

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

TOWN OF NEWPORT

VERMILLION COUNTY, INDIANA

January 1, 2021 to December 31, 2021



**FILED**  
11/25/2024



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Melissa Uplinger James Sutliff (interim) Rachel West	01-01-21 to 09-30-23 10-01-23 to 08-05-24 08-06-24 to 12-31-24
President of the Town Council	Paul M. Lee	01-01-21 to 12-31-24



Paul D. Joyce, CPA  
State Examiner

# INDIANA STATE BOARD OF ACCOUNTS

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Town of Newport (Town), for the year ended December 31, 2021, and the related notes to the financial statement, which collectively comprise the Town's financial statement and have issued our report thereon dated October 28, 2024, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

### ***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 and 2021-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2021-002.

***Town of Newport's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE  
Deputy State Examiner

October 28, 2024



Paul D. Joyce, CPA  
State Examiner

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

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

### Report on Compliance for the Major Federal Program

#### ***Qualified Opinions***

We have audited the Town of Newport's (Town) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2021. The Town's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Qualified Opinion on Water and Waste Disposal Systems for Rural Communities***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinions* section of our report, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Water and Waste Disposal Systems for Rural Communities for the year ended December 31, 2021.

#### **Basis for Qualified Opinions**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

#### ***Matter Giving Rise to Qualified Opinion on Water and Waste Disposal Systems for Rural Communities***

As described in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding 10.760 Water and Waste Disposal Systems for Rural Communities, as described in item 2021-004 for Reporting. Compliance with such requirement is necessary, in our opinion, for the Town to comply with the requirements applicable to that program.

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

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

***Other Matters***

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Town's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

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

**Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2021-003 and 2021-004, to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* require the auditor to perform limited procedures on the Town's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Town's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

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

We have audited the financial statement of the Town, as of and for the year ended December 31, 2021, and the related notes to the financial statement. We issued our report thereon dated October 28, 2024, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE  
Deputy State Examiner

October 28, 2024

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

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TOWN OF NEWPORT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2021

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Water and Waste Disposal Systems for Rural Communities Water Improvement Project	Direct Grant	10.760	FY 2021	\$ _____ -	\$ 1,377,375
Total - Department of Agriculture				_____ -	1,377,375
<u>Department of Housing and Urban Development</u>					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii Water Improvement Project	Indiana Office of Community & Rural Affairs	14.228	A192-20-WW-12-101	_____ -	700,000
Total - Department of Housing and Urban Development				_____ -	700,000
Total federal awards expended				\$ _____ -	\$ 2,077,375

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

TOWN OF NEWPORT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

*A. Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Town under programs of the federal government for the year ended December 31, 2021. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the Town, it is not intended to and does not present the financial position of the Town.

*B. Other Significant Accounting Policies*

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

**Note 2. Indirect Cost Rate**

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

TOWN OF NEWPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

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

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
10.760	Water and Waste Disposal Systems for Rural Communities	Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? no

**Section II - Financial Statement Findings**

**FINDING 2021-001**

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Condition and Context*

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial close and reporting. Internal control activities should be in place to reduce the risk of errors in financial reporting.

TOWN OF NEWPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cash and Investments*

Internal controls had not been properly designed and implemented to ensure timely and accurate reconciliation of the Town's depository accounts. There was no documented oversight, review, or approval process in place to ensure monthly bank account reconciliations were performed accurately and in a timely manner during the audit period.

*Receipts*

One individual was responsible for collecting money, making deposits, posting receipt transactions to the ledger, and reconciling the Town's bank accounts. There was no documented oversight, review, or approval process to ensure proper receipt and deposit of utility billings and other receipts made by the Town during the audit period.

*Disbursements (including Payroll)*

Internal controls had not been properly designed and implemented to ensure retention of adequate supporting documentation and Town Council approval of all Town disbursements.

*Financial Close and Reporting*

Financial information is required to be entered annually into the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the Town's Annual Financial Report (AFR). The Town had not designed or implemented internal controls over the financial information entered into Gateway. The AFR information was entered by the Clerk-Treasurer without a documented oversight, review, or approval process in place to ensure its accuracy.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

TOWN OF NEWPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- Accurate and timely recording of transactions. . . .

Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

*Cause*

Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies. Management of the Town had not conducted an evaluation of its system of internal controls nor established a system of internal controls over cash and investments and receipts. In addition, management of the Town had not established a proper system of internal controls that would have ensured proper recording of transactions and reporting of the financial statement.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, including policies and procedures that provide segregation of duties, monitoring, and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material misstatements. The lack of internal controls could have enabled material misstatement of the financial statement to occur and remain undetected.

