

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NEWPORT

VERMILLION COUNTY, INDIANA

January 1, 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

302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769  
Telephone: (317) 232-2513  
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TO: THE OFFICIALS OF THE TOWN OF NEWPORT, VERMILLION COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Newport (Town), for the period from January 1, 2021 to December 31, 2021. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with the Financial Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. This report may be found at [www.in.gov/sboa/](http://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

October 28, 2024

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CLERK-TREASURER  
TOWN OF NEWPORT

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS

**ANNUAL FINANCIAL REPORT - OTHER INFORMATION**

*Condition and Context*

Financial information is required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. As a result of an internal control deficiency, the Town's 2021 AFR contained the following errors:

*Capital Assets*

No detailed, subsidiary records were provided to support the \$6,346,614 in capital assets reported by the Town.

*Debt*

The USDA Water Works construction project loans were omitted from the debt schedule. The principal balances of the loans as of December 31, 2021, were \$1,020,000 and \$162,000.

*Federal Grant Schedule*

Federal expenditures for the USDA Water and Waste Disposal Systems for Rural Communities (10.760) grant program were overstated by \$257,668. Audited federal expenditures for the program totaled \$1,377,375.

*Criteria*

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner 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](#)."

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. . . ."

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

**CAPITAL ASSETS**

This same comment appeared in a Management Letter addressed to the Clerk-Treasurer and Town Council for the audit period ending December 31, 2018.

*Condition and Context*

Internal controls were not in place to ensure accurate recordkeeping and reporting of the Town's capital assets. The Town did not provide detailed, subsidiary records to support the \$6,346,614 in capital assets reported in the 2021 Annual Financial Report; therefore, we were unable to determine the accuracy of the information. In addition, the Town did not complete a biennial physical inventory as required.

*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)

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

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**CERTIFIED REPORT FILED AFTER DUE DATE**

*Condition and Context*

Internal controls were not in place to ensure the Town complied with laws regarding state reporting requirements. The Town's Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100R) for 2021 was not filed electronically until April 4, 2022, which was 63 days past the due date.

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Criteria*

Indiana Code 5-11-13-1(b) states:

"Each audited entity shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of the officers, employees, and agents of the audited entity. The report shall indicate the respective duties and compensation of each officer, employee, and agent of the audited entity. The audited entity shall file the report in the office of the state examiner of the state board of accounts. The report must also indicate whether the political subdivision offers a health plan, a pension, and other benefits to full-time and part-time employees. However, no more than one (1) report covering the same officers, employees, and agents need be made from the state or any county, city, town, township, or school unit in any one year. The certification must be filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

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

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**CONDITION OF RECORDS**

*Condition and Context*

Internal controls were not in place to ensure timely and accurate reconciliation of Town funds. Depository reconciliations of the Town's fund balances to its depository account balances were not performed timely throughout the audit period. Monthly bank account reconciliations of the Town's operating accounts for 2021 were performed in 2023 by the interim Clerk-Treasurer. Additionally, a year-end reconciliation as of December 31, 2021, was not provided for audit.

A combined bank account reconciliation was performed as an audit procedure, and the ending cash and investments balance as of December 31, 2021, was \$11,235 less than the adjusted bank balance.

*Criteria*

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."

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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## **ERRORS ON CLAIMS**

The same comment also appeared in prior Report B54019.

### *Condition and Context*

Internal controls were not in place to ensure retention of supporting documentation for all vendor and payroll related disbursements (claims).

Of the 38 claims tested, 5 (13%) lacked adequate supporting documentation, such as bill, invoice, or applicable payroll deduction and withholding records.

### *Criteria*

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

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

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

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer; . . ."

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

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

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

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## **INTERNAL CONTROLS**

The same comment also appeared in prior Report B54019.

### *Condition and Context*

There were 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.

#### *Cash and Investments*

Internal controls were not 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*

The Clerk-Treasurer 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.

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Disbursements (including Payroll)*

Internal controls were not 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 financial reporting system, which is the source of the Town's Annual Financial Report (AFR). The AFR information was entered and submitted by the Clerk-Treasurer for 2021 without a documented oversight, review, or approval process in place to ensure accuracy and timely submission.

*Criteria*

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

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**LATE SUBMISSION OF ANNUAL FINANCIAL REPORT**

The same comment also appeared in prior Report B54019.

*Condition and Context*

Internal controls were not in place to ensure the Town complied with laws regarding the Annual Financial Report (AFR). The Town's AFR for 2021 was not filed electronically until April 6, 2022, which was 36 days past the due date.

