

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, 2019 to December 31, 2019



FILED
08/28/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Financial Transactions and Reporting	6-8
Overdrawn Cash Balances	8
Compensation and Benefits	8-10
MVH Restricted Fund	10
Subsequent Events - Bank Reconciliations	11
Certification on Internal Control Standards	11
Official Response	12
Exit Conference	13
City Council:	
Audit Results and Comments:	
Overdrawn Cash Balances	16
Salary Ordinance	16-17
Training on Internal Control Standards	17
Exit Conference	18

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Christy York Brenda Grider	01-01-19 to 12-31-19 01-01-20 to 12-31-20
Mayor	Greg York	01-01-19 to 12-31-20
President of the Board of Public Works and Safety	Greg York	01-01-19 to 12-31-20
President Pro Tempore of the City Council	Mark Koger Rex Peckinpaugh	01-01-19 to 12-31-19 01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of New Castle (City), for the period from January 1, 2019 to December 31, 2019. 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 our 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/.

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

July 27, 2020

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CLERK-TREASURER
CITY OF NEW CASTLE

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the City related to financial transactions and reporting.

The City had not separated incompatible activities related to cash and investments, payroll disbursements, and financial reporting. A segregation of duties for each of these areas had not been designed or implemented to prevent, or detect and correct, errors.

An evaluation of the City's system of internal controls had not been conducted. Additionally, the City had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of the internal controls.

Cash and Investments (Bank Reconciliations)

The City had not properly designed or implemented internal controls over cash and investments, including bank reconciliations, to ensure the accuracy and completeness of the ledgers.

The reconciliation of the bank and ledger activity for ten bank accounts was either prepared by the bookkeeper or by a consultant without a documented oversight or review process to ensure that bank reconciliations were prepared and that reconciling items were corrected in a timely manner.

The January to October 2019 monthly bank reconciliations included numerous reconciling items, which were not timely posted to the City's financial system by December 2019. The reconciling items resulted in a \$74,651 overstatement of receipts and \$188,019 understatement of disbursements. The net effect of the numerous reconciling items not timely posted resulted in a \$262,669 overstatement of cash and investment balances at December 31, 2019. The financial statement was not adjusted for these unposted reconciling items.

Monthly bank account reconciliations were not prepared for three of the thirteen bank accounts for any month during the audit period. For the Sewage Bond Proceeds Trust fund bank account, the City had to request the 2019 monthly bank statements. The City had not recorded or reported the activity or cash and investment balance held by the bank for the Sewage Bond Proceeds Trust fund. This resulted in the understatement of the beginning cash and investment, receipts, disbursements, and ending cash and investment balance by \$14,721,965, \$417,197, \$1,500,175, and \$13,638,987, respectively.

An audit adjustment was proposed, approved by the City, and made to the financial statement to add the Sewage Bond Proceeds Trust fund activity and balance to the financial statement.

Payroll Disbursements

The Payroll Administrator performed all procedures related to payroll disbursements, including entering employees' pay rates into the system, without a documented oversight or review process to ensure that individual employees' pay were accurate, complete, and paid from the correct fund and account. The Clerk-Treasurer reviewed gross payroll in total; however, documentation of an oversight or review process at the detail level was not designed.

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

Financial Reporting

The financial information was prepared and electronically submitted through the Indiana Gateway for Government Units financial reporting system, which was the basis for the City's financial statement, by the Clerk-Treasurer. An oversight or review process had not been documented to prevent, or detect and correct errors, and to ensure that the financial information recorded and reported was accurate and complete. The financial statement was understated by the activity and balances noted above.

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. Clear documentation should be maintained for continuity as well as ease of communication to outside parties.

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. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties.

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 5-13-6-1(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."

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

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)

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 and B53559.

Condition and Context

The City's financial statement included the following funds with overdrawn cash balances at December 31, 2019:

Fund	Amount Overdrawn
HEALTH INS. CUM.	\$ 4,991,890
1ST AID RECOVERY N/R	52,074
P/R D.D. CLEARING FUND	153,319
P/R PERF	12,524
TG Student Loan	2,172

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)

COMPENSATION AND BENEFITS

Condition and Context

The following deficiencies with compensation and benefits were noted:

- a. The City's salary ordinance and Fraternal Order of Police Contract had conflicting information regarding longevity for police officers.

Salary Ordinance #3799 for policy longevity states: "On the first of the following month after the date of employment each Police Officer in all levels of the New Castle Police Department will receive \$28.00 per month of longevity pay for each three (3) years of continuous employment." Based upon the salary ordinance, an officer would receive \$336 annually.

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

The 2019 Fraternal Order of Police contract, article 24 for longevity pay states: "In addition to any salary or other economic benefit, each employee shall receive (\$15.00) per pay for each of the (3) years of continuous service to the department." Based upon this contract, an official would receive \$390 annually.

- b. Four employees were paid for special duty or certifications pay included in the salary ordinance; however, the City did not have proper documentation to support the additional payments. One of the four employees was also paid an additional \$0.20 an hour for working an 11pm to 7am shift; however, according to the union contract the shift pay should have been paid at an additional \$0.25 an hour.
- c. Three of the nine time records tested were not approved by the appropriate official or department head.
- d. Six utility billing office employees were to be paid a set percent of their wages out of Water, Wastewater, Sanitation, and Stormwater funds.

