

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, 2022 to December 31, 2023



FILED

11/25/2024

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Annual Financial Report - Other Information	6
Capital Assets	7
Certified Report Filed After Due Date	7-8
Condition of Records.....	8-9
Errors on Claims	9-10
Internal Controls.....	10-11
Late Submission of Annual Financial Report.....	12
Motor Vehicle Highway (MVH) - Restricted Fund	12-13
Ordinances and Resolutions - Sewer Bonds	13-14
Ordinances and Resolutions - Utility Rates	14-15
Overdrawn Cash Balances	15
Timely Recording and Receipt Issuance	16
Exit Conference	17
Town Council:	
Audit Results and Comments:	
Capital Assets	20
Supporting Documentation - Transfers	20-21
Exit Conference	22

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Melissa Uplinger James Sutliff (interim) Rachel West	01-01-22 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	01-01-22 to 12-31-24



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

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ROOM E418
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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, 2022 to December 31, 2023. 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/.

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 financial reporting system. As a result of an internal control deficiency, the Town's 2022 and 2023 AFRs contained the following errors:

Capital Assets

No detailed, subsidiary records were provided to support the \$6,346,614 and \$6,534,918 in capital assets reported in 2022 and 2023, respectively.

Debt

The USDA Water Works construction project loans were omitted from the debt schedule in 2022. The principal balance of the loans as of December 31, 2022, were \$1,010,000 and \$160,000.

Payables and Receivables

No detailed, subsidiary records were provided to support the \$1,056,114 in payables and \$797,808 in receivables reported in 2022.

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 as set forth in the uniform compliance guidelines. 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 the 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 and \$6,534,918 in capital assets reported in its 2022 and 2023 Annual Financial Reports, respectively; 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)

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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 2022 was not filed electronically until April 3, 2023, which was 62 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](#)."

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CONDITION OF RECORDS

Condition and Context

Internal controls were not in place to ensure timely and accurate reconciliation of the Town funds. Depository reconciliations of the Town's fund balances to its depository account balances were not performed timely throughout the audit period. Seven of ten bank reconciliations selected for testing were not performed timely. The remaining three were not presented for audit.

Combined year-end bank account reconciliations were performed as an audit procedure, and the ending cash and investments balances were \$7,006 and \$6,670 less than the adjusted bank balance as of December 31, 2022, and December 31, 2023, respectively.

Additionally, year-end bank account reconciliations provided for audit for 2022 and 2023 contained \$4,588 and \$6,234 in unsupported reconciling items, respectively, listed as outstanding checks. These reconciling items did not have check numbers within the check series associated with the respective Town depository accounts and had not cleared the bank at the end of (or subsequent to) the audit period.

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

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."

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 and the Town Council approval for all vendor and payroll related disbursements (claims).

Of the 58 claims tested, 12 (20%) lacked adequate supporting documentation, such as bill, invoice, contract, or payroll deduction and withholdings records to support the payment. Additionally, 16 claims (28%) were not included on the signed Accounts Payable Voucher registers (dockets) approved by the Town Council.

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.

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

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

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

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)

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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.

CLERK-TREASURER
TOWN OF NEWPORT
AUDIT RESULTS AND COMMENTS
(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 throughout 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.

Disbursements (including Payroll)

Internal controls had not been properly designed and implemented to ensure retention of adequate supporting documentation and the 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 2022 and 2023 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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CLERK-TREASURER
TOWN OF NEWPORT
AUDIT RESULTS AND COMMENTS
(Continued)

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 AFRs for 2022 and 2023 were not filed electronically until April 5, 2023, and March 25, 2024, respectively, which was 35 and 25 days past the due dates.

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 as set forth in the uniform compliance guidelines. 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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MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

Internal controls were not in place to ensure compliance with the State Examiner Directive 2018-2. The Town receipted less than the required 50 percent of State Motor Vehicle Highway Account (MVH) distributions into its MVH Restricted sub-fund in 2022 and 2023. The Town receipted 26 percent and 41 percent of its MVH distributions to the MVH Restricted fund in 2022 and 2023, respectively.

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

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)

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)

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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 Sewer Debt Reserve fund was \$40,954 as of December 31, 2022, and December 31, 2023, 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 Sinking, the Sewer Debt Reserve, and the Sewer Op & Maint funds if balances in those funds are insufficient per the ordinance.

During 2022 and 2023, no transfers were made to the Sewer Op & Maint fund as required. Additionally, no monthly transfers were made to the Sewer Debt Reserve fund in 2023.

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

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)

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 wastewater (sewer) utility. The 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

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)

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

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OVERDRAWN CASH BALANCES

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 Sewer Op & Maint fund had an overdrawn cash balance of \$114,152 and \$158,471 as of December 31, 2022, and December 31, 2023, respectively.

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
AUDIT RESULTS AND COMMENTS
(Continued)

TIMELY RECORDING AND RECEIPT ISSUANCE

Condition and Context

Internal controls were not in place to ensure timely recording of transactions and proper receipt issuance during the audit period.

Receipt and disbursement transactions were not recorded in a timely manner throughout 2023. This affected all receipt and disbursement transactions tested in 2023 including receipts, payroll disbursements, significant disbursement items, and other disbursement transactions.

Additionally, 4 of 62 (6%) receipts tested for compliance during the audit period lacked a source document or other equivalent supporting documentation for the receipt.

Criteria

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

Receipts shall be issued and recorded at the time of the transaction. (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.

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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 the 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 2022 and 2023 Annual Financial Reports; 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

In 2022 and 2023, the Town transferred \$77,564 and \$82,389, respectively, 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.

TOWN COUNCIL
TOWN OF NEWPORT
AUDIT RESULTS AND COMMENTS
(Continued)

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
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.