

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, 2019 to December 31, 2020



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
Condition of Records.....	7-8
Deposit of Accountable Items	8-9
Errors on Claims	9-10
Internal Controls.....	10-11
Late Submission of Annual Financial Report.....	11-12
Ordinances and Resolutions - Utility Rates	12-13
Overdrawn Cash Balances	13
Timely Recording	13-14
Exit Conference	15
Town Council:	
Audit Results and Comments:	
Capital Assets	18
Fund Sources and Uses.....	18-19
Exit Conference	20

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	James Sutliff Melissa Uplinger James Sutliff (interim) Rachel West	01-01-19 to 09-08-20 09-09-20 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	01-01-19 to 12-31-24



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

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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, 2019 to December 31, 2020. 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 2019 and 2020 AFRs contained the following errors:

Capital Assets

No detailed subsidiary records were provided to support the \$6,346,614 in capital assets reported in 2019 and 2020.

Leases and Debt

The principal balance of the Vermillion County Economic Development loan (EDC loan) for the Design Phase of its Water Improvement Project was omitted from the Town's Debt Schedule in 2019 and 2020. This resulted in understatements in the amount of \$226,000 each year.

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 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 in capital assets reported in the 2019 and 2020 Annual Financial Reports; 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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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 conducted throughout 2019 and 2020; however, a year-end reconciliation as of December 31, 2020, was not provided for audit.

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

A combined bank account reconciliation was performed as an audit procedure, and the ending cash and investments balance as of December 31, 2020, was \$11,580 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."

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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DEPOSIT OF ACCOUNTABLE ITEMS

Condition and Context

Internal controls were not in place over the deposit of accountable items for the Town's utility collections. The Town was not able to provide sufficient supporting documentation to trace individual customer payments to the related bank account deposits. Of the 25 bills and subsequent payments selected for testing, 9 (36%) were not traceable to the corresponding bank deposit. This was due to billing system "cash entry batch lists" not being retained for audit and not being able to be reproduced by the billing system.

Criteria

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the units. The deposit ticket or attached documentation must provide a detail listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

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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 Town Council approval of all vendor disbursements (claims).

Of the 11 significant item claims tested, 2 (18%) were not included on the Town Council approved Accounts Payable Voucher (APV) register. Additionally, of the 33 remainder claims tested, 2 (6%) were not included on the Town Council approved APV register.

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;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and

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

- (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. . . ."

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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, and financial close and reporting.

Cash and Investments

The Clerk-Treasurer completed monthly bank reconciliations in the Keystone financial accounting system without a documented oversight, review, or approval process in place to ensure their accuracy and timely completion.

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.

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 2019 and 2020 without a documented oversight, review, or approval process in place to ensure accuracy and timely submission.

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

Criteria

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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 that the Town complied with laws regarding the Annual Financial Report (AFR). The Town's AFR for 2020 was not filed electronically until April 6, 2021, which was 36 days past the due date.

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

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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:

<u>Sewer Utility Monthly Rates and Charges</u>	<u>Ordinance Amount</u>	<u>Amount Charged</u>	<u>Variance</u>
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 following funds had an overdrawn cash and investments balance as of December 31, 2019, and December 31, 2020:

Year	Fund	Amount Overdrawn
2019	WASTEWATER OP & MAINT	\$ 6,451
2020	WASTEWATER UTILITY OPERATING	22,474
2020	WASTEWATER OP & MAINT	15,337

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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TIMELY RECORDING

Condition and Context

Internal controls were not in place to ensure proper recording of interfund transfer activity.

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

In 2020, the Town transferred a total of \$88,400 to three separate funds pursuant to its bond ordinance from the Wastewater Utility Operating fund; however, \$17,200 of the transfers out were not posted to the disbursement side of the ledger, resulting in an understatement of disbursements.

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)

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
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 2019 and 2020 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)

FUND SOURCES AND USES

The same comment also appeared in prior Report B54019.

Condition and Context

Internal controls were not in place to ensure that the Town complied with laws and regulations related to interfund transfer activity.

In 2019, the Town transferred \$15,000 from the Water Utl Depreciation fund to the Water Utility Operating fund. Because the Town Council did not authorize the transfer via ordinance or resolution, or document the purpose of the transfer in the Town Council minutes, it is unknown whether the funds were used for purposes authorized by law (e.g. major repair and replacement of water treatment plant and equipment).

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:

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

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

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

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