

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF MEDARYVILLE
PULASKI COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
07/19/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-5
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	6-7
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	11
Notes to Financial Statement	12-15
Supplementary Information - Unaudited:	
Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	18-23
Schedule of Debt	24
Schedule of Capital Assets	25
Audit Results and Comments:	
Internal Controls Over Financial Transactions and Reporting	26
Internal Controls Over the Schedule of Expenditures of Federal Awards	26-27
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance	30-31
Schedule of Expenditures of Federal Awards	35
Note to Schedule of Expenditures of Federal Awards	36
Schedule of Findings and Questioned Costs	37-39
Auditee Prepared Schedule:	
Corrective Action Plan	40-41
Exit Conference	42

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Judy Harwood	01-01-08 to 12-31-15
President of the Town Council	Gene Payne	01-01-11 to 12-31-13



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

TO: THE OFFICIALS OF THE TOWN OF MEDARYVILLE, PULASKI COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Medaryville (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the Town prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the period of January 1, 2011 to December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2013, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, 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

INDEPENDENT AUDITOR'S REPORT
(Continued)

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 taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

June 20, 2013



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 TOWN OF MEDARYVILLE, PULASKI 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 Town of Medaryville (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated June 20, 2013, wherein we noted the Town 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 Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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

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)

provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Medaryville's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town'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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

June 20, 2013

(This page intentionally left blank.)

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Town. The financial statement and notes are presented as intended by the Town.

(This page intentionally left blank.)

TOWN OF MEDARYVILLE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
GENERAL	\$ 164,590	\$ 229,852	\$ 205,173	\$ 189,269	\$ 169,060	\$ 238,665	\$ 119,664
MOTOR VEHICLE HIGHWAY	58,711	44,769	53,483	49,997	36,852	62,067	24,782
LOCAL ROAD & STREET	4,696	2,009	3,694	3,011	2,118	3,585	1,544
SANITATION	2,441	40,334	39,645	3,130	39,409	39,018	3,521
LOCAL LAW ENF CONT ED	3,000	774	1,425	2,349	480	927	1,902
PARK & RECREATION	1,980	490	175	2,295	300	100	2,495
RAINY DAY	30,215	-	-	30,215	25,000	-	55,215
C.E.D.I.T.	44,458	21,237	45,304	20,391	19,346	-	39,737
LEVY EXCESS	563	-	563	-	-	-	-
STORMWATER GRANT	-	119,241	119,241	-	936,599	936,599	-
CUM CAP IMP - CIG TAX	27,619	1,623	-	29,242	1,628	-	30,870
POLICE RESERVE EQUIPMENT	-	50	-	50	-	-	50
PAYROLL	56	169,375	169,431	-	176,124	176,124	-
SEWER OPERATING	122,586	178,040	192,502	108,124	164,893	197,981	75,036
SEWER REPLACEMENT	140,405	-	907	139,498	-	75	139,423
SEWER BOND & INT	-	100,900	100,900	-	107,371	107,371	-
SEWER DEBT SERVICE	121,169	-	9,797	111,372	-	-	111,372
WATER OPERATING	65,338	176,281	140,354	101,265	174,885	165,308	110,842
WATER METER DEPOSIT	23,530	4,650	6,075	22,105	7,000	4,405	24,700
WATER REPLACEMENT	47,261	12,271	100	59,432	12,000	-	71,432
WATER BOND & INTEREST	-	35,290	35,290	-	35,245	35,245	-
WATER DEBT SERVICE	43,789	5,400	6,332	42,857	4,166	-	47,023
Totals	<u>\$ 902,407</u>	<u>\$ 1,142,586</u>	<u>\$ 1,130,391</u>	<u>\$ 914,602</u>	<u>\$ 1,912,476</u>	<u>\$ 1,967,470</u>	<u>\$ 859,608</u>

The notes to the financial statement are an integral part of this statement.

TOWN OF MEDARYVILLE
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the Town.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

TOWN OF MEDARYVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

TOWN OF MEDARYVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

TOWN OF MEDARYVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. *Deposits and Investments*

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. *Risk Management*

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

(This page intentionally left blank.)

