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

Paul D. Joyce, CPA
State Examiner

SUPPLEMENTAL COMPLIANCE REPORT

OF

JENNINGS NORTHWEST REGIONAL UTILITIES DISTRICT

JENNINGS COUNTY, INDIANA

January 1, 2023 to December 31, 2023

FILED
07/03/2025

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SCHEDULE OF OFFICIALS

Office	Official	Term
Treasurer	Michael Gerth	01-01-23 to 12-31-25
Utility Manager	Andrew Klescht	01-01-23 to 12-31-25
President of the District Board	Brian Hatfield	01-01-23 to 12-31-25

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

This report is supplemental to the audit report of the Jennings Northwest Regional Utilities District (District), for the period from January 1, 2023 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

Beth Kelley, CPA, CFE
Deputy State Examiner

June 17, 2025

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B52443, entitled *FINDING 2018-001: SEGREGATION OF DUTIES.*

Condition and Context

There were several deficiencies in the internal control system of the District related to financial transactions and reporting. Internal control activities, an integral part of which is segregation of duties, should be in place to reduce the risks of errors in financial recording and reporting. The District had not separated incompatible activities related to cash and investments and receipts. The failure to establish a proper system of internal controls could enable material misstatements or irregularities to occur and remain undetected.

Cash and Investments

We were unable to verify the internal controls over the cash and investments of the District for the audit period. The established internal control was for monthly depository reconciliations to be prepared by a third-party consulting firm and reviewed by the District governing board; however, the monthly depository reconciliations retained for audit did not present any evidence of an oversight, review, or approval process.

Receipts

The District had not established internal controls over receipts. There was no segregation of duties such as an oversight, review, or approval process over receipts.

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. . . ."

INTERNAL CONTROLS

Condition and Context

Internal controls were not in place to ensure the District complied with laws and regulations. Internal control deficiencies resulted in noncompliance with the following areas and are detailed further in the comments below:

- Annual Financial Report
- Proper Fund Use
- Timely Payment of Debt
- Receipt Issuance
- Adoption of Internal Control Standards
- Training on Internal Control Standards
- Certification on Internal Control Standards
- Annual Uploads
- Compensation and Benefits
- Supporting Documentation
- Capital Assets
- Materiality Threshold
- Official Bond

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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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. . . ."

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B52443, entitled *FINDING 2018-010: 2013-2016 ANNUAL FINANCIAL REPORTS.*

Condition and Context

The Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system. This is the source of the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the District. The information submitted in the AFR included the following errors:

Leases and Debt

The District incorrectly reported the Waterworks Refunding Revenue Bonds of 2005 ending principal balance and principal balance due within one year, which resulted in an understatement by $10,366 and overstatement by $37,200, respectively.

Adjustments were proposed, accepted by the District and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report of the District and the AFR.

Capital Assets

Capital assets totaling $4,859,706 were reported in the AFR; however, the District did not perform a physical inventory during the audit period. No additions or deletions had been recorded since 2005. The accuracy of the detailed capital asset listing could not be determined.

The District approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report of the District.

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."

PROPER FUND USE

Condition and Context

During the audit period, the District did not maintain a funds ledger (Ledger of Receipts, Disbursements and Balances, Form 358), and, therefore, did not post receipt and disbursement activity to the proper funds. The District did not properly utilize fund accounting. The financial activity reported was based on a financial activity report prepared by the contracted financial consultant. The financial activity report was prepared after the fact by abstracting information from the billing software for receipt activity and check registers for disbursement activity. In some instances, disbursements were allocated based on a fixed percentage between water and wastewater utilities and no allocation io individual funds within the water and wastewater utilities was made.

The District was to establish individual funds and accounts in connection with issuance of Sewage Works Revenue Bonds of 2008 per Ordinance 2009-1. These funds were to be the Revenue Fund; Operation and Maintenance Fund; Utility Sinking Fund; Utility Improvement Fund Bond and Interest Account; and Reserve Account.

Criteria

Indiana Code 13-26-7-1 states: "Each district must keep proper records showing the district's finances."

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

The district is encouraged to use the chart of accounts and accounting system prescribed by the State Board of Accounts for use by municipal utilities as outlined in Chapter 14 of the Accounting and Compliance Guidelines Manual for Special Districts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 3)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

TIMELY PAYMENT OF DEBT

Condition and Context

The District authorized by ordinance the issuance of Waterworks Refunding Revenue Bonds of 2005 (Bonds). Between 2018 and 2022, the District made no payments on the Bonds and, based on the original debt service schedule for the Bonds, the debt should have been paid in full September 2022.

