

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

FEDERAL COMPLIANCE AUDIT REPORT
OF
NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT
NEWTON COUNTY, INDIANA
January 1, 2019 to December 31, 2019



FILED
09/30/2020

Reissued November 16, 2020, to correct the 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, the Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance, the Schedule of Expenditures of Federal Awards, and the Schedule of Findings and Questioned Costs.

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
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>	3-4
Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	5-7
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards	10
Notes to Schedule of Expenditures of Federal Awards.....	11
Schedule of Findings and Questioned Costs.....	12-15
Auditee-Prepared Documents:	
Summary Schedule of Prior Audit Findings.....	18-21
Corrective Action Plan	22-23
Other Reports.....	24

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherrri Rainford	01-01-19 to 12-31-20
President of the Board	Randy Decker	01-01-19 to 12-31-20



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 NEWTON COUNTY REGIONAL WATER
AND SEWER DISTRICT, NEWTON COUNTY, INDIANA

We have audited, 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 Newton County Regional Water and Sewer District (District), for the year ended December 31, 2019, and the related notes to the financial statement, which collectively comprise the District's financial statement and have issued our report thereon dated September 22, 2020, wherein we noted the District followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the District's 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 District's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, that we consider 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 District's 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 audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Newton County Regional Water and Sewer District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

September 22, 2020, except for the Schedule of Expenditures
of Federal Awards, for which the date is November 2, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF THE NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT, NEWTON COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Newton County Regional Water and Sewer District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2019. The District's 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 District's 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 District's compliance.

Opinion on the Major Federal Program

In our opinion, the District 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 year ended December 31, 2019.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Internal Control over Compliance

Management of the District 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 District's 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 the Uniform Guidance, 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 District's internal control over compliance.

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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

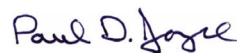
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the District, as of and for the year ended December 31, 2019, and the related notes to the financial statement. We issued our report thereon dated September 22, 2020, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.


Paul D. Joyce, CPA
State Examiner

November 2, 2020

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2019

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	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Environmental Protection Agency</u>					
Clean Water State Revolving Fund Cluster Capitalization Grants for Clean Water State Revolving Funds SRF	Indiana Finance Authority	66.458	FY 2019	\$ -	\$ 4,093,452
Total Clean Water State Revolving Fund Cluster				-	4,093,452
Total - Environmental Protection Agency				-	4,093,452
Total federal awards expended				\$ -	\$ 4,093,452

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the District under programs of the federal government for the year ended December 31, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the District, it is not intended to and does not present the financial position of the District.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

Note 2. Indirect Cost Rate

The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	no

Identification of Major Program and type of auditor's report issued on compliance for it:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Clean Water State Revolving Fund Cluster	Unmodified
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

FINDING 2019-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding numbers were 2018-002 and 2018-003.

Condition and Context

There was a deficiency in the internal control system of the District related to financial transactions and reporting. The District had not designed or implemented proper segregation of duties related to cash and investments and receipts.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cash and Investments

The District did not have any controls in place to ensure that cash and investments were properly reconciled to the bank accounts. The District properly completed all bank reconciliations; however, there was no evidence that another employee reviewed or approved the reconciliations.

Receipts

The District had not designed or implemented proper segregation of duties related to receipts. There was no formal review of receipts that were posted or deposited. One employee issued and recorded receipts without evidence of an oversight or approval process to ensure the accuracy and classification of the receipts to the proper fund and account.

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

Cause

Management of the District had not established or implemented a proper system of internal controls that segregated key functions.

Effect

The failure to properly establish a system of internal controls could have enabled misstatements or irregularities to remain undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2019-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2018-004.

Condition and Context

The District did not have an effective system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The financial manager prepared and submitted the federal grant information into the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA, without an oversight or review process.

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. . . ."

Cause

Management had not established a system of internal control to ensure proper reporting of the SEFA.

Effect

The failure to establish and implement effective internal controls could have enabled material mis-statements to go undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

NEWTON COUNTY REGIONAL WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III - Federal Award Findings and Questioned Costs

No matters are reportable.

(This page intentionally left blank.)

AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the District. The documents are presented as intended by the District.



Newton County Regional Water & Sewer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-001 Condition of Records

Fiscal year in which the finding initially occurred: 2018
Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-863-3696

Status of Audit Finding: Umbaugh had to go in and enter 2017 with a 2018 date because the books were closed already, and the software was not purchased. That will not happen again due to all accounts being set up correctly and software purchased.



Newton County Regional Water & Sewer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-002 Segregation of Duties

Fiscal year in which the finding initially occurred: 2018
Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-863-3696

Status of Audit Finding: We are a small operation. We are exploring options that will not cause the District to spend a lot of money. We are looking into hiring someone part time to do billing and to help with other office responsibilities.



Newton County Regional Water & Sewer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-003 Bank Account Reconciliation Review

Fiscal year in which the finding initially occurred: 2018
Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-863-3696

Status of Audit Finding: We have the Board Secretary look over the monthly bank statements and initial in the corner of the bank statement. We did not have the opportunity to implement this in 2019. We will be working on this going forward.



Newton County Regional Water & Sewer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-004 Internal Controls-SEFA

Fiscal year in which the finding initially occurred: 2018
Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-863-3696

Status of Audit Finding: For the 2020 SEFA we will have Baker & Tilley prepare the SEFA and the District will review and upload to Gateway.

PO Box 219 ▪ Morocco IN 47963 ▪ Office: 219.285.2070
Sherri Rainford, Financial Clerk: moroccoclerk@rhsi.tv



Newton County Regional Water & Sewer

CORRECTIVE ACTION PLAN

FINDING 2019-001

Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-863-3696

Views of Responsible Official: I concur with the auditor's findings.

Description of Corrective Action Plan: We will hire Baker and Tilley to prepare the financial report and the District will upload it to Gateway. Also, the Board will be more involved with signing off on monthly reports and bank reconciliations.

Anticipated Completion Date: December 2020

PO Box 219 ▪ Morocco IN 47963 ▪ Office: 219.285.2070
Sherri Rainford, Financial Clerk: moroccoclerk@rhsi.tv



Newton County Regional Water & Sewer

CORRECTIVE ACTION PLAN

FINDING 2019-002

Contact Person Responsible for Corrective Action: Sherri Rainford
Contact Phone Number: 219-863-3696

Views of Responsible Official: I concur with the auditor's findings.

Description of Corrective Action Plan: After speaking with our District Attorney, Chris Janak, we will have Baker and Tilley prepare the SEFA and I will review it and have the Board President sign off on the SEFA.

Anticipated Completion Date: December 2020

PO Box 219 ▪ Morocco IN 47963 ▪ Office: 219.285.2070
Sherri Rainford, Financial Clerk: moroccoclerk@rhsi.tv

OTHER REPORTS

In addition to this report, other reports may have been issued for the District. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.