

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF NEWBURGH

WARRICK COUNTY, INDIANA

January 1, 2018 to December 31, 2019



FILED
11/24/2020

TABLE OF CONTENTS

| <u>Description</u> | <u>Page</u> |
|---|-------------|
| Schedule of Officials | 2 |
| Transmittal Letter | 3 |
| Town Council: | |
| Audit Result and Comment: | |
| Wastewater Utility Operating Funds Used for Town Expenses | 6 |
| Exit Conference | 7 |
| Clerk-Treasurer: | |
| Audit Results and Comments: | |
| Internal Controls and Compliance over Financial Transactions and Reporting..... | 10-11 |
| Capital Assets | 11 |
| Exit Conference | 12 |

SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|-------------------------|----------------------|
| Clerk-Treasurer | Jon Lybarger (deceased) | 01-01-18 to 12-08-18 |
| | (Vacant) | 12-09-18 to 01-22-19 |
| | Nannette Angel | 01-23-19 to 12-31-20 |
| President of the Town Council | Leanna K. Hughes | 01-01-18 to 12-31-18 |
| | William Kavanaugh | 01-01-19 to 12-31-19 |
| | Stacie M. Krieger | 01-01-20 to 12-31-20 |
| Utility Office Manager | Susan Helms | 01-01-18 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

TO: THE OFFICIALS OF THE TOWN OF NEWBURGH, WARRICK COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Newburgh (Town), for the period from January 1, 2018 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 Town. It should be read in conjunction with our Financial Statement Audit Report of the Town, which provides our opinions on the Town'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

November 16, 2020

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TOWN COUNCIL
TOWN OF NEWBURGH

TOWN COUNCIL
TOWN OF NEWBURGH
AUDIT RESULT AND COMMENT

WASTEWATER UTILITY OPERATING FUNDS USED FOR TOWN EXPENSES

Condition and Context

The Town transferred Return on Investment (ROI) fees in the amounts of \$656,500 and \$700,000, from the Wastewater Operating fund to the Town General Fund in the years 2018 and 2019, respectively. These fees were authorized by Ordinance 2012-23 which references Indiana Code 36-9-23-25(d)(10), but the statute does not grant authority to transfer those fees to the general fund or any other fund.

Criteria

Indiana Code 36-9-23-25(d) states in part:

"The municipal legislative body may use one (1) or more of the following factors to establish the fees: . . .

- (9) The amount of money sufficient to compensate the municipality for the property taxes that would be paid on the sewage works if the sewage works were privately owned.
- (10) Any other factors the legislative body considers necessary.

. . . The board may transfer fees collected in lieu of taxes under subdivision (9) to the general fund of the municipality."

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve fund permits transfer of surplus utility funds to the city or town General fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2016 Part One)

Indiana Code 36-9-23-25 states in part:

"(a) Subject to section 37 of this chapter, the municipal legislative body shall, by ordinance, establish just and equitable fees for the services rendered by the sewage works, and provide the dates on which the fees are due.

(b) Just and equitable fees are the fees required to maintain the sewage works in the sound physical and financial condition necessary to render adequate and efficient service. The fees must be sufficient to:

- (1) pay all expenses incidental to the operation of the works, including legal expenses, maintenance costs, operating charges, repairs, lease rentals, and interest charges on bonds or other obligations;
- (2) provide the sinking fund required by section 21 of this chapter;
- (3) provide adequate money to be used as working capital; and
- (4) provide adequate money for improving and replacing the works. . . ."

TOWN COUNCIL
TOWN OF NEWBURGH
EXIT CONFERENCE

The contents of this report were discussed on November 16, 2020, with Nannette Angel, Clerk-Treasurer; Stacie M. Krieger, President of the Town Council; Susan Helms, Utility Officer Manager; Rosanne McMichael, Deputy Clerk-Treasurer; Chris Wischer, Town Attorney; and Christy Powell, Town Manager.

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CLERK-TREASURER
TOWN OF NEWBURGH

CLERK-TREASURER
TOWN OF NEWBURGH
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town did not have a proper system of internal controls in place over financial close and reporting to prevent, or detect and correct, errors. Due to the lack of effective internal controls over the input of financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Reports (AFR) and the financial statement, material errors remained undetected.

The AFRs for 2018 and 2019 were materially incorrect and did not accurately reflect the transactions and balances of the Town funds. The Payroll fund receipts and disbursements were understated for the year 2018 and omitted for the year 2019. This resulted in cash receipts being understated by \$752,107 and \$3,071,533, for the years 2018 and 2019, respectively, and cash disbursements being understated by \$752,107 and \$3,071,432, for the years 2018 and 2019, respectively.

Audit adjustments were proposed, accepted by the Town, 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:

"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.

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

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. . . ."

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](#)."

CAPITAL ASSETS

Condition and Context

The detailed capital assets listing maintained by the Town was not complete. Several assets purchased in the years 2018 and 2019 were not added to the detailed listing. Also, the Town did not complete a physical inventory during the two-year audit period.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF NEWBURGH
EXIT CONFERENCE

The contents of this report were discussed on November 16, 2020, with Nannette Angel, Clerk-Treasurer; Stacie M. Krieger, President of the Town Council; Susan Helms, Utility Officer Manager; Rosanne McMichael, Deputy Clerk-Treasurer; Chris Wischer, Town Attorney; and Christy Powell, Town Manager.