

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NEW CASTLE

HENRY COUNTY, INDIANA

January 1, 2022 to December 31, 2022



FILED

08/01/2023

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Financial Transactions and Reporting	6-8
Overdrawn Cash Balances	8
Annual Financial Report.....	8-10
Engagement Uploads.....	10-11
Motor Vehicle Highway (MVH) - Distributions Incorrectly Posted.....	11
Motor Vehicle Highway (MVH) - Restricted Fund Disbursements	11-12
Capital Assets	12-13
Exit Conference	14

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Brenda Grider	01-01-22 to 12-31-23
Mayor	Greg York	01-01-22 to 12-31-23
President of the Board of Public Works and Safety	Greg York	01-01-22 to 12-31-23
President Pro Tempore of the Common Council	Rex Peckinpaugh	01-01-22 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF NEW CASTLE, HENRY COUNTY, INDIANA

This report is supplemental to the audit report of the City of New Castle (City), for the period from January 1, 2022 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with the Financial Statement Audit Report of the City, which provides our opinions on the City'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, CPA, CFE
Deputy State Examiner

July 6, 2023

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CLERK-TREASURER
CITY OF NEW CASTLE

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

The same comment appeared in prior Reports B55671, B59123, and B59869.

Condition and Context

Cash and Investments (Bank Reconciliations)

The City had not designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, errors related to cash and investments, including bank reconciliations, to ensure the accuracy and completeness of the ledgers.

Monthly bank account reconciliations for all 12 bank accounts were not prepared timely. January through July 2022 bank reconciliations were prepared, on average, 5 to 11 months late, while August through December 2022 bank reconciliations were prepared on average 1 to 6 months late.

The monthly bank reconciliations included numerous reconciling items from previous years, which were not correctly posted to the City's financial system as of December 31, 2022. In addition, the deposits in transit, outstanding checks, and adjustments lists included interfund transfers, interbank transfers, and interbank activity that were not timely resolved. As a result, as of December 31, 2022, the cash and investment balances were understated by \$8,532.

Receipts

The City designed and implemented internal controls over receipts to ensure the accuracy of the ledger postings; however, the internal controls were ineffective. Due to the lack of effective internal controls the following errors occurred:

1. There was 1 receipt number, in our sample of 79, that was issued twice with posting dates of September 16, 2022, and November 17, 2022, as the City's software system allowed receipt numbers and dates to be altered.
2. The LIT-Public Safety Distributions totaling \$251,610 were incorrectly posted to the LOIT fund instead of the LOIT Public Safety fund.
3. Two Motor Vehicle Highway (MVH) distributions were incorrectly posted entirely to the MVH fund instead of 50 percent being allocated as required to the MVH Restricted Fund. This resulted in the MVH fund receipts being overstated, and the MVH Restricted Fund receipts being understated, by a total of \$64,202.

Financial Reporting

The City had not designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, errors related to financial reporting.

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS
(Continued)

The financial information was prepared and electronically submitted by the Clerk-Treasurer to the Indiana Gateway for Government Units financial reporting system, which was the source of the City's financial statement. An oversight or review process had not been designed or implemented that would likely prevent, or detect and correct, errors on the financial statement. Due to the lack of internal controls, receipts and disbursements of \$1,880,565 for the State Water Infrastructure Fund grant were omitted from the financial statement.

Audit adjustments were proposed, accepted by the City, and made to the financial statement.

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. . . ."

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 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](#)."

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."

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 Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B49111, B53559, B55671, B59123, and B59869.

Condition and Context

The City's financial statement included the following funds with overdrawn cash balances at December 31, 2022, that were not considered to be reimbursable grant funds:

Fund	Amount Overdrawn
SIDEWALK PROGRAM-RB FUNDED	\$ 11,274
HEALTH INS. CUM.	6,937,975
1ST AID RECOVERY N/R	149,486
EMS BUILDING PROJECT	299,830
WW OCRA GRANT	700,437
LTCP CONSTRUCTION FUNDS	72,134
UTILITIES CC ACCOUNT	7,927

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B59869, entitled *ANNUAL FINANCIAL REPORT- OTHER INFORMATION REPORTED INCORRECTLY*.

Condition and Context

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The City had not established effective internal controls over the AFR information entered into Gateway which resulted in the following errors:

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS
(Continued)

Financial Data and Required Supplementary Information

The State Water Infrastructure fund receipts and disbursements were understated by \$1,880,565.

Adjustments were proposed, accepted by the City, and made to the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Required Supplementary Information in the Financial Statement Audit Report.

