

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, 2014 to December 31, 2014



FILED
05/23/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary A. Bemis	01-01-11 to 12-31-18
President of the Town Council	James Sutliff Paul M. Lee	01-01-14 to 12-31-16 01-01-17 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the Town of Newport (Town), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

March 13, 2017

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CLERK-TREASURER
TOWN OF NEWPORT

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS

**FINDING 2014-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

Condition

There were several deficiencies in the internal control system of the Town related to financial transactions and reporting. No evidence of a control, such as oversight, review, or approval process was identified.

1. Lack of Segregation of Duties: The Town had not separated incompatible activities related to financial close and reporting, receipts and disbursements. There was no evidence of a control, such as oversight, review, or approval process to ensure accurate recordkeeping and an accurate financial statement.

The Clerk-Treasurer posted the ledger, made deposits, and reconciled the bank accounts. The Utility Clerk calculated and prepared bills and posted payments to customer accounts.

The Clerk-Treasurer entered the Town's financial information into the Gateway system, which is used to compile the financial statement. No evidence of a control, such as an oversight, review, or approval process by the Town, was identified. The following funds were omitted from the financial statement: Wastewater Operating Fund, Wastewater Bond & Interest Fund, Wastewater Debt Reserve Fund, Wastewater Operation & Maintenance Fund, USDA Rural Development, Construction Fund, and OCRA CDBG. The following table summarizes the amounts omitted for each fund:

Fund	Beginning Balance	Receipts	Disbursements	Ending Balance
Wastewater Operating Fund	\$ -	\$ 29,666	\$ 13,378	\$ 16,288
Wastewater Bond & Interest Fund	-	14,609	14,609	-
Wastewater Debt Reserve Fund	-	302	-	302
Wastewater Operation & Maintenance Fund	-	5,000	2,500	2,500
USDA Rural Development	272,321	2,332,650	2,603,634	1,337
Construction Fund	64	-	-	64
OCRA CDBG	40,190	334,340	374,530	-

2. Monitoring of Controls: The Town had no process to identify or communicate corrective actions to improve controls. Effective internal control over financial reporting required the Town to monitor and assess the quality of the system of internal control.

Audit adjustments were proposed, accepted by the Town's management, and made to the financial statement.

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:

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(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.

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. . . ."

"Monitoring Activities 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. . . ."

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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."

Cause

Management of the Town had not established a proper system of internal control. Management had not conducted a risk assessment related to the Town's financial reporting and transactions.

Effect

The failure to establish controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

Views of Responsible Officials

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

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

**FINDING 2014-002 - PREPARATION OF THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS**

Condition

The Town did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Clerk-Treasurer entered the Town's financial data into the Gateway system, which was used to compile the SEFA. No evidence of a control, such as oversight, review, or approval process was identified.

The following errors were noted on the SEFA:

1. The Water and Waste Disposal Systems for Rural Communities grant was overstated by \$3,085,271.
2. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii was overstated by \$334,340.
3. Both grants had the wrong pass-through agency and program name.

Audit adjustments were proposed, accepted by the Town, and made to the SEFA.

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. . . ."

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section .310."

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual 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 shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Cause

Management had not established a system of internal control that would have ensured proper reporting of program expenditures on the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

Views of Responsible Officials

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

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

**FINDING 2014-003 - INTERNAL CONTROLS OVER WATER AND
WASTE DISPOSAL SYSTEM FOR RURAL COMMUNITIES**

Federal Agency: Department of Agriculture
Federal Program: Water and Waste Disposal Systems for Rural Communities
CFDA Number: 10.760
Federal Award Number and Year (or Other Identifying Number): 15-083-410-141-744

Condition

An effective internal control system 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; Cash Management; Davis-Bacon Act; Equipment and Real Property Management; and Procurement and Suspension and Debarment.

The Grant Administrator performed all of the grant compliance requirements with no review or monitoring by the Town. No evidence of a control, such as an oversight, review, or approval process, was identified.

Context

The Town hired a Grant Administrator to facilitate compliance with the grant. There was no evidence of internal controls over compliance with the grant requirements or the grant agreement. This was pervasive throughout the entire grant period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2014-004 - INTERNAL CONTROLS OVER COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program
and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): CF-08-600
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

An effective internal control system 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; Cash Management; Davis-Bacon Act; Matching, Level of Effort, Earmarking; Period of Availability; Procurement and Suspension and Debarment; Reporting; Special Tests and Provisions - Citizen Participation; and Special Tests and Provisions - Environmental Reviews.

