B55672

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF NEW CASTLE

HENRY COUNTY, INDIANA

January 1, 2019 to December 31, 2019

FILED
08/28/2020

TABLE OF CONTENTS

Description	Page
Schedule of Officials	2
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance with *Government Auditing Standards*	3-4
Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	5-7
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards	11
Notes to Schedule of Expenditures of Federal Awards	12
Schedule of Findings and Questioned Costs	13-19
Auditee-Prepared Document:	
Corrective Action Plan	22-24
Other Reports	25

SCHEDULE OF OFFICIALS

Office	Official	Term
Clerk-Treasurer	Christy York	01-01-19 to 12-31-19
	Brenda Grider	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	01-01-19 to 12-31-19
	Rex Peckinpaugh	01-01-20 to 12-31-20

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of New Castle (City), for the year ended December 31, 2019, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated July 27, 2020, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002.

City of New Castle's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

July 27, 2020

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for the Major Federal Program

We have audited the City of New Castle's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2019. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2019-003, that we consider to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the City, as of and for the year ended December 31, 2019, and the related notes to the financial statement. We issued our report thereon dated July 27, 2020, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.

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

July 27, 2020

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

(This page intentionally left blank.)

CITY OF NEW CASTLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Department of Housing and Urban Development					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	Office of Community and Rural Affairs	14.228			
Blight Elimination Program			A192-18-WW-17-122	$ -	$ 457,911
Total - Department of Housing and Urban Development				-	457,911
Department of Transportation					
Formula Grants for Rural Areas and Tribal Transit Program	Indiana Department of Transportation	20.509			
Community Transit System			1803710c	-	219,931
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
INDOT Fitzgerald Trail			DES # 1600976	-	24,771
Total - Highway Planning and Construction Cluster				-	24,771
Federal Transit Cluster					
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	Indiana Department of Transportation	20.526			
Transit Vehicle Grant			1803710O	-	132,240
Total - Total Federal Transit Cluster				-	132,240
Highway Safety Cluster					
State and Community Highway Safety	Indiana Criminal Justice Institute	20.600			
Operation Pullover			36382	-	21,409
Total - Highway Safety Cluster				-	21,409
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	Indiana Criminal Justice Institute	20.608			
Stop Arm/Vest/Aries/Seatbelt			33917	-	52,824
Total - Department of Transportation				-	451,175
Total federal awards expended				$ -	$ 909,086

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF NEW CASTLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF NEW CASTLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

CFDA Number	Name of Federal Program or Cluster	Opinion Issued
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2019-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

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. Segregation of duties for each of these areas had not been designed or implemented to prevent, or detect and correct, errors in the financial statements.

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 the bank reconciliations, to ensure the accuracy and completeness of the ledgers.

The reconcilements of the bank and ledger activity for 10 bank accounts were either prepared by the bookkeeper, or by a consultant, without a documented oversight or review process to ensure that they were prepared and that reconciling items were corrected in a timely manner.

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

Monthly bank account reconciliations were not prepared for 3 of the 13 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 the ending cash and investment balance by $14,721,965, $417,197, $1,500,175, and $13,638,987, respectively.

Audit adjustments were 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 the rates 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.

Financial Reporting

The financial information was prepared and submitted electronically into the Indiana Gateway for Government Units financial reporting system, which was the source of the City's financial statement. 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 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."

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)

Cause

Management of the City had not established or implemented a proper system of internal controls. An evaluation of the City's system of internal controls had not been conducted. Management had not conducted a risk assessment related to the City's financial reporting and transactions.

Effect

The failure to properly establish a system of internal controls over cash and investments and reporting enabled material misstatements or irregularities to remain undetected. The failure to properly establish a system of internal controls over payroll disbursements could have enabled misstatements or irregularities to remain undetected. The failure to communicate and monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, 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.

FINDING 2019-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition and Context

The City 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 was solely responsible for obtaining grant information, filling out the SEFA in the Indiana Gateway for Government Units financial reporting system, and submitting it. There was a lack of oversight or review that would have prevented or detected material errors on the SEFA.

During the audit of the SEFA, the following errors were noted:

1. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii expenditures were understated by $388,915.

