

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

AUDIT REPORT

OF

TOWN OF NEW RICHMOND

MONTGOMERY COUNTY, INDIANA

January 1, 2009 to December 31, 2010



**FILED**  
08/25/2011



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kathryn Sering	01-01-08 to 12-31-11
President of the Town Council	Jeremy Potter	01-01-09 to 12-31-11
Superintendent of Utilities	Ramon Knutti	01-01-09 to 12-31-11



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF NEW RICHMOND, MONTGOMERY COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of New Richmond (Town), for the years ended December 31, 2009 and 2010. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town for the years ended December 31, 2009 and 2010, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated July 14, 2011, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 14, 2011



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF NEW RICHMOND, MONTGOMERY COUNTY, INDIANA

We have audited the financial statements of the Town of New Richmond (Town), for the years ended December 31, 2009 and 2010, and have issued our report thereon dated July 14, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be material weaknesses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are 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.

The Town's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 14, 2011

FINANCIAL STATEMENT(S)

TOWN OF NEW RICHMOND  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL FUND TYPES  
As Of And For The Years Ended December 31, 2009 And 2010

	Cash and Investments 01-01-09		Receipts		Disbursements		Cash and Investments 12-31-09		Receipts		Disbursements		Cash and Investments 12-31-10	
Governmental Funds:														
General	\$	23,627	\$	102,910	\$	86,060	\$	40,477	\$	114,170	\$	107,957	\$	46,690
Motor Vehicle Highway		11,350		10,467		17,520		4,297		9,832		8,809		5,320
Local Road and Street		5,221		1,645		2,630		4,236		1,681		3,000		2,917
Fire Station/Community Room Donations		509		225		586		148		100		225		23
Park and Recreation		4,154		-		611		3,543		100		-		3,643
Law Enforcement Continuing Education		1,696		240		693		1,243		140		588		795
Excess Levy		741		-		741		-		143		-		143
Rainy Day		-		4,899		-		4,899		15,316		-		20,215
Cumulative Capital Improvement		539		-		-		539		-		-		539
Grant		-		488,567		488,567		-		507,931		492,155		15,776
Lagoon Repair Match		409		-		-		409		-		-		409
Proprietary Funds:														
Water Utility - Operating		27,484		60,080		59,080		28,484		69,705		79,106		19,083
Water Utility - Debt Reserve		10,000		4,174		-		14,174		3,567		-		17,741
Water Utility - Customer Deposit		9,573		3,145		1,817		10,901		2,529		1,962		11,468
Wastewater Utility - Operating		13,640		97,213		107,554		3,299		154,933		143,391		14,841
Wastewater Utility - Debt Reserve		17,300		8,208		-		25,508		5,758		11,000		20,266
Wastewater Utility - Bond and Interest		7,421		11,070		-		18,491		34,703		53,194		-
Sanitation Utility - Operating		-		-		-		-		15,316		11,332		3,984
Totals	\$	<u>133,664</u>	\$	<u>792,843</u>	\$	<u>765,859</u>	\$	<u>160,648</u>	\$	<u>935,924</u>	\$	<u>912,719</u>	\$	<u>183,853</u>

The accompanying notes are an integral part of the schedules.

TOWN OF NEW RICHMOND, MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT(S)

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement(s) present(s) the financial information for the Town (primary government), and does not include financial information for any of the Town's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the Town (primary government).

*B. Basis of Accounting*

The financial statement(s) are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

*C. Cash and Investments*

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

TOWN OF NEW RICHMOND, MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT(S)  
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

TOWN OF NEW RICHMOND, MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT(S)  
(Continued)

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

*F. Interfund Transfers*

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

TOWN OF NEW RICHMOND, MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT(S)  
(Continued)

**Note 4. *Deposits and Investments***

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 5. *Risk Management***

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the Town by recording as a disbursement and replacement items purchased.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town of New Richmond's Annual Report(s) can be found on the Indiana Transparency Portal website: [www.in.gov/itp/annual\\_reports/](http://www.in.gov/itp/annual_reports/).

TOWN OF NEW RICHMOND  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2010

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Case Tractor Mower	<u>\$          10,441</u>	<u>\$          5,795</u>
Business-type activities:		
Wastewater Utility:		
Revenue bonds:		
Bonds of 1999	<u>\$          770,000</u>	<u>\$          46,688</u>

TOWN OF NEW RICHMOND  
OTHER REPORT(S)

The audit report presented herein was prepared in addition to other official report(s) prepared for the individual Town office(s) listed below:

Clerk-Treasurer

TOWN OF NEW RICHMOND  
AUDIT RESULT(S) AND COMMENT(S)

**ERRORS ON CLAIMS**

Two of sixty claims tested did not include an itemized invoice. A similar comment was included in the prior report.