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Criteria*

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

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner 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](#)."

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**MONTHLY AND ANNUAL ENGAGEMENT UPLOADS**

*Condition and Context*

Internal controls were not in place to ensure compliance with State Examiner Directive 2018-1. None of the required monthly and annual files were uploaded to the Indiana Gateway for Government Units financial reporting system throughout the audit period.

The files and governmental unit information that are required to be uploaded monthly include monthly bank reconciliations, bank statements, outstanding check lists, approved Town 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.

*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  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

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

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## **ORDINANCES AND RESOLUTIONS - SEWER BONDS**

### *Condition and Context*

Internal controls were not in place to ensure compliance with the Town's Sewer Bond Ordinance 2013-2 (ordinance).

According to the ordinance, the ". . . balance accumulated in the Reserve Account shall equal, but not exceed the average annual debt service on the bonds." The balance in the Town's Wastewater Utl Debt Reserve fund was \$30,154 as of December 31, 2021, which was below the average annual debt service amount balance of \$53,115 required by the ordinance.

Additionally, the ordinance authorizes and requires monthly transfers from the Wastewater Utility Operating fund to the Wastewater Utl Bond & Int, the Wastewater Utl Debt Reserve, and the Wastewater Op & Maint funds if balances in those funds are insufficient per the ordinance.

During 2021, no monthly transfers were made to the Wastewater Op & Maint fund or the Wastewater Utl Debt Reserve fund, as required.

### *Criteria*

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

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

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

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**ORDINANCES AND RESOLUTIONS - UTILITY RATES**

*Condition and Context*

Internal controls were not in place to ensure proper customer billing for the Town's Utilities. The wastewater (sewer) rates billed were consistent throughout the audit period; however, the rates charged differed from those in the Town Council approved sewer rate ordinance. Sewer rates charged were as follows:

Sewer Utility Monthly Rates and Charges	Ordinance Amount	Amount Charged	Variance
Base Charge (Standard Meter)	\$ 35.95	\$ 36.85	\$ 0.90
Treatment Rate	8.25	8.35	0.10
Unmetered Users	77.20	78.60	1.40

Additionally, the Town adopted Water Rate Ordinance 2020-3 on October 27, 2020, which indicates, ". . . this ordinance shall be in full force and effect from and after its date of passage." The Town did not begin billing at the updated water rates until the February 2021 billing cycle. As a result, two water bills tested from January 2021 were charged under the prior water rate ordinance.

*Criteria*

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CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

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### **OVERDRAWN CASH BALANCE**

#### *Condition and Context*

Internal controls were not in place to ensure the Town complied with laws and regulations related to overdrawn fund balances. The Town's Wastewater Op & Maint fund had an overdrawn cash balance of \$55,985 as of December 31, 2021.

#### *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)

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CLERK-TREASURER  
TOWN OF NEWPORT  
EXIT CONFERENCE

The contents of this report were discussed on October 28, 2024, with James Sutliff, interim Clerk-Treasurer; Rachel West, Clerk-Treasurer; Paul M. Lee, President of the Town Council; and Bert Morson, Town Council member.

TOWN COUNCIL  
TOWN OF NEWPORT

TOWN COUNCIL  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS

**CAPITAL ASSETS**

This same comment appeared in a Management Letter addressed to the Clerk-Treasurer and Town Council for the audit period ending December 31, 2018.

*Condition and Context*

The Town reported a capital asset threshold of \$5,000 in its 2021 Annual Financial Report; however, no formalized capital asset policy establishing such threshold was provided for audit.

*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)

**SUPPORTING DOCUMENTATION - TRANSFERS**

*Condition and Context*

The Town transferred \$100,558 from its utility operating funds to various funds pursuant to its Water and Wastewater (sewer) utility bond ordinances. However, annual transfer amounts were inconsistent and not supported by a transfer schedule or documented approval by the Town Council as required.

*Criteria*

Indiana Code 36-5-4-13(a) states in part:

". . . this subsection applies to a town with a population of five hundred (500) or less. Notwithstanding the provisions of any other statute, a town may transfer money from any town fund to another town fund after the passage of an ordinance or a resolution by the town legislative body specifying the:

- (1) amount of the transfer;
- (2) funds involved;
- (3) date of the transfer; and
- (4) general purpose of the transfer."

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

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

TOWN COUNCIL  
TOWN OF NEWPORT  
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