Grants

1. The Highway Planning and Construction program expenditures were understated by \$6,794.
2. The Formula Grants for Rural Areas and Tribal Transit Program expenditures were overstated by \$204,642.
3. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds grants were omitted, which understated expenditures by \$2,626,718.
4. The COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution grant was omitted, which understated expenditures by \$111,407.

Leases and Debt

The ending principal balance of all debt was understated by \$3,605,506. Additionally principal and interest due within one year was understated by \$1,403,632.

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

Schedule of Payables and Receivables and Schedule of Capital Assets

The information presented for the Schedule of Payables and Receivables and the Schedule of Capital Assets was determined to be incorrect and was not included in the Financial Statement Audit Report for the period of January 1, 2022 to December 31, 2022.

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.

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

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 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](#)."

ENGAGEMENT UPLOADS

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconcilements, approved Common Council minutes, and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

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 City did not comply with the State Examiner Directive and failed to upload the monthly bank reconcilements timely.

In addition, the following annual engagement uploads were not performed until the City was notified by the auditor during the audit:

- Fiscal Year Funds Ledger, summarizing year-to-date total receipts, year-to-date disbursements, and beginning and ending balances by fund
- Fiscal Year Detail of Receipts
- Fiscal Year Detail of Disbursements
- Fiscal Year Vendor History Report
- Fiscal Year Payroll History Report, without social security numbers
- Salary Ordinance(s)

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 Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS
(Continued)

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . . Thereafter, annual files must be uploaded no later than March 1st . . . for the prior year end unless the SBOA establishes a different date. . . . (Amended State Examiner Directive 2018-1)

MOTOR VEHICLE HIGHWAY (MVH) - DISTRIBUTIONS INCORRECTLY POSTED

Condition and Context

Two Motor Vehicle Highway (MVH) distributions were incorrectly posted entirely to the MVH fund instead of 50 percent being allocated as required to the MVH Restricted Fund. This resulted in the MVH fund receipts being overstated and the MVH Restricted Fund receipts being understated by a total of \$64,202.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND DISBURSEMENTS

This same comment appeared in the prior Management Letter addressed to the Officials for the audit period ending December 31, 2021.

Condition and Context

A review of the disbursements paid from the MVH Restricted Fund found that several were made for expenses that were not related to construction, reconstruction, or preservation of the City's highways.

The MVH Restricted Fund was used to pay for the following unallowable expenses:

Description	Amount
Street Striping/Signage	\$ 97,737
Wash Bay Building	78,184
Diesel & Gas	55,631
Equipment	4,787
Truck Parts and Supplies	1,772
Total	\$ 238,111

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

The purpose of this Directive is to authorize and require . . . cities, and towns that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018.

The sub-fund will . . . be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes.

(State Examiner Directive 2018-2)

CAPITAL ASSETS

This same comment appeared in two prior Management Letters addressed to the Officials for the audit periods ending December 31, 2020 and 2021.

Condition and Context

The presented Capital Asset listing was not properly maintained during the audit period.

The following errors were noted on the capital asset listing maintained by the City:

- Assets related to outstanding capital leases, such as fire trucks, radios, ambulances, trash trucks, and police vehicles were not included on the listing.
- Capital asset additions identified in the prior audit, including a rescue truck, chipper, and a Bearcat Armored Vehicle were not included on the listing.
- Additions of a Wash Bay Building, a Vac Truck, and Construction in Progress related to the State Road 3 & 200 N Force Main Project were not included on the listing.
- A police car that was sold in 2022 was not reported as a deletion from the listing.
- The cleaning of the water tower was recorded as an addition in the amount of \$23,000,000 instead of the actual cost of \$23,000 for an overstatement of \$22,977,000.
- A 2019 International 7094 was recorded as an addition in the amount of \$68,000 instead of the cost of \$14,746, per documentation provided, for an overstatement of \$53,254.
- Documentation was not provided to support one of the ten items selected for testing from the 2022 capital asset additions recorded in the listing.

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS
(Continued)

In addition, documentation was not presented for audit to support that a complete physical inventory of all capital assets was performed in the last two years.

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 Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF NEW CASTLE
EXIT CONFERENCE

The contents of this report were discussed on July 6, 2023, with Brenda Grider, Clerk-Treasurer; Greg York, Mayor; Rex Peckinpaugh, President Pro Tempore of the Common Council; Mike Guffey, Common Council member; and Jerry Walden, Common Council member.