2. The Formula Grants for Rural Areas and Tribal Transit Program expenditures were overstated by $249,201.

3. The Highway Planning and Construction; Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs; State and Community Highway Safety; and Minimum Penalties for Repeat Offenders for Driving While Intoxicated grants were omitted from the SEFA.

4. Insurance in the amount of $1,000,000 was incorrectly included with the Formula Grants for Rural Areas and Tribal Transit Program.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

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. . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

(b) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 must:

(1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.

(4) Include the total amount provided to subrecipients from each Federal program.

(5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.

(6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

The City's management had not established a system of internal control that would ensure proper reporting of 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 and Context*.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2019-003

Subject: Community Development Block Grants - Reporting
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): A192-18-WW-17-122
Pass-Through Entity: Office of Community and Rural Affairs
Compliance Requirement: Reporting
Audit Finding: Material Weakness

Condition and Context

An effective internal control system, which would include segregation of duties, was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement.

The reports were prepared and submitted by the consultant for the City. There was no evidence of procedures such as an oversight, review, or approval process by City officials.

The lack of controls was a systemic issue, which occurred throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

> (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

Management did not develop a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the Reporting compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish a system of internal controls, including segregation of duties, related to the grant agreement and Reporting compliance requirement.

Views of Responsible Officials

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

(This page intentionally left blank.)

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.

City of New Castle, Indiana

City Clerk Treasurer's Office

Brenda Grider
City Clerk Treasurer

227 N. Main Street
New Castle, IN 47362

CORRECTIVE ACTION PLAN

FINDING 2019-001

Contact Person Responsible for Corrective Action: Brenda Grider
Con tact Phone Number: 765-521-6803

Views of Responsible Official: We concur with the

finding Description of Corrective Action Plan:

A segregation of duties has been implemented for Cash, Investments, payroll disbursements and Financial reporting.

All cash receipts, investments payroll disbursements and financial reporting will now have at least two sets of signatures on them. The one who actually does the work will sign and it will be checked by another.

Financial reporting will be done in a timely manner as soon as we get all the adjusting done in the new accounting software.

All Claims, timecards and time sheets will be a original signature of Department Head of Manager.

All information will be downloaded into Gateway in a timely manner.

All correction will start being dated on the date it was done and will not be back dated.

All employees will be watching the Internal Controls Video again and will have currented signed paper to reflect this.

Anticipated Completion Date:

All corrections will be in place effective immediately or as soon as the new accounting system is adjusted accordingly.

Brenda Grider
(Signature)

Clerk Treasurer
(Title)

06.22.2020
(Date)

Phone(765)521-6803 Email: nccityclerk@gmail.com Fax (765) 529-0621

City of New Castle, Indiana

City Clerk Treasurer's Office

Bren da Grider
City Clerk Treasurer

227 N. Main Street
New Castle, IN 47362

CORRECTIVE ACTION PLAN

FINDING 2019-002

Contact Person Responsible for Corrective Action: Brenda Grider
Contact Phone Number: (765) 521-6803

Views of Responsible Officia:l We concur with the Finding.

Description of Corrective Action Plan:

Clerk Treasurer will review and sign a printed copy or give approval through email before final submission.

The City of New Castle developed and approved Policy 1.24 Grant Management Manual through Board of Public Work. and Safetyon05/18/2020.

AnticipatedCompletion Date

Immediately

Phonc (765)52 1-6803 Email nccityclerk@gma il.co m Fax (765) 529-0621

City of New Castle, Indiana

City Clerk Treasurer's Office

Bren da Grider
City Clerk Treasurer

227 N. Main Street
New Castle, IN 47362

CORRECTIVE ACTION PLAN

FINDING 2019-003

Contact Person Responsible for Corrective Action: Brenda Grider
Contact Phone Number: (765) 521-6803

Views of Responsible Official: We concur with the Finding.

Description of Corrective Action Plan:

Future grant reports will be reviewed by Clerk Treasurer prior to the consultant submitting, via email approval. The City of New Castle developed and approved Policy 1.24 Grant Management Manual through Board of Public Works and Safety on 05/18/2020.

AnticipatedCompletion Date:

Immediately

Phone (765) 521 -6803 Email nccityclerk@gmail.com Fax (765) 529-0621

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: http://www.in.gov/sboa/.