The petty cash claim did not have receipts attached, but they were provided upon request. The receipts for an entire year were in an envelope, rather than being segregated by claim. The check for replenishment was posted entirely to one general fund appropriation rather than allocated to all applicable funds.

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."

**CONDITION OF RECORDS**

The following deficiencies, relating to the recordkeeping that were cited in the prior audit report, were again present during our period of audit:

1. Receipts that should have been posted to the Cumulative Capital Improvement Fund were posted to the General Fund in the amount of \$2,092. Receipts that should have been posted to the Riverboat Fund were posted to the Rainy Day Fund in the amount of \$4,368. Wheel tax/Surtax receipts of \$6,072 were posted to the General Fund rather than the Motor Vehicle Highway Fund.

Utility billing receipts were sometimes posted twice. The postings would have different dates and receipt numbers, but the amount would be the same. The duplicate items were not deposited to the bank. Double postings totaled \$3,813.03, \$1,476.50, and \$251.08 in Water, Wastewater, and Sanitation, respectively. The double postings resulted in the utility receipts being overstated on the ledger.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF NEW RICHMOND  
AUDIT RESULT(S) AND COMMENT(S)  
(Continued)

2. Some transactions were recorded as "negative" receipts and disbursements.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

3. Record balances were not properly reconciled to depository balances during the two year period.

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."

***INTERNAL CONTROLS 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 achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go 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 statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board 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.

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.

TOWN OF NEW RICHMOND  
AUDIT RESULT(S) AND COMMENT(S)  
(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)

**OFFICIAL BOND**

The following official bonds were not filed in the Office of the County Recorder:

Kathryn Sering	January 1, 2009 to January 1, 2010
	January 1, 2011 to January 1, 2012

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

**CAPITAL ASSET RECORDS**

The Town does not maintain a listing of capital assets. A similar comment was included in Report B35411.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**COMPENSATION AND BENEFITS**

Steve Knutti and Tom Kruse received \$3,780 and \$2,210, respectively in payments for 2009 as part-time maintenance workers. The salary ordinance set a cap for this category of \$3,000.

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 statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**AUDIT TRAIL**

The October 1, 2009 billing does not show on the Customer History File. The bills were prepared and the penalties and payments for that month are shown on the customer history.

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the

TOWN OF NEW RICHMOND  
 AUDIT RESULT(S) AND COMMENT(S)  
 (Continued)

original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**HYDRANT RENTAL RECEIVABLE (PAYABLE)**

The Town of New Richmond overpaid the Water Utility hydrant rental by \$150 for the year 2010, pursuant to Resolution 2008-09 passed by the Council on November 10, 2008.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**APPROPRIATIONS**

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Motor Vehicle Highway	2009	<u>\$ 17,520</u>

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

**ORDINANCES AND RESOLUTIONS**

The Town Council passed the Sewage Bond Ordinance of 1999 which requires a monthly transfer from the Wastewater Operating Fund to the Wastewater Bond and Interest Fund and the Debt Reserve Fund (until the required minimum balance is met). The Wastewater Utility failed to make the required transfers to the Bond and Interest Fund and the Debt Reserve Fund. The required minimum balance of the Debt Reserve Fund has not been met, although it was required to be fully funded by 2009.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**CUSTOMER DEPOSIT REGISTER**

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. The detail exceeds the control by \$532.

Interest on the Meter Deposit bank account was not properly transferred to the Operating Fund. The months of February, November, and December 2010 were not transferred by the end of the audit period. A check was written to transfer the months of March through June of 2010, but the check was deposited back into the Meter Deposit account rather than the Operating account.

