

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, 2020 to December 31, 2020



FILED
05/06/2022

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 | 8-9 |
| Annual Financial Report Filed Late..... | 9 |
| Monthly and Annual Uploads | 9-11 |
| Accounting for Coronavirus Relief Funds | 11-12 |
| Exit Conference | 13 |
| Common Council: | |
| Audit Result and Comment: | |
| Training on Internal Control Standards | 16 |
| Exit Conference | 17 |

SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|-----------------|----------------------|
| Clerk-Treasurer | Brenda Grider | 01-01-20 to 12-31-22 |
| Mayor | Greg York | 01-01-20 to 12-31-22 |
| President of the Board of Public Works and Safety | Greg York | 01-01-20 to 12-31-22 |
| President Pro Tempore of the Common Council | Rex Peckinpaugh | 01-01-20 to 12-31-22 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2020 to December 31, 2020. 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

April 18, 2022

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CLERK-TREASURER
CITY OF NEW CASTLE

CLERK-TREASURER
CITY OF NEW CASTLE
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

The same comment appeared in the prior Report B55671.

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 and financial reporting. A segregation of duties for both areas had not been designed or implemented to prevent, or detect and correct, errors in the financial statement.

An evaluation of the City's system of internal control had not been conducted. Additionally, the City did not have a process to identify or communicate corrective actions to improve 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 depository balances to the financial ledger balances were either prepared by the Clerk-Treasurer, or by a consultant, without a documented oversight or review process to ensure that bank reconciliations were prepared timely and that reconciling items were corrected in a timely manner.

Monthly bank account reconciliations for 12 bank accounts were not prepared until March 2022.

Records were not maintained by the City for 5 bank accounts related to the Sewage Bond Proceeds Trust fund and the SRFWW 2018 fund. Reconciliations were not completed for any month during the audit period for the 2 funds, and the City had to request the 2020 monthly bank statements. Also, the City had not recorded or reported the activity or cash and investment balances held by the bank for the two funds. This resulted in the understatement of the beginning cash and investments balance, receipts, disbursements, and ending cash and investments balance by \$13,638,987, \$585,991, \$1,813,981, and \$12,410,997, respectively.

Audit adjustments were proposed, approved by the City, and made to the financial statement to add the activity and balances to the financial statement for the Sewage Bond Proceeds Trust and the SRFWW 2018 funds.

The January to December 2020 monthly bank reconciliations included numerous reconciling items which were not timely posted to the City's financial system by December 2020. The reconciling items included 2019 items totaling \$298,794, plus 2020 items that resulted in a \$68,794 understatement of receipts and \$317,438 understatement of disbursements for a total net overstatement of \$547,438 of cash and investment balances at December 31, 2020.

Financial Transactions

The City had not properly designed or implemented internal controls over financial transactions to ensure the accuracy of the ledger postings.

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

During 2020, the General fund received interfund loans from the Wastewater Operating fund totaling \$1,400,000. The General fund repaid the loans prior to December 31, 2020; however, the repayment was receipted to the Storm Water N/R (W/W) fund in error.

During 2020, construction expenses of \$1,034,048 and debt service expenses of \$1,321,050 were posted to the Wastewater Operating fund that should have been posted to the LTCP Construction Funds and the Wastewater Bond & Interest fund, respectively.

Audit adjustments were proposed, approved by the City, and made to the financial statement to correct the applicable activity for the Storm Water N/R (W/W), the Wastewater Operating, LTCP Construction Funds, and the Wastewater Bond and Interest funds.

Financial Reporting

The financial information was prepared and electronically submitted by the Clerk-Treasurer to 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 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. . . ."

"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.

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

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 audited entity 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](#)."

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)

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)

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B49111, B53559, and B55671.

