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February 5, 2020

Board of Trustees  
Newton County Regional Water and Sewer District  
P.O. Box 219  
Morocco, IN 47963

This report is supplemental to the audit report of the Newton County Regional Water and Sewer District (District), for the period from January 1, 2018 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Examination Findings that pertain to the District. It should be read in conjunction with the financial statement audit report of the District, which provides an opinion on the District's financial statements. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

As authorized under Indiana Code 5-11-1, we engaged private examiners under our review to perform the audit of the District and perform procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Examination Findings and Results contained herein describe the identified reportable instances of noncompliance found as a result of these procedures.

We have reviewed the Supplemental Audit Report for Newton County Regional Water and Sewer District prepared by Crowe LLP, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. In our opinion, the Supplemental Audit Report was prepared in accordance with the guidelines established by the State Board of Accounts.

We call your attention to the findings in the report. Pages 3 through 5 contain eight Examination Findings and Results. Management's response may be found on pages 7 through 10.

The report is filed with this letter in our office as a matter of public record.

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

**COMPLIANCE EXAMINATION OF  
NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT**

Newton County, Indiana  
January 1, 2017 to December 31, 2018

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
Newton County, Indiana  
January 1, 2017 to December 31, 2018

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NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF OFFICIALS  
January 1, 2017 to December 31, 2018

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<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherri Rainford	01-01-17 to 12-31-18
President of the Board	Randy Decker	01-01-17 to 12-31-18

## INDEPENDENT ACCOUNTANT'S REPORT

To the Indiana State Board of Accounts and  
Management of Newton County Regional Water and Sewer District

We have examined Newton County Regional Water and Sewer District's ("Unit") compliance with the Indiana State Board of Accounts' *Accounting and Uniform Compliance Guidelines Manual For Special Districts* during the period January 1, 2017, to December 31, 2018. Management of the Unit is responsible for the Unit's compliance with the specified requirements. Our responsibility is to express an opinion on the Unit's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Unit complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Unit complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our qualified opinion.

Our examination does not provide a legal determination on the Unit's compliance with specified requirements.

Our examination disclosed material noncompliance with the *Accounting and Uniform Compliance Guidelines Manual For Special Districts* applicable to the Unit during the period January 1, 2017 to December 31, 2018, as described in items 2018-001 through 2018-008 on the following Schedule of Examination Findings and Results.

In our opinion, except for the material noncompliance described in the preceding paragraph, the Unit complied, in all material respects, with the aforementioned requirements during the period January 1, 2017 to December 31, 2018.

The Unit's responses to the findings identified in our examination are described in the accompanying Schedule of Examination Findings and Results. The Unit's responses were not subjected to the procedures applied in the examination of compliance and, accordingly, we express no opinion on them.

  
Crowe LLP

Indianapolis, Indiana  
January 23, 2020, except for finding 2018-004, which is dated August 18, 2020

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF EXAMINATION FINDINGS AND RESULTS  
January 1, 2017 to December 31, 2018

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**FINDING 2018-001: CONDITION OF RECORDS**

**Criteria:** Chapter 1 of the Accounting and Uniform Compliance Guidelines Manual states in part, *"At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee."*

**Condition:** During testing, we noted the Unit did not record on the 2017 AFR \$6,147,709 of state revolving fund receipts received in 2017 and \$4,710,506 of state revolving fund expenditures disbursed in 2017.

**FINDING 2018-002: SEGREGATION OF DUTIES**

**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: *"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. . . ."*

**Condition:** During testing, we noted that the Unit did not have adequate segregation of duties in the cash receipts cycle as the Treasurer performs all billing and cash collection activities.

**FINDING 2018-003: BANK ACCOUNT RECONCILIATION REVIEW**

**Criteria:** 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."

**Condition:** During testing, we noted the Unit did prepare bank reconciliations on at least a monthly basis. However, we noted no formal review process over these reconciliations.

**FINDING 2018-004: INTERNAL CONTROLS- SEFA**

**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: *"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. . . ."*

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NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF EXAMINATION FINDINGS AND RESULTS  
January 1, 2017 to December 31, 2018

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**Condition:** During testing, we noted that the Unit did not meet the minimum standards of internal control. Specifically, the Unit did not have any policies or formally review the preparation of the Schedule of Federal Expenditures. The initial SEFA prepared by the unit did not include \$2,544,803 worth of EDA funds received in 2018.

