

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NEWPORT

VERMILLION COUNTY, INDIANA

January 1, 2012 to December 31, 2013



FILED
11/21/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Alice Bemis	01-01-11 to 12-31-14
President of the Town Council	James Sutliff	01-01-12 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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TO: THE OFFICIALS OF THE TOWN OF NEWPORT, VERMILLION COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Newport (Town), for the period from January 1, 2012 to December 31, 2013. 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 Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town'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 Results and Comments 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 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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

October 2, 2014

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CLERK-TREASURER
TOWN OF NEWPORT

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS

**FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the Town 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 Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The Clerk-Treasurer posts the ledger, makes deposits, and reconciles the bank account. The billing clerk calculates and prepares bills, posts payments to customer accounts, and reconciles the bank account. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statement and then determining how those identified risks should be managed. The Clerk-Treasurer prepares and submits the annual financial report in the Gateway system without review by another person prior to submission. The annual financial report is used to compile the Town's financial statement. The Town 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 and correct, material misstatements, including notes to the financial statement.

3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town 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 Town has no process to identify or communicate corrective actions to improve controls.

The sewer construction project funds were omitted from the Town's financial statement and ledger. With approval of the management of the Town, the following funds have been added to the financial statement:

Fund	2012			
	Beginning Balance	Receipts	Disbursements	Ending Balance
Construction Fund	\$ -	\$ 200,163	\$ 187,517	\$ 12,646

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

2013					
Fund	Beginning Balance	Receipts	Disbursements	Ending Balance	
USDA Rural Development	\$ -	\$ 2,020,209	\$ 1,747,888	\$ 272,321	
Construction Fund	12,646	6,170	18,752	64	
SRF	-	600,000	600,000	-	
OCRA CDBG	-	165,660	125,470	40,190	

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 Cities and Towns, Chapter 7)

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. 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."

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE OVER
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The Town 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 SEFA was prepared by the Clerk-Treasurer without an additional review by someone other than the Clerk-Treasurer. The Town 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 the following errors: the ARRA - Capitalization Grants for Clean Water State Revolving Fund and Water and Waste Disposal Systems for Rural Communities were omitted from the schedule. Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

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.

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

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 Cities and Towns, Chapter 7)

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 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."

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

FINDING 2013-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES AND CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number and Year (or Other Identifying Number): 15-083-410-141-744, FY 2013

Federal Agency: Environmental Protection Agency
Federal Program: ARRA - Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW11128301, FY 2013
Pass-Through Entity: Indiana Finance Authority

Management of the Town 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 on the programs. This includes the following compliance requirements: Activities Allowed; Allowable Costs; Cash Management; Davis-Bacon Act; Period of Availability; Procurement and Suspension and Debarment for both programs and Special Tests and Provisions for ARRA - Capitalization Grants for Clean Water State Revolving Funds only. The Grant Administrator performs all of the grant compliance requirements with no review or monitoring by the Town. The funding is neither recorded on the Town's ledger, nor is it reported in the Town's financial statement. The failure to establish an effective internal control system places the Town 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 programs.

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, 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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Town.

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the programs.

FINDING 2013-004 - SPECIAL TESTS AND PROVISIONS

Federal Agency: Environmental Protection Agency
Federal Program: ARRA - Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW11128301, FY 2013
Pass-Through Entity: Indiana Finance Authority

The Town did not set up a fund on their ledger for transactions for this program. The program was also not included on the Schedule of Expenditures of Federal Awards.

American Recovery and Reinvestment Act (ARRA) standards require that ARRA funds should be maintained separately from other funds and that they should be appropriately identified and separately reported on the Schedule of Expenditures of Federal Awards.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (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.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310."

2 CFR 176.210 states in part:

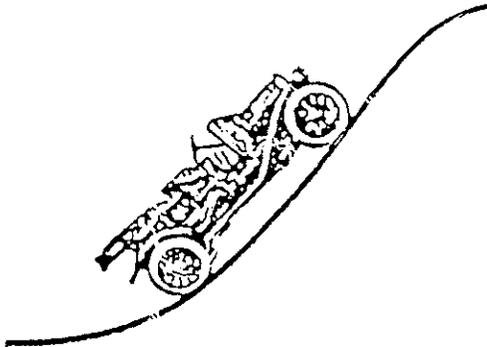
"(a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 'Uniform Administrative Requirements for Grants and Agreements' and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds. OMB Circular A-102 is available at <http://www.whitehouse.gov/omb/circulars/a102/a102.html>.

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

(b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, 'Audits of States, Local Governments, and Non-Profit Organizations,' recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. OMB Circular A-133 is available at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>. This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix 'ARRA-' in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC."

Failure to keep proper records of the grant transactions could result in inaccurate reporting, difficulty in complying with other grant requirements, improper decision-making, and could jeopardize future funding.

We recommended that the Town, in the future, maintain a record of all monies received and disbursed in their ledger, with separate funds set-up for each grant. The Town should also include all Federal programs on the Schedule of Expenditures of Federal Awards.



TOWN *of* NEWPORT, INDIANA.