*Views of Responsible Officials*

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

**FINDING 2021-002**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Condition and Context*

The Town is required to file reports after the close of each fiscal year. Reports are to be filed electronically as prescribed.

The Town filed reports as prescribed; however, internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Town's Schedule of Expenditures of Federal Awards (SEFA), were not established. The Town did not have a proper system of internal controls in place to prevent, or detect and correct, errors in the federal award information entered. The Clerk-Treasurer prepared and submitted the federal award information in Gateway without a documented oversight, review, or approval process in place to ensure its accuracy.

Due to the lack of internal controls, the SEFA presented for audit included the following error:

- The Water and Waste Disposal Systems for Rural Communities expenditures were overstated by \$257,668.

TOWN OF NEWPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in this report.

*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](#)."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control . . ."

2 CFR 200.1 states in part:

". . . *Internal controls* for non-Federal entities means:

- (1) Processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:
  - (i) Effectiveness and efficiency of operations;
  - (ii) Reliability of reporting for internal and external use; . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

TOWN OF NEWPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

(b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510. . . ."

2 CFR 200.510(b) states:

*"Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414."

*Cause*

Management of the Town had not established a system of internal controls that would have ensured proper reporting of the federal award information.

*Effect*

Without a proper system of internal controls in place that operated effectively, material misstatements of the federal award information occurred and remained undetected. The federal award information contained the errors identified in the *Condition and Context*.

*Views of Responsible Officials*

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

TOWN OF NEWPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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

**FINDING 2021-003**

Subject: Water and Waste Disposal Systems for Rural Communities - Internal Controls  
Federal Agency: Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
Assistance Listings Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): FY 2021  
Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking  
Audit Finding: Material Weakness

*Condition and Context*

An effective internal control system, which would include segregation of duties, was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Matching.

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

There was no documented oversight, review, or approval process in place over federal expenditures related to the grant. Although the Town Council approved grant project related contracts, individual expenditures did not have a documented review process in place (or consistent Town Council approval) to ensure disbursements made were allowable and in accordance with contract provisions related to the grant.

*Matching*

No documented reports, spreadsheets, or calculations prepared by the Town were provided to ensure matching requirements were met or being met. Additionally, the Town Council was not reviewing and approving all federal expenditures (including matching expenditures) related to the grant.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

TOWN OF NEWPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

A proper system of internal controls was not designed by management of the Town, which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the Town's management of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. It also placed the Town at risk of noncompliance with the grant agreement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that management of the Town design and implement a proper system of internal controls, including policies and procedures that would provide segregation of duties to ensure appropriate reviews, approvals, and oversight are taking place.

*Views of Responsible Officials*

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

**FINDING 2021-004**

Subject: Water and Waste Disposal System for Rural Communities - Reporting  
Federal Agency: Department of Agriculture  
Federal Program: Water and Waste Disposal System for Rural Communities  
Assistance Listings Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): FY 2021  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Modified Opinion

*Condition and Context*

Recipients are required to submit RD 442-2 (Statement of Budget, Income and Equity) and RD 442-3 (Balance Sheet) covering the fiscal year within 60 days of the end of the fiscal year to the United States Department of Agriculture (USDA).

There was no documented oversight, review, or approval process to ensure the required RD 442-2 (Statement of Budget, Income and Equity) and RD 442-3 (Balance Sheet) reports were completed and submitted timely and accurately to the Department of Agriculture (USDA).

Due to the lack of internal controls, the Town did not submit the required RD 442-2 and 442-3 reports to the USDA during the audit period.

TOWN OF NEWPORT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

7 CFR 1780.47(e) states in part:

". . . within 60 days following the end of each fiscal year, furnish the RUS with annual financial statements, consisting of a verification of the organization's balance sheet and statement of income and expense by an appropriate official of the organization. Forms RD 442-2, 'Statement of Budget, Income and Equity,' and 442-3 may be used."

*Cause*

The Town was unable to provide documentation to show that the RD 442-2 and RD 442-3 reports were filed.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, the Town could not ensure that the required reports were filed with the awarding agency. As such, the awarding agency did not have accurate and current information to discern the financial status of the Town's project. Furthermore, noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the Town.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Town's management design and implement a system of internal controls that would provide segregation of duties for the preparation and review of federal reports to ensure appropriate reviews, approvals, and oversight are taking place. Additionally, management should develop policies and procedures to ensure that all required reports are filed timely and accurately.