**FINDING 2018-005: FEES**

**Criteria:** Chapter 1 of the Accounting and Uniform Compliance Guidelines Manual states in part, *"Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained."*

**Condition:** During testing of receipts, we noted 13 instances, in a sample of 20, where the rate charged to the customer did not agree to ordinance. The Unit did not update the rates in the billing system for the semi-annual rate increases specified in the sewer rate ordinance beginning in January 2017. The unit corrected the rates being used in the billing system in November 2019 to match the rate on the ordinance.

**FINDING 2018-006: MINIMUM LEVEL OF INTERNAL CONTROLS**

**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: *"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. . . ."*

**Condition:** During testing, we noted that the Unit did not meet the minimum standards of internal control. Specifically, the Unit has no formal documentation of the implementation of a minimum level of internal controls standards.

**FINDING 2018-007: MATERIALITY THRESHOLD**

**Criteria:** SBOA State Examiner Directive 2015-6 requires political subdivisions to develop a materiality threshold policy approved through ordinance or resolution and policies and procedures to administer and report.

**Condition:** During testing, we noted that the Unit had not adopted a materiality threshold during the year ended December 31, 2017. The Unit adopted a materiality threshold on March 14, 2018.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
SCHEDULE OF EXAMINATION FINDINGS AND RESULTS  
January 1, 2017 to December 31, 2018

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**FINDING 2018-008: OVERDRAWN CASH BALANCES**

**Criteria:** Chapter 1 of the Accounting and Uniform Compliance Guidelines Manual states in part, *“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 unit.”*

**Condition:** During testing, we noted the Plant-1 Water Utility Operating fund with a cash balance below zero.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT  
EXIT CONFERENCE  
January 1, 2017 to December 31, 2018

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The contents of this report were discussed on December 18, 2019 and August 17, 2020, with the officials acknowledged the findings. The Official Response has been made a part of this report and may be found immediately following the findings on the previous page.



# Newton County Regional Water & Sewer

Indiana State Board of Accounts  
302 W. Washington St., Room E-418  
Indianapolis, IN 46204-2765

RE: Newton County Regional Water and Sewer District  
2017-2018 Examination  
Official Response

To Whom It May Concern:

The Newton County Regional Water and Sewer District ("District") is pleased to learn that the third party auditor (i.e. Crowe) engaged by the State Board of Accounts ("SBOA") issued an "unmodified" opinion with respect to the District's financial statements – meaning the District's financing records fairly presented, in all material respects, the finances and results of operations of the District during the audited periods. I take great pride in maintaining thorough and accurate financial records on behalf of the District. The third party auditor did, however, present a number of findings to which the Board of Trustees for the District ("Board") wanted to respond. Please find outlined below the Board's response to each finding.

Contact Person Responsible for Corrective Action: Sherri Rainford  
Contact Phone Number: 219-285-2070

## I.

### **FINDING: 2018-01 Condition of Records**

Description of Corrective Action Plan:

In March 2018, the District retained the independent financial advisory firm, H.J. Umbaugh & Associates ("Umbaugh"), to physically establish funds in the District's new Keystone software program. At the time that Umbaugh was retained, the books were already closed for 2017 and the annual report had been submitted. Accordingly, Umbaugh was forced to enter the 2017 financial records with a January 1, 2018 date. This anomaly was due to the timing of the purchase of the Keystone software and the retention of a professional financial advisory firm. The District views this as a one-time problem that has since been corrected.



# Newton County Regional Water & Sewer

## II.

### **FINDING: 2018-002 Segregation of Duties**

#### Description of Corrective Action Plan:

The District has a total of twelve (12) customers. Consequently, the District has limited funds, resources, and employees which make it difficult to have a certain level of segregation of duties. Even with its limited resources, the District forwards a copy of its monthly Gateway financial filings to an independent financial advisory firm (i.e. Umbaugh) for review and use in the preparation of quarterly financial reports. Absent additional customers and financial resources, the District is limited in this regard. Nonetheless, the District will continue to explore and consider alternatives for achieving greater separation of duties.

