presented for review to verify what those standards were or that they met the acceptable minimum level of internal control standards as defined by the Indiana State Board of Accounts.

Additionally, the District did not provide any evidence for review that District employees whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belonged to the District had received training over internal control standards that was developed or approved by the Indiana State Board of Accounts.

Criteria

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

FREELANDVILLE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The District certified in its Annual Financial Reports for 2019-2023 submitted in the Indiana Gateway for Government Units financial reporting system that it had adopted the minimum internal control standards as required by Indiana Code 5-11-1-27(e) and that personnel defined by Indiana Code 5-11-1-27(c) received training concerning the internal control standards adopted by the District. The April 2020 District Board minutes indicated that internal control standards were adopted, but no evidence was provided as to what those standards were or that they met the minimum level required. Additionally, there was no evidence that the required personnel had completed the training concerning internal control standards.

Criteria

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. 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](#)."

MATERIALITY THRESHOLD

The same comment also appeared in prior Reports B52258 and B54402.

Condition and Context

The District had not established a materiality threshold for reporting irregular variances, losses, shortages, and thefts as required by the State Examiner.

Criteria

In general, each political subdivision must develop their own policy on materiality because the causes of irregular variances, losses, shortages, and thefts are as broad and varied as the political subdivisions in which the incidents occur. . . .

Political subdivisions must recognize that variances, losses, shortages, and thefts may occur. If an incident occurs, it is imperative that the political subdivision have a policy that outlines the steps to be taken. Such a policy must include a materiality threshold at which point the political subdivision reports incidents to the State Board of Accounts.

The policy must be detailed, and it is essential that materiality thresholds distinguish between incidents involving cash and other types of assets. The policy needs to address maintenance of documentation and resolution of incidents that do not meet the materiality threshold.

FREELANDVILLE REGIONAL SEWER DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

The policy must also consider Ind. Code § 5-11-1-27(l), which requires public officials who have actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds to immediately send written notice of the misappropriation to the State Board of Accounts and the prosecuting attorney. There is *no* materiality threshold applicable to Ind. Code § 5-11-1-27(l). Thus, whenever a political subdivision has actual knowledge or is reasonably certain that a misappropriation of public funds has occurred (regardless of the dollar amount), the political subdivision must send written notice of the misappropriation to the State Board of Accounts and the local prosecuting attorney. Misappropriation occurs when an employee or in-house contractor of the political subdivision wrongly takes or embezzles public funds. When there is a known misappropriation or embezzlement of public funds by an internal actor, materiality is irrelevant. Indiana law requires the political subdivision to report the activity to the State Board of Accounts and the local prosecutor. Ind. Code § 5-11-1-27(l).

If a political subdivision does not develop a policy on materiality, then the threshold is \$0.00 and the political subdivision is required to report *all* irregular variances, losses, shortages, and thefts to the State Board of Accounts. . . .

(Amended State Examiner Directive 2015-6)

COMPENSATION AND BENEFITS

Condition and Context

The District had one paid employee that received compensation and benefits throughout the audit period. The District Board did not adopt a salary ordinance, resolution, or salary schedule establishing the employee's compensation and benefits for any year of the audit period.

In 2021, 2022, and 2023, in addition to the employee's regular salary, the District also made monthly Health Reimbursement Arrangement (HRA) payments directly to the employee. Under Internal Revenue Service (IRS) regulations, the District was only allowed to contribute funds to an HRA account for the employee's use or to reimburse the employee for allowed medical expenses paid by the employee. Additionally, the District had not established a formal HRA plan as required by the IRS. Accordingly, these payments could constitute a taxable fringe benefit, and the IRS should be contacted for further guidance.

Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

FREELANDVILLE REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 2, 2024, with Jayne Ann Beeman, Office Manager, and Curt Kixmiller, President of the District Board.

The contents of this report were also discussed via telephone on October 4, 2024, with Scott Page, Treasurer.