

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NEW CASTLE

HENRY COUNTY, INDIANA

January 1, 2023 to December 31, 2023



**FILED**  
09/25/2024



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Brenda Grider Ashley Huffman	01-01-23 to 12-31-23 01-01-24 to 12-31-24
Mayor	Greg York	01-01-23 to 12-31-24
President of the Board of Public Works and Safety	Greg York	01-01-23 to 12-31-24
President Pro Tempore of the Common Council	Rex Peckinpaugh	01-01-23 to 12-31-24



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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INDIANAPOLIS, INDIANA 46204-2769

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

This report is supplemental to the audit report of the City of New Castle (City), for the period from January 1, 2023 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 City. It should be read in conjunction with the Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at [www.in.gov/sboa/](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

September 12, 2024

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CLERK-TREASURER  
CITY OF NEW CASTLE

CLERK-TREASURER  
CITY OF NEW CASTLE  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

The same comment appeared in prior Reports B55671, B59123, B59869, and 000000153S.

*Condition and Context*

*Cash and Investments (Bank Reconciliations)*

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

As a result, the following bank reconciliations were not prepared timely, and deposits were not recorded as noted:

- For one bank account, no bank reconciliations were prepared for September through November of 2023. The December 31, 2023 reconciliation was prepared in August 2024. As a result, collections totaling \$530,509 that were deposited to this account were not posted to the records.
- Beginning with the month of March 2023, no bank reconciliations were performed for three bank accounts that were eventually closed into another bank account in December 2023.
- For the new bank account opened in January 2023, the May through August 2023 bank reconciliations were prepared three to four months late and the September through December 2023 bank reconciliations were prepared seven to nine months late.
- For five other bank accounts, the bank reconciliations were prepared on average four to five months late.

*Receipts*

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

- The Cumulative Capital Improvement distributions totaling \$31,577 were incorrectly posted to the General fund.
- The DOH Community Paramedic Grant distributions totaling \$27,442 were incorrectly posted to the Special Utilities fund.
- For 1 of 71 receipts tested, Wastewater penalties collected in the amount of \$433 were incorrectly posted to the Toter Fund.

*Financial Reporting*

Financial, supplemental, and other information is required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the City's financial statement. An oversight or review process had not been designed or implemented that would likely prevent, or detect and correct, errors on the financial statement.

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

Due to the lack of internal controls, receipts of \$82,628 and disbursements of \$64,000 for the SRFWW2018 fund were omitted from the financial statement resulting in an ending cash and investment balance understated by \$18,628. Additionally, the unposted receipts identified in the December bank reconciliation noted above were omitted from the financial statement.

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

*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](#)."

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."

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: . . .

- Accurate and timely recording of transactions. . . ."

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)

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

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 Towns, Chapter 1)

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

**OVERDRAWN CASH BALANCES**

The same comment also appeared in prior Reports B49111, B53559, B55671, B59123, B59869, and 000000153S.

*Condition and Context*

Internal controls were not in place to ensure cash funds were not overdrawn. The City's financial statement included the following funds with overdrawn cash balances at December 31, 2023, that were not considered to be reimbursable grant funds:

Fund	Amount Overdrawn
CCI	\$ 49
HEALTH INS. CUM.	9,054,024
1ST AID RECOVERY N/R	111,386
PARK BOND & INTEREST	10,320
EMS BUILDING PROJECT	299,830
PAYROLL	12,420
P/R D.D. CLEARING FUND	4,407
P/R FEDERAL	1,011
P/R MEDICARE	397
P/R PERF	16,645
LTCP CONSTRUCTION FUNDS	2,243,815

*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  
CITY OF NEW CASTLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

"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.

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### **ANNUAL FINANCIAL REPORT**

The same comment appeared in the prior Report 000000153S.

#### *Condition and Context*

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

#### *Financial Statement and Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis*

The SRFWW2018 fund receipts, disbursements, and ending cash and investment balance were understated by \$82,628, \$64,000, and \$18,628, respectively. Additionally, unposted receipts of \$530,509 identified in the December bank reconciliation were omitted from the financial statement.

#### *Grants*

- The Formula Grants for Rural Areas and Tribal Transit Program expenditures were overstated by \$467,266.
- The State and Community Highway Safety grant expenditures were overstated by \$3,205.
- The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds grant expenditures were overstated by \$1,956,362.

#### *Schedule of Payables and Receivables*

The presented amount for governmental activities accounts receivable was understated by \$760,376.

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

*Schedule of Leases and Debt*

The presented bond information was understated by \$1,065,862 for outstanding balances and \$120,182 for principal and interest due within one year.

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

*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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**ENGAGEMENT UPLOADS**

The same comment appeared in the prior Report 000000153S.

*Condition and Context*

Internal controls were not in place to ensure engagement uploads were timely.

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

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

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The City did not comply with the State Examiner Directive and failed to upload the monthly bank statements for May 2023 through December 2023 until the City was notified by the auditor during the audit.

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

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

*Criteria*

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)

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

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**MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND DISBURSEMENTS**

The same comment appeared in the prior Report 000000153S.

*Condition and Context*

Internal controls were not in place to ensure that MVH Restricted funds were only spent for construction, reconstruction, or preservation of the City's highways.

A review of the disbursements paid from the MVH Restricted Fund found that several were made for expenses that were not related to construction, reconstruction, or preservation of the City's highways. The MVH Restricted Fund was used for purchases of gas, diesel, & FSL Fluid which are unallowable expenses.

*Criteria*

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

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

The sub-fund will be referred to throughout this Directive as "MVH Restricted" and will be used to account for MVH monies which have been statutorily restricted for construction, reconstruction, and preservation purposes. . . .

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)

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

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### **CAPITAL ASSETS**

The same comment also appeared in prior Report 000000153S.

#### *Condition and Context*

Internal controls were not in place to ensure that capital asset ledgers were maintained and a physical inventory was taken.

The City did not maintain a capital asset ledger or perform a physical inventory of assets.

#### *Criteria*

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

**RETENTION OF RECORDS**

*Condition and Context*

Internal controls were not in place to ensure that all records were retained.

Certified Department Payroll Schedule and Voucher reports and supporting documentation for all the October 2023 and November 2023 payrolls were not retained for audit.

*Criteria*

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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  
CITY OF NEW CASTLE  
EXIT CONFERENCE

The contents of this report were discussed on September 12, 2024, with Ashley Huffman, Clerk-Treasurer; Greg York, Mayor; Rex Peckinpaugh, President Pro Tempore of the Common Council; and Shirley Reece, Chief Deputy Clerk-Treasurer.