

**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, 2015 to December 31, 2018



**FILED**  
12/13/2019



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls .....	6
Certification on Internal Control Standards .....	7
Errors on Claims .....	7
Compensation and Benefits .....	8
Ordinances and Resolutions .....	8
Fund Sources and Uses .....	8-9
Late Submission of Annual Financial Report .....	9
Exit Conference .....	10
Town Council:	
Audit Result and Comment:	
Training on Internal Control Standards .....	12
Exit Conference .....	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Alice Bemis James Sutliff	01-01-15 to 12-12-17 12-13-17 to 12-31-22
President of the Town Council	James Sutliff Paul M. Lee	01-01-15 to 12-31-16 01-01-17 to 12-31-19



**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, 2015 to December 31, 2018. 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 our Financial Statements Audit Report of the Town, which provides our opinion on the Town's financial statements. 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.

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

November 27, 2019

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CLERK-TREASURER  
TOWN OF NEWPORT

CLERK-TREASURER  
TOWN OF NEWPORT  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

*Condition and Context*

There were deficiencies in the internal control system of the Town related to financial transactions and reporting for cash and investments, receipts, payroll, and financial close and reporting.

*Cash and Investments*

The Clerk-Treasurer completed the monthly bank reconciliations. The Town Council had not implemented a system of oversight, review, or approval process.

*Receipts*

The Town had not segregated key functions related to receipts. The Clerk-Treasurer wrote the receipts, posted them to the ledger, and deposited the funds in the bank. The Water Utility Clerk calculated the monthly bills, received the money for utility payments, and posted them to the customer accounts. The Town Council had not implemented a system of oversight, review, or approval process.

*Payroll*

The Clerk-Treasurer processed payroll, posted payroll, and issued monthly payroll checks. The Town Council had not implemented a system of oversight, review, or approval process.

*Financial Close and Reporting*

The Clerk-Treasurer compiled and submitted the Annual Financial Report. The Town Council had not implemented a system of oversight, review, or approval process.

*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. . . ."

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

**CERTIFICATION ON INTERNAL CONTROL STANDARDS**

*Condition and Context*

The Town incorrectly certified on the Indiana Gateway for Government Units financial reporting system, for all years during the audit period, that personnel had completed the training on internal control standards. Personnel had not received training on these standards.

*Context*

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](#)."

**ERRORS ON CLAIMS**

*Condition and Context*

Of the 49 vendor disbursements claims tested, 4 claims were missing, 5 claims had not been approved by the Town Council, and 4 claims did not have all supporting documentation attached. Of the 29 construction claims tested, 16 did not have adequate supporting documentation.

*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
- (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. . . ."

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

**COMPENSATION AND BENEFITS**

A similar comment also appeared in prior Report B48157, entitled *COMPENSATION AND BENEFITS*.

*Condition and Context*

In 2015, one Town employee received compensation of \$1,170, which was not included in the salary ordinance.

In 2016, one Town employee received compensation of \$535, which was not included in the salary ordinance.

In 2018, three employees of the Fire Department received salaries totaling \$16,849, from the General fund, which were not included in the salary ordinance.

*Criteria*

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 must be paid 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)

**ORDINANCES AND RESOLUTIONS**

*Condition and Context*

In 2017, the Town Council members were paid the correct total amount, but the distribution between the Town and Utilities did not agree to the salary ordinance. The payments should have been \$350 from the General fund and \$100 from the Water Utility, but were actually paid entirely from the General fund.

In 2015, 2016, and 2017, the former Clerk-Treasurer was paid \$600 more annually, than the amounts approved in the salary ordinance. The governing body intended to add this amount to the salary as additional compensation for duties related to the newly created Wastewater Utility, but did not change the salary ordinance.

*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)

**FUND SOURCES AND USES**

*Condition and Context*

In August 2016, the Town transferred \$3,000 from the Local Roads and Street fund to the Motor Vehicle Highway fund.

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

*Criteria*

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)

**LATE SUBMISSION OF ANNUAL FINANCIAL REPORT**

*Condition and Context*

The Town's Annual Financial Report for 2015 was not filed electronically until April 1, 2016, which was 32 days past the due date.

*Criteria*

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](#)."

CLERK-TREASURER  
TOWN OF NEWPORT  
EXIT CONFERENCE

The contents of this report were discussed on November 27, 2019, with James Sutliff, Clerk-Treasurer, and Paul M. Lee, President of the Town Council.

TOWN COUNCIL  
TOWN OF NEWPORT

TOWN COUNCIL  
TOWN OF NEWPORT  
AUDIT RESULT AND COMMENT

***TRAINING ON INTERNAL CONTROL STANDARDS***

*Condition and Context*

Town employees had not completed internal control training after the adoption of internal control standards in Ordinance 2016-3.

*Criteria*

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL  
TOWN OF NEWPORT  
EXIT CONFERENCE

The contents of this report were discussed on November 27, 2019, with James Sutliff, Clerk-Treasurer, and Paul M. Lee, President of the Town Council.