During 2023, a verbal agreement between the lender and the District was entered into, which included annual payments of approximately $120,000 to be made through September 2027. The Bonds of had an outstanding principal balance as of December 31, 2023 of $550,000.

This could potentially impact the District's ability to secure debt in future periods.

Criteria

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

RECEIPT ISSUANCE

A similar comment also appeared in prior Report B52443, entitled *FINDING 2018-002: RECEIPT SUPPORTING DOCUMENTATION.*

Condition and Context

The District's financial activity records were prepared by a third-party consulting firm using financial software. The third-party firm's financial software did not include receipt numbers for all transactions, and Receipt Forms 352 were not issued by the District at the time monies were received.

Criteria

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

ADOPTION OF INTERNAL CONTROL STANDARDS

The same comment appeared in prior Report B52443, entitled *FINDING 2018-007: MINIMUM LEVEL OF INTERNAL CONTROLS.*

Condition and Context

The District had not adopted the acceptable minimum level of internal control standards as defined by the Indiana State Board of Accounts.

Criteria

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

"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; . . ."

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Employees of the District whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belonged to the District had not 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 in part:

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

(2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The District certified on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards adopted by the District; however, the acceptable minimum level of internal control standards as defined by the Indiana State Board of Accounts had not been adopted, and training had not been provided to necessary employees and officials.

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 UPLOADS

Condition and Context

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The District did not comply with the State Examiner Directive and failed to upload a portion of the required annual files on the Indiana Gateway for Government Units financial reporting system. The annual files not uploaded by the District were a detail of receipt for the year by fund and account, detail of disbursements for the year by fund and account, salary ordinance (or schedule) and amendments, and an annual funds ledger.

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021, and Updated October 30, 2023, effective with the December 2023 monthly uploads due February 15, 2024 and the 2023 annual uploads due March 1, 2024)

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)

COMPENSATION AND BENEFITS

Condition and Context

The District paid employees that were not included in a labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body. Of the 32 payroll disbursements tested for the audit period, 5 employees hired during the audit period were not included in a labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body.

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)

SUPPORTING DOCUMENTATION

Condition and Context

The District made purchases for which supporting documentation could not be provided. Of the 49 disbursement transactions tested for the audit period, 4 did not have supporting documentation, including either Municipal Water Utility Accounts Payable Vouchers Form 301 or Municipal Sewage Utility Accounts Payable Vouchers Form 301S or invoices. The 4 disbursements identified for which no supporting documentation was provided totaled $12,652. All 4 disbursements were ACH payments to either the billing software vendor or to the Indiana Department of Revenue for sales tax remittance.

Criteria

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

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

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

(1) there is a fully itemized invoice or bill for the claim;

(2) the invoice or bill is approved by the officer or person receiving the goods and services;

(3) the invoice or bill is filed with the governmental entity's fiscal officer;

(4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and

(5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

CAPITAL ASSETS

Condition and Context

The District had not properly maintained a complete inventory of capital assets owned. No proof indicating a capital asset physical inventory had been conducted during the last two years was provided. Additionally, no additions and deletions to the capital asset listing had been made in over ten years. The District confirmed that timely recording of asset additions and deletions have not been made to the detailed capital asset listing.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

MATERIALITY THRESHOLD

The same comment appeared in prior Report B52443, entitled *FINDING 2018-006: MATERIALITY THRESHOLD.*

Condition and Context

The District had not adopted a materiality threshold during the engagement period.

SBOA State Examiner Directive 2015-6 requires political subdivisions to develop a materiality threshold policy approved through an ordinance or resolution.

Criteria

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)

OFFICIAL BOND

The same comment appeared in prior Report B52443, entitled *FINDING 2018-008: OFFICIAL BOND.*

Condition and Context

The District did not meet the requirements of Indiana Code 13-26-2-10 with respect to surety bond requirements.

Criteria

Indiana Code 13-26-2-10 states in part:

". . . the commissioner shall issue an order directing that the district be established . . .

(b) An order must do the following: . . .

(2) provide requirements for sufficient bonds for all officers, trustees, or employees having power to dispense money of the district. . . ."

JENNINGS NORTHWEST REGIONAL UTILITIES DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on June 17, 2025, with Andrew Klescht, Utility Manager; Brian Hatfield, President of the District Board; Marshall Jenkins, Vice President of the District Board; Michael Gerth, Secretary/Treasurer; Judi Johnson-Stevens, District Board member; and Kayla Zimmerman, Regional Utilities District Attorney.