Salary Ordinance #3796 states in part:

"Utility Office Clerks percentage of pay based on revenue evaluated yearly to develop departmental wage responsibility. Figures are based on the first 6 months of previous year's revenue as established by Ordinance #3620. Breakdown for 2019 will be as follows:

Water 23% Wastewater 58% Sanitation 7% Stormwater 12%"

The six utility billing office clerks wages were posted to the funds based upon the following incorrect percentages which were based on the 2017 salary ordinance:

Water 36%, Wastewater 45%, Sanitation 11%, Stormwater 8%

- e. The 2019 bookkeeper was elected the City's Clerk-Treasurer effective as of January 1, 2020. In December 2019, the City paid \$11,173 to the bookkeeper for 77 days of accumulated time. The 77 days were determined to be 20 vacation, 37 sick, and 20 personal for time accrued since October 1, 2016.

Based upon the employee service records, the 20 vacation days paid out were overstated by five vacation days that were used in 2017.

Salary Ordinance #3793 states in part:

"SICK/PERSONAL DAYS: The Department of Finance employees will receive 10 sick days annually and may accumulate up to 60 days. After said accumulation, days will be awarded monthly within the year up to 10 days, not to exceed 60 days in any year. (No payout will be made for days over 60.) Employees will receive 5 personal days annually, these days will not accumulate nor can they be sold. . . .

RETIREMENT: Salaries shall be paid through the last work day. Lump sum payments will be made for all eligible sick and vacation day accruals. Benefits continue under terms of the City Policy.

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

PAYMENT IN LIEU OF SICK DAYS AT TERMINATION OF EMPLOYMENT: In an employee ends employment with the Department of Finance, they shall receive payment for any unused vacation day that the employee has accumulated. Accumulated sick days will only be paid upon retirement, layoff or death."

The salary ordinance does not provide a definition for retirement, nor did the bookkeeper terminate from employment. Thus, the pay out of the accumulated time was not in compliance with the City's salary ordinance, nor did the City Council approve the pay out of accumulated time. The City Council plans to retroactively approve the pay out of the accumulated time with the exception of the overstated five vacation days.

Thus, the compensation paid to the former bookkeeper for the accumulated vacation days exceeded the amount supported by the employees' earnings record. We requested the City pursue reimbursement of the \$725.50 from the former bookkeeper for the overpayment of compensation. If reimbursement is not collected by the City, this will result in a future charge.

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)

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)

Units must collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MVH RESTRICTED FUND

Condition and Context

The City created the Motor Vehicle Highway (MVH) Restricted Fund and allocated 50 percent of the State Motor Vehicle Highway distributions for construction, reconstruction, and preservation of the City's highways. However, the MVH Restricted Fund disbursed \$4,863 for a truck lease, and transferred \$98,450 to the Riley Sidewalk Grant fund, which were determined to be for items other than construction, reconstruction, and preservation of the City's highways.

Criteria

Indiana Code 8-14-1-5(c) states: "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."

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

SUBSEQUENT EVENTS - BANK RECONCILIATIONS

Condition and Context

The City converted to a new financial software system in January 2020. As of July 20, 2020, the City had not performed any of the monthly bank reconciliations for 2020.

As of July 20, 2020, the beginning cash and investment balances for five funds, totaling \$1,848,466, had not yet been posted to the new financial software system.

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."

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)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The City certified on the Indiana Gateway for Government Units financial reporting system that appropriate personnel were trained on internal control standards adopted by the City. However, the City did not have documentation to support that personnel received the internal control training.

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](#)."



City of New Castle, Indiana

City Clerk Treasurer's Office

Brenda Grider
City Clerk Treasurer

227 N. Main Street
New Castle, IN 47362

OFFICIAL RESPONSE

Date: August 19, 2020


Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Overdrawn Cash Balances, Salary Ordinance, Internal Controls

We agree with the findings of the audit for the period 01/01/2019 – 12/31/2019. Our corrective plan of action has been completed in all the findings to date. The Health Fund deficit has been addressed with a two-year plan to correct the fund. 1st Aid Recovery December reimbursement was not received until January 2020 to clear the negative. D. D. Clearing/ Perf / TG Student Loan was cleared in January 2020.

Salary Ordinances have been amended to correct the conflicting information.

Due to Covid 19 I have not yet been able to set up a time to get the most employees together due to social distancing, but are hoping we can get smaller groups together in the next two months to view internal control standards and procedures.


Brenda Grider
Clerk Treasurer

CLERK-TREASURER
CITY OF NEW CASTLE
EXIT CONFERENCE

The contents of this report were discussed on July 27, 2020, with Brenda Grider, Clerk-Treasurer; Christy York, former Clerk-Treasurer; Greg York, Mayor; Rex Peckinpugh, President Pro Tempore of the City Council; and Aaron Dicken, City Council member.

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CITY COUNCIL
CITY OF NEW CASTLE

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AUDIT RESULTS AND COMMENTS

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SALARY ORDINANCE

Condition and Context

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Salary Ordinance #3799 for policy longevity states: "On the first of the following month after the date of employment each Police Officer in all levels of the New Castle Police Department will receive \$28.00 per month of longevity pay for each three (3) years of continuous employment." Based upon the salary ordinance, an officer would receive \$336 annually.

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

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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)

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)

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Documentation that training on internal control standards was provided to required personnel was not presented for audit.

Criteria

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CITY COUNCIL
CITY OF NEW CASTLE
EXIT CONFERENCE

The contents of this report were discussed on July 27, 2020, with Brenda Grider, Clerk-Treasurer; Christy York, former Clerk-Treasurer; Greg York, Mayor; Rex Peckinpugh, President Pro Tempore of the City Council; and Aaron Dicken, City Council member.