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Town which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF MEDARYVILLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD & STREET	SANITATION	LOCAL LAW ENF CONT ED	PARK & RECREATION	RAINY DAY	C.E.D.I.T.
Cash and investments - beginning	\$ 164,590	\$ 58,711	\$ 4,696	\$ 2,441	\$ 3,000	\$ 1,980	\$ 30,215	\$ 44,458
Receipts:								
Taxes	135,307	27,557	-	-	-	-	-	-
Licenses and permits	359	-	-	-	10	-	-	-
Intergovernmental	93,606	17,212	2,009	-	-	-	-	21,237
Charges for services	-	-	-	40,334	15	490	-	-
Fines and forfeits	-	-	-	-	699	-	-	-
Other receipts	580	-	-	-	50	-	-	-
Total receipts	<u>229,852</u>	<u>44,769</u>	<u>2,009</u>	<u>40,334</u>	<u>774</u>	<u>490</u>	<u>-</u>	<u>21,237</u>
Disbursements:								
Personal services	73,521	26,323	-	-	-	-	-	-
Supplies	8,881	5,013	-	-	-	-	-	-
Other services and charges	109,497	15,531	-	39,645	1,425	175	-	-
Capital outlay	13,274	6,616	3,694	-	-	-	-	45,304
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-	-
Total disbursements	<u>205,173</u>	<u>53,483</u>	<u>3,694</u>	<u>39,645</u>	<u>1,425</u>	<u>175</u>	<u>-</u>	<u>45,304</u>
Excess (deficiency) of receipts over disbursements	<u>24,679</u>	<u>(8,714)</u>	<u>(1,685)</u>	<u>689</u>	<u>(651)</u>	<u>315</u>	<u>-</u>	<u>(24,067)</u>
Cash and investments - ending	<u>\$ 189,269</u>	<u>\$ 49,997</u>	<u>\$ 3,011</u>	<u>\$ 3,130</u>	<u>\$ 2,349</u>	<u>\$ 2,295</u>	<u>\$ 30,215</u>	<u>\$ 20,391</u>

TOWN OF MEDARYVILLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	LEVY EXCESS	STORMWATER GRANT	CUM CAP IMP - CIG TAX	POLICE RESERVE EQUIPMENT	PAYROLL	SEWER OPERATING	SEWER REPLACEMENT	SEWER BOND & INT
Cash and investments - beginning	\$ 563	\$ -	\$ 27,619	\$ -	\$ 56	\$ 122,586	\$ 140,405	\$ -
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	119,241	1,623	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Other receipts	-	-	-	50	169,375	178,040	-	100,900
Total receipts	<u>-</u>	<u>119,241</u>	<u>1,623</u>	<u>50</u>	<u>169,375</u>	<u>178,040</u>	<u>-</u>	<u>100,900</u>
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	119,241	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	87,623	-	-
Other disbursements	563	-	-	-	169,431	104,879	907	100,900
Total disbursements	<u>563</u>	<u>119,241</u>	<u>-</u>	<u>-</u>	<u>169,431</u>	<u>192,502</u>	<u>907</u>	<u>100,900</u>
Excess (deficiency) of receipts over disbursements	<u>(563)</u>	<u>-</u>	<u>1,623</u>	<u>50</u>	<u>(56)</u>	<u>(14,462)</u>	<u>(907)</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,242</u>	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ 108,124</u>	<u>\$ 139,498</u>	<u>\$ -</u>

TOWN OF MEDARYVILLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	SEWER DEBT SERVICE	WATER OPERATING	WATER METER DEPOSIT	WATER REPLACEMENT	WATER BOND & INTEREST	WATER DEBT SERVICE	Totals
Cash and investments - beginning	\$ 121,169	\$ 65,338	\$ 23,530	\$ 47,261	\$ -	\$ 43,789	\$ 902,407
Receipts:							
Taxes	-	-	-	-	-	-	162,864
Licenses and permits	-	-	-	-	-	-	369
Intergovernmental	-	-	-	-	-	-	254,928
Charges for services	-	-	-	-	-	-	40,839
Fines and forfeits	-	-	-	-	-	-	699
Other receipts	-	176,281	4,650	12,271	35,290	5,400	682,887
Total receipts	-	176,281	4,650	12,271	35,290	5,400	1,142,586
Disbursements:							
Personal services	-	-	-	-	-	-	99,844
Supplies	-	-	-	-	-	-	13,894
Other services and charges	-	-	-	-	-	-	285,514
Capital outlay	-	-	-	-	-	-	68,888
Utility operating expenses	-	74,350	-	-	-	-	161,973
Other disbursements	9,797	66,004	6,075	100	35,290	6,332	500,278
Total disbursements	9,797	140,354	6,075	100	35,290	6,332	1,130,391
Excess (deficiency) of receipts over disbursements	(9,797)	35,927	(1,425)	12,171	-	(932)	12,195
Cash and investments - ending	\$ 111,372	\$ 101,265	\$ 22,105	\$ 59,432	\$ -	\$ 42,857	\$ 914,602