TOWN OF NEW RICHMOND  
AUDIT RESULT(S) AND COMMENT(S)  
(Continued)

Similar comments were included in the prior report.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***ANNUAL REPORT***

Annual Reports for 2009 and 2010 were presented for audit, but were not in agreement with the ledger. The Clerk-Treasurer uses the Keystone Software program. This program has a feature that imports the data directly into our Annual Report. The Clerk-Treasurer did not have her funds coded properly; therefore, the data was not imported into the Annual Report correctly. The unit printed out fund reports that were used for the financial statements. However, the unit did not provide combining statements with the detail of receipts and disbursements by fund.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

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)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF NEW RICHMOND, MONTGOMERY COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of New Richmond (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2009 and 2010. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Town'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. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2009 and 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Town's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

A deficiency in internal control over compliance 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, 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.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 14, 2011

TOWN OF NEW RICHMOND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2009 and 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-09	Total Federal Awards Expended 12-31-10
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs				
CDBG - State-Administered Small Cities Program Cluster	14.228			
Community Development Block Grant				
		CF-08-107	\$ 471,849	\$ 19,626
		DR2-09-019	-	487,805
Total for program			<u>471,849</u>	<u>507,431</u>
Total for cluster			<u>471,849</u>	<u>507,431</u>
Total for federal grantor agency			<u>471,849</u>	<u>507,431</u>
Total federal awards expended			<u>\$ 471,849</u>	<u>\$ 507,431</u>

The accompanying note(s) are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF NEW RICHMOND  
NOTE(S) TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of New Richmond (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF NEW RICHMOND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statement(s):

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	no
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiency identified?	no
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	CDBG – State-Administered Small Cities Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

**Section II – Financial Statement Findings**

**FINDING 2010-1 - INTERNAL CONTROLS 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 achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.

TOWN OF NEW RICHMOND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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 statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board 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.

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)

We recommended that the Town redistribute assigned duties to provide for better segregation of duties. The Town should analyze and assess the risk of material misstatement of the financial statements and implement controls sufficient to prevent and detect misstatements. The Town Council should examine each claim for propriety and closely monitor financial reports and budgets.

***Section III – Federal Award Findings and Questioned Costs***

***FINDING 2010-2 - Equipment and Real Property Management***

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grant  
CFDA Number: 14.228  
Federal Award Number and Year: FY2009 CF-08-107, FY2010 DR2-09-019  
Pass-Through Entity: Indiana Office of Community and Rural Affairs

The Town and its Water and Wastewater Utilities do not maintain capital asset records for construction-in-progress, equipment or property purchased with Federal or non-Federal monies. Without adequate records, periodic physical inventories cannot be compared to property records. During 2009 and 2010, \$952,572 of monies from the CDBG grant was used to pay for construction, which should be accounted for as construction-in-progress in the unit's capital asset records.

TOWN OF NEW RICHMOND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Pursuant to 24 CFR 85.32(d) *Management requirements*:

"Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

Failure to maintain detailed and accurate equipment and property records and to reconcile physical inventory could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

We recommended that the Town design and properly monitor procedures that would ensure accurate detailed capital asset records are maintained and that inventories of property and equipment and construction-in-progress are conducted at least once every two years and reconciled to the detailed capital asset ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also, any assets acquired with Federal Funds must be designated as such so that they are not disposed of improperly.

TOWN OF NEW RICHMOND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

**TOWN OF NEW RICHMOND**

**110 S Wabash St P O BOX 210**

**New Richmond In 47967-0210**

**765-339-4507 [nrtown@tctc.com](mailto:nrtown@tctc.com) 765-339-7937 (fax)**

**TOWN OF NEW RICHMOND  
CORRECTIVE ACTION PLAN**

Kathy Sering

Section II - Financial Statement Findings

FEDERAL FINDING 2010-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Working with the bank now, to update the corporate compliance sheet to get Chris Patterson added to the bank. Should be completed by the end of July 2011.

Section III - Financial Statement Findings

FEDERAL FINDING 2010-2, Equipment and Real Property Management

Federal Agency: U.S. Department of Housing and Urban Development

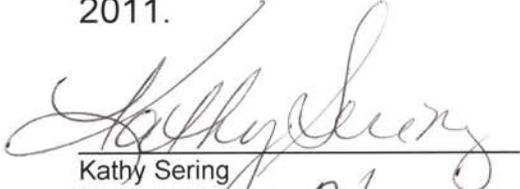
Federal Program: Community Development Block Grant

CFDA Number: 14.228

Federal Award Number and Year: CF-08-107, DR2-09-019

Pass-through Entity: Indiana Office of Community and Rural Affairs

Will work with the Board to compile a list of property and equipment owned by the town, with the goal of completing a capital asset list by the end of 2011.

  
Kathy Sering  
Clerk~Treasurer

7/14/11

TOWN OF NEW RICHMOND  
EXIT CONFERENCE

The contents of this report were discussed on July 14, 2011, with Kathryn Sering, Clerk-Treasurer, and Christopher D. Patterson, Town Board member.