OFFICE OF THE TOWN BOARD

Home of the Antique Auto Hill Climb

FINDING 2013-001:

- * While segregation of duties would be the desirable procedure, the fact that this unit has only one individual in the position of clerk-treasurer precludes segregation. In the future the president of the town council will periodically review the documents relating to receipts, disbursements, payroll, and cash and investment balances. The clerk-treasurer will periodically review the books of the billing clerk to ensure accuracy.
- * The president of the town council will review the annual financial report prior to its submission.
- * At least annually the town council will review controls for adequacy and make required changes.
- * Ledger will be initiated and completed in accordance with applicable laws and directives.

FINDING 2013-002

SEFA will be prepared by the clerk-treasurer and reviewed and approved by the town council.

FINDING 2013-003

The town council will review grant transactions monthly to ensure compliance. Payments of grant funds currently requires the signature of both the clerk-treasurer and the council president.

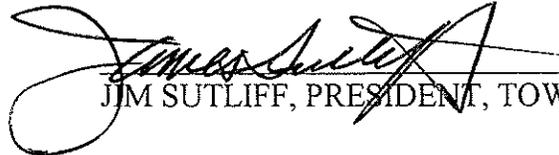
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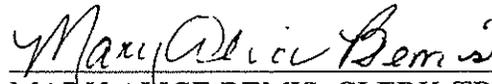
The town will set up a ledger for transactions in this program and ensure that all transactions are currently and accurately entered.

CONTACT PERSON RESPONSIBLE
FOR CORRECTION ACTION:
CONTACT PHONE NO:

MARY ALICE BEMIS
4765-492-3518

ANTICIPATED COMPLETION
DATE: _____


JIM SUTLIFF, PRESIDENT, TOWN COUNCIL


MARY ALICE BEMIS, CLERK-TREASURER

DATE: 9-25-14

CLERK-TREASURER
TOWN OF NEWPORT
AUDIT RESULTS AND COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid penalties and interest to the Indiana Department of Revenue in the amounts of \$94 and \$10, because the Town did not remit Sales Tax and Withholding Tax payments, respectively, on a timely basis.

The Town paid penalties and interest to the Internal Revenue Service in the amount of \$11 because the Town did not remit Payroll Taxes properly.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY RECEIPTS TAX

The Town did not comply with directives of the Indiana Department of Revenue. Estimated payments for utility receipts tax were not remitted for the third and fourth quarters of 2013. There was no evidence that the Indiana Utility Receipts Tax Return (URT-1) was filed for 2012 or 2013.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF NEWPORT
EXIT CONFERENCE

The contents of this report were discussed on October 2, 2014, with Mary Alice Bemis, Clerk-Treasurer, and James Sutliff, President of the Town Council.

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TOWN COUNCIL
TOWN OF NEWPORT

TOWN COUNCIL
TOWN OF NEWPORT
FEDERAL FINDING

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

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The sewer construction project funds were omitted from the Town's financial statement and ledger. With approval of the management of the Town, the following funds have been added to the financial statement:

TOWN COUNCIL
TOWN OF NEWPORT
FEDERAL FINDING
(Continued)

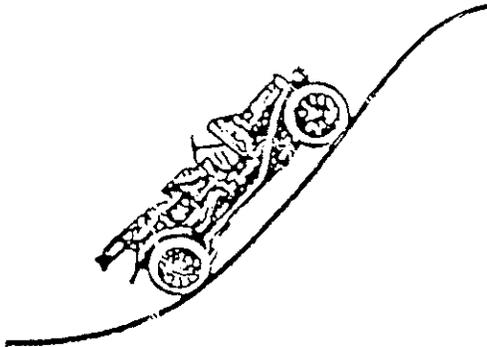
2012				
Fund	Beginning Balance	Receipts	Disbursements	Ending Balance
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TOWN *of* NEWPORT, INDIANA.

OFFICE OF THE TOWN BOARD

Home of the Antique Auto Hill Climb

FINDING 2013-001:

- * While segregation of duties would be the desirable procedure, the fact that this unit has only one individual in the position of clerk-treasurer precludes segregation. In the future the president of the town council will periodically review the documents relating to receipts, disbursements, payroll, and cash and investment balances. The clerk-treasurer will periodically review the books of the billing clerk to ensure accuracy.
- * The president of the town council will review the annual financial report prior to its submission.
- * At least annually the town council will review controls for adequacy and make required changes.
- * Ledger will be initiated and completed in accordance with applicable laws and directives.

FINDING 2013-002

SEFA will be prepared by the clerk-treasurer and reviewed and approved by the town council.

FINDING 2013-003

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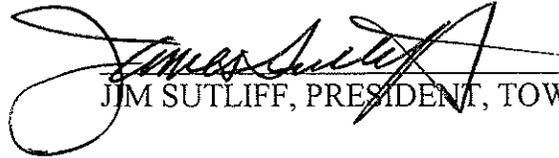
FINDING 2013-004

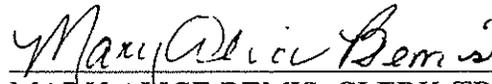
The town will set up a ledger for transactions in this program and ensure that all transactions are currently and accurately entered.

CONTACT PERSON RESPONSIBLE
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JIM SUTLIFF, PRESIDENT, TOWN COUNCIL


MARY ALICE BEMIS, CLERK-TREASURER

DATE: 9-25-14

TOWN COUNCIL
TOWN OF NEWPORT
EXIT CONFERENCE

The contents of this report were discussed on October 2, 2014, with James Sutliff, President of the Town Council.