*Views of Responsible Officials*

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

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.

# TOWN OF NEWPORT

## CORRECTIVE ACTION PLAN

### **FINDING 2021-001**

#### **Finding Subject: Financial Transactions and Reporting**

#### **Summary of Finding:**

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not separated incompatible activities related to Cash and Investments, Receipts, Disbursements, and Financial Close & Reporting.

**Contact Person Responsible for Corrective Action: Rachel West, Clerk-Treasurer**

**Contact Phone Number and Email Address: 765.492.8110 / [newport.indiana@gmail.com](mailto:newport.indiana@gmail.com)**

**Views of Responsible Officials:** We concur with the finding.

#### **Description of Corrective Action Plan:**

Implementing an effective designed system of internal controls and procedures that provide segregation of duties, monitoring and additional oversights as needed. Providing documentation to the town board and implementing into monthly minutes.

#### **Anticipated Completion Date:**

November 12, 2024

*Per Uniform Guidance:*

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS. ”

2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.”

# TOWN OF NEWPORT

## CORRECTIVE ACTION PLAN

### **FINDING 2021-002**

#### **Finding Subject: Preparation of the Schedule of Expenditures of Federal Awards**

#### **Summary of Finding:**

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA. The Clerk-Treasurer prepared and submitted the SEFA in Gateway without a documented oversight, review or approval process in place to ensure its accuracy. As a result, the Water and Waste Disposal Systems for Rural Communities expenditures were overstated by \$257,668.

**Contact Person Responsible for Corrective Action: Rachel West, Clerk-Treasurer**

**Contact Phone Number and Email Address: 765.492.8110 / [newport.indiana@gmail.com](mailto:newport.indiana@gmail.com)**

**Views of Responsible Officials:** We concur with the finding.

#### **Description of Corrective Action Plan:**

Implement controls to prepare and execute schedule of expenditures of Federal awards to ensure proper reporting of the SEFA.

#### **Anticipated Completion Date:**

November 12, 2024

#### *Per Uniform Guidance:*

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . . The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.” 2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor’s findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor’s reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.”

# TOWN OF NEWPORT

## CORRECTIVE ACTION PLAN

### **FINDING 2021-003**

#### **Finding Subject: Water and Waste Disposal Systems for Rural Communities - Internal Controls**

#### **Summary of Finding:**

An effective internal control system, which would include segregation of duties, was not in place at the Town in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles & Matching.

**Contact Person Responsible for Corrective Action: Rachel West, Clerk-Treasurer**

**Contact Phone Number and Email Address: 765.492.8110 / [newport.indiana@gmail.com](mailto:newport.indiana@gmail.com)**

**Views of Responsible Officials:** We concur with the finding.

#### **Description of Corrective Action Plan:**

Implement a system of checks and balances to ensure disbursements made are allowable and in accordance with contract provisions relating to grants. Include federal expenditures in monthly board minutes.

#### **Anticipated Completion Date:**

November 12, 2024

*Per Uniform Guidance:*

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.”

2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.”

# TOWN OF NEWPORT

## CORRECTIVE ACTION PLAN

### **FINDING 2021-004**

#### **Finding Subject: Water and Waste Disposal System for Rural Communities - Reporting**

#### **Summary of Finding:**

There was no documented oversight, review or approval process to ensure the required RD 442-2 (Statement of Budget, Income and Equity) and RD 442-3 (Balance Sheet) reports were completed and submitted timely and accurately to the Department of Agriculture (USDA). Due to the lack of internal controls, the Town did not submit required RD 442-2 and 442-3 reports to the USDA during the audit period.

**Contact Person Responsible for Corrective Action: Rachel West, Clerk-Treasurer**

**Contact Phone Number and Email Address: 765.492.8110 / [newport.indiana@gmail.com](mailto:newport.indiana@gmail.com)**

**Views of Responsible Officials:** We concur with the finding.

#### **Description of Corrective Action Plan:**

Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Required forms will be prepared and submitted for approval prior to submission.

#### **Anticipated Completion Date:**

March 1, 2025

#### *Per Uniform Guidance:*

2 CFR § 200.511(a) – “The auditee is responsible for follow-up and corrective action on all audit findings. . .The auditee must also prepare a corrective action plan for current year audit findings. . . The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are required to be reported in accordance with GAGAS.”

2 CFR § 200.511(c) – “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in § 200.516, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.”

## OTHER REPORTS

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