Condition and Context

The City's financial statement included the following funds with overdrawn cash balances at December 31, 2020, that were not considered to be reimbursable grant funds:

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

| Fund | Amount Overdrawn |
|------------------------|---------------------|
| MVH | \$ 210,375 |
| IPFP EMPLEE CLEARING | 20,166 |
| HEALTH INS. CUM. | 5,200,009 |
| 1ST AID RECOVERY N/R | 56,621 |
| POOL BOND & INTERST | 80,041 |
| EMS BUILDING PROJECT | 592,364 |
| P/R D.D. CLEARING FUND | 198,733 |
| P/R FEDERAL | 12,021 |
| TG STUDENT LOAN | 2,172 |
| P/R FOP UNION DUES | 2,151 |
| P/R BOSTON | 87 |
| P/R MISC | 26,867 |
| P/R GARNISHMENTS | 1,737 |
| WASTEWATER OPERATING | 160,039 |
| WASTEWATER IMPROVEMENT | 30,180 |
| UTILITIES CC ACCOUNT | 8,467 |

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)

ANNUAL FINANCIAL REPORT FILED LATE

Condition and Context

The 2020 Annual Financial Report was due on March 1, 2021, but the City did not file until March 7, 2022, which was 370 days after the due date.

Criteria

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

"The state examiner shall require from every audited entity 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](#)."

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The City did not comply with the State Examiner Directive 2018-1 and Amended State Examiner Directive 2018-1 and failed to upload the required monthly fund ledgers or bank reconcilements and all the required annual items for 2020 to the Indiana Gateway for Government Units financial reporting system.

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

Criteria

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. . . .

Thereafter, monthly files must be uploaded no later than the 15th day of the second succeeding month, i.e. August monthly files are due on October 15. . . .

Annual files are due to be uploaded on Gateway no later than March 1, 2019. Thereafter, annual files must be uploaded no later than March 1 for the prior year end unless the SBOA establishes a different date. . . . (State Examiner Directive 2018-1)

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . .

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at: <https://gateway.ifonline.org/userguides/engagementguide>. **It is pertinent that this user guide be used in conjunction with this Directive.** It provides critical information to you that will help guide you to uploading the correct documents.

The following files and governmental unit information are required to be uploaded monthly by all units except as noted:

- Bank Reconcilements, Bank Statements, and Outstanding Check Lists
- Approved Board Minutes, please see the user guide for more information and examples
- Funds Ledger, summarizing total receipts, disbursements, and beginning and ending balances by fund

The following files and governmental unit information are required to be uploaded annually (for Counties, these apply to County Auditors unless otherwise noted): . . .

- Detail of Receipts for the year
- Detail of Disbursements for the year
- Current year Salary Ordinance (or Schedule) and Amendments (except Schools)
- Annual Vendor History Report
- Annual Payroll History Report, without social security numbers
- Annual Funds Ledger, summarizing year-to-date total receipts, year-to-date disbursements, and beginning and ending balances by fund . . .
- Optional: Excel Data Capture/Data Dump (in lieu of Detail of Receipts and Disbursements)

(Amended State Examiner Directive 2018-1)

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

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Condition and Context

The City did not properly account for the Coronavirus Relief Fund (CRF) in accordance with the State Examiner Directive 2020-3 (Directive).

The City receipted the reimbursements from the Indiana Finance Authority (IFA) in the amount of \$560,239, into the established CARES Act fund. A reversing entry was not made from the originating fund for the non-health and public safety payroll expenses.

In addition, a claim was not prepared against the separate CARES Act fund, nor was a reversing entry made for the reimbursed health and public safety expenses. These actions would have properly reinstated cash balances and brought the CARES Act fund balance to zero. Finally, the City receipted an additional \$16,721 into the CARES Act fund from the General fund.

The ending cash balance in the CARES Act fund was \$576,960. This balance still exists as of the report date.

Criteria

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

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

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020. . . .**

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .** (State Examiner Directive 2020-3)

CLERK-TREASURER
CITY OF NEW CASTLE
EXIT CONFERENCE

The contents of this report were discussed on April 18, 2022, with Brenda Grider, Clerk-Treasurer; Greg York, Mayor; Rex Peckinpaugh, President Pro Tempore of the Common Council; Aaron Dicken, Common Council member; Lynn Perdue, Common Council member; and Jerry Walden, Common Council member.

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COMMON COUNCIL
CITY OF NEW CASTLE

COMMON COUNCIL
CITY OF NEW CASTLE
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

The same comment also appeared in the prior Report B55671.

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."

COMMON COUNCIL
CITY OF NEW CASTLE
EXIT CONFERENCE

The contents of this report were discussed on April 18, 2022, with Brenda Grider, Clerk-Treasurer; Greg York, Mayor; Rex Peckinpaugh, President Pro Tempore of the Common Council; Aaron Dicken, Common Council member; Lynn Perdue, Common Council member; and Jerry Walden, Common Council member.