## III.

### **FINDING: 2018-003 Bank Account Reconciliation Review**

#### Description of Corrective Action Plan:

The District has a total of twelve (12) customers. Consequently, the District has limited funds, resources, and employees which makes it difficult to have a certain level of independent review of its reconciliations. Even with its limited resources, the District: (i) reconciles its public funds each month; (ii) (the Board) reviews and approves (on a monthly basis) all claims in a public meeting; and (iii) sends the District's monthly receipts, bank statements, and billings to an accounting independent firm (i.e. Umbaugh) for review and preparation of quarterly financials. Absent additional customers and financial resources, the District is limited in this regard. Nonetheless, the District will continue to explore and consider alternatives for having additional reconciliation review.

## IV.

### **FINDING: 2018-004 Internal Controls -SEFA**

#### Description of Corrective Action Plan:

The District has a total of twelve (12) customers. Consequently, the District has limited funds, resources, and employees which makes it difficult to have a certain level of internal controls. Even with its limited resources, the District consulted with its independent financial advisory firm in the preparation of the SEFA. Based on advice from this firm, the District completed the SEFA. The Board now understands that the SBOA's opinion on this issue and the District will prospectively complete the SEFA consistent with this opinion.



# Newton County Regional Water & Sewer

## V.

### **FINDING: 2018-005 Fees**

#### Description of Corrective Action Plan:

The District retained a well-known, utility billing software company, Keystone, to incorporate all rate changes into the District's billing software. Unfortunately, the independent software company failed to incorporate the correct rates into the District's billing software. In November, 2019, the District discovered the error, and immediately contacted Keystone. Keystone immediately incorporated the correct charges in the District's billing program, and all rates are current at this time.

## VI.

### **FINDING: 2018- 006 Minimum Level of Internal Controls**

#### Description of Corrective Action Plan:

The District has a total of twelve (12) customers. Consequently, the District has limited funds, resources, and employees which makes it difficult to have a certain level of internal controls. In its finding, the third party auditor stated that the District has no formal documentation of the implementation of a minimum level of internal controls. The District would note, however, that on March 14, 2018, the District adopted Resolution No. 2018-14, a Resolution Adopting Internal Control Standards and Procedures. For the SBOA's convenience, a copy of the Resolution is attached to this official response. Because the District has adopted Resolution No. 2018-14, the District disagrees with this finding.

## VII.

### **FINDING: 2018-007 Materiality Threshold**

#### Description of Corrective Action Plan:

This finding concerns the District's decision to not adopt a material threshold policy for the year ended December 31, 2017. A "materiality threshold" relates to the amount at which a governmental unit needs to report a discrepancy in funds to the SBOA. Under Indiana law, "all erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property shall be immediately reported to the State Board of Accounts." Indiana Code § 5-11-1-27(j). However, the SBOA, through Directive 2015-6, allows political subdivisions to adopt materiality thresholds to avoid reporting all discrepancies. For example, a unit that adopts a materiality threshold of \$10,000 would not be required under the Directive to report financial discrepancies below that amount. Yet the Directive also contemplated that a unit may not adopt a materiality policy, in which case the threshold is zero dollars. ("If a political subdivision does not develop a policy on materiality, then the threshold is zero dollars and the political subdivision is required to report all irregular variances, losses, shortages, and thefts to the State Board of Accounts.") The District has not had any discrepancies in its finances and has therefore not been required to report any discrepancies to the SBOA. The District disagrees with this finding to the



# Newton County Regional Water & Sewer

extent it suggests that the District is prohibited from maintaining a materiality threshold of zero dollars. Nevertheless, the District has adopted a materiality threshold in Resolution No. 2018-14 which is attached to this official response.

## VIII.

### **FINDING: 2018-008 Overdrawn Cash Balances**

Contact Person Responsible for Corrective Action: Sherri Rainford  
Contact Phone Number: 219-285-2070

#### Description of Corrective Action Plan:

In 2016, the District began construction of new, significantly expanded sewer and water facilities. Upon completion of the facilities, but before the requisite rates and charges could be collected, the District had a negative cash balance in its water operating account. This issue was simply a timing problem. The District has since billed and collected fees which allow it to retain the appropriate balances within its water operating account.

Respectfully submitted,

Sherri Rainford, Financial Officer for the  
Newton County Regional Water and Sewer District