The Grant Administrator performed all of the grant compliance requirements with no review or monitoring by the Town. No evidence of a control, such as an oversight, review, or approval process, was identified.

Context

The Town hired a Grant Administrator to facilitate compliance with the grant. There was no evidence of internal controls over compliance with the grant requirements or the grant agreement. This was pervasive throughout the entire grant period and across all compliance requirements.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2014-005 - CASH MANAGEMENT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program
and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year (or Other Identifying Number): CF-08-600
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Condition

The Town entered into a grant agreement for the construction of a wastewater plant with the Indiana Office of Rural and Community Affairs (OCRA). The Town did not pay the vendors for the project within five business days as required by the grant agreement.

Context

The Town hired a Grant Administrator to facilitate compliance with the grant requirements. The Grant Administrator performed all of the grant compliance requirements with no review or monitoring by the Town. No evidence of a control, such as an oversight, review, or approval process, was identified. Of the cash drawdowns from the program, 97 percent were not expended within the required time frame.

CLERK-TREASURER
TOWN OF NEWPORT
FEDERAL FINDINGS
(Continued)

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

The *Indiana CDBG Handbook, Community Development Block Grants* issued by the Indiana Office of Community and Rural Affairs states in part:

"6.5. **Draw-downs and disbursements.** . . . Grantees must be alert to the receipt of federal funds and be prepared to issue payments to their contractors within five business days of the deposit."

Cause

Management had not developed policies and procedures to ensure that all Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CDBG) funds received were being disbursed within the five day required time frame.

Effect

Noncompliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the Town.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Town establish policies and procedures related to the grant agreement and the compliance requirement that have a direct and material effect to the program.

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

P.O. Box 65
Newport, IN 47966
765-492-3518

Mary Alice Bemis
Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Mary Alice Bemis
Contact Phone Number: 765-492-3518

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

In the future the president of the town council will periodically review the documents relating to receipts, disbursements, payroll, and cash books of the billing clerk to ensure accuracy. The president of the town council will review the annual financial report prior to its submission.

Anticipated Completion Date: March 1, 2017

FINDING 2014-002

Contact Person Responsible for Corrective Action: Mary Alice Bemis
Contact Phone Number: 765-492-3518

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

SEFA will be prepared by the clerk-treasurer and reviewed and approved by the town council.

Anticipated Completion Date: March 1, 2017

FINDING 2014-003

Contact Person Responsible for Corrective Action: Mary Alice Bemis
Contact Phone Number: 765-492-3518

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Town received the balance of grant funds in 2015 and don't anticipate having grants in the future.

Anticipated Completion Date: N/A

FINDING 2014-004

Contact Person Responsible for Corrective Action: Mary Alice Bemis

Contact Phone Number: 765-492-3518

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Town received the balance of grant funds in 2015 and don't anticipate having grants in the future.

Anticipated Completion Date: N/A

FINDING 2014-005

Contact Person Responsible for Corrective Action: Mary Alice Bemis

Contact Phone Number: 765-492-3518

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Town received the balance of grant funds in 2015 and don't anticipate having grants in the future.

Anticipated Completion Date: N/A

Mary Alice Bemis
(Signature)

Chief Treasurer
(Title)

2. 22-17
(Date)

CLERK-TREASURER
TOWN OF NEWPORT
AUDIT RESULTS AND COMMENTS

COMPENSATION AND BENEFITS

The Utility Clerk was paid \$330 from the Construction Fund and \$300 from Wastewater Operation & Maintenance Fund in November that was not included on her Earning's Record or reported on her 2014 Internal Revenue Service Wage and Tax Statement Form W-2 (W-2).

The Street Commissioner's Earnings Record did not match his 2014 W-2. The Earnings Record showed \$60 for Social Security tax withheld that was not reported on his W-2.

The Utility Clerk received compensation totaling \$630 in November for work performed for the new Wastewater Department. The salary was not approved until the December Board meeting.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

DEPOSITS

Receipts were deposited later than the next business day in 30 percent of receipts tested.

Receipts and deposit slips did not indicate the amount of cash and/or checks. Therefore, we could not determine that deposits were made intact.

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . . . Public funds deposited . . . shall be deposited in the same form in which they were received."

CLERK-TREASURER
TOWN OF NEWPORT
EXIT CONFERENCE

The contents of this report were discussed on March 13, 2017, with Mary A. Bemis, Clerk-Treasurer; Paul M. Lee, President of the Town Council; and James Sutliff, Town Council member.