TOWN OF MEDARYVILLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD & STREET	SANITATION	LOCAL LAW ENF CONT ED	PARK & RECREATION	RAINY DAY	C.E.D.I.T.
Cash and investments - beginning	\$ 189,269	\$ 49,997	\$ 3,011	\$ 3,130	\$ 2,349	\$ 2,295	\$ 30,215	\$ 20,391
Receipts:								
Taxes	74,537	19,025	-	-	-	-	-	-
Licenses and permits	159	-	-	-	210	-	-	-
Intergovernmental	93,888	17,095	2,118	-	-	-	-	19,346
Charges for services	-	-	-	39,409	270	300	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	476	732	-	-	-	-	25,000	-
Total receipts	169,060	36,852	2,118	39,409	480	300	25,000	19,346
Disbursements:								
Personal services	64,477	19,602	-	-	-	-	-	-
Supplies	9,709	6,681	-	-	-	-	-	-
Other services and charges	119,738	17,014	-	39,018	927	100	-	-
Capital outlay	29,741	8,770	3,585	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	15,000	10,000	-	-	-	-	-	-
Total disbursements	238,665	62,067	3,585	39,018	927	100	-	-
Excess (deficiency) of receipts over disbursements	(69,605)	(25,215)	(1,467)	391	(447)	200	25,000	19,346
Cash and investments - ending	\$ 119,664	\$ 24,782	\$ 1,544	\$ 3,521	\$ 1,902	\$ 2,495	\$ 55,215	\$ 39,737

TOWN OF MEDARYVILLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	LEVY EXCESS	STORMWATER GRANT	CUM CAP IMP - CIG TAX	POLICE RESERVE EQUIPMENT	PAYROLL	SEWER OPERATING	SEWER REPLACEMENT	SEWER BOND & INT
Cash and investments - beginning	\$ -	\$ -	\$ 29,242	\$ 50	\$ -	\$ 108,124	\$ 139,498	\$ -
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	1,628	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	160,476	-	-
Penalties	-	-	-	-	-	4,417	-	-
Other receipts	-	936,599	-	-	176,124	-	-	107,371
Total receipts	-	936,599	1,628	-	176,124	164,893	-	107,371
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	936,599	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	90,610	-	-
Other disbursements	-	-	-	-	176,124	107,371	75	107,371
Total disbursements	-	936,599	-	-	176,124	197,981	75	107,371
Excess (deficiency) of receipts over disbursements	-	-	1,628	-	-	(33,088)	(75)	-
Cash and investments - ending	\$ -	\$ -	\$ 30,870	\$ 50	\$ -	\$ 75,036	\$ 139,423	\$ -

TOWN OF MEDARYVILLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	SEWER DEBT SERVICE	WATER OPERATING	WATER METER DEPOSIT	WATER REPLACEMENT	WATER BOND & INTEREST	WATER DEBT SERVICE	Totals
Cash and investments - beginning	\$ 111,372	\$ 101,265	\$ 22,105	\$ 59,432	\$ -	\$ 42,857	\$ 914,602
Receipts:							
Taxes	-	-	-	-	-	-	93,562
Licenses and permits	-	-	-	-	-	-	369
Intergovernmental	-	-	-	-	-	-	134,075
Charges for services	-	-	-	-	-	-	39,979
Utility fees	-	168,091	-	-	-	-	328,567
Penalties	-	6,794	-	-	-	-	11,211
Other receipts	-	-	7,000	12,000	35,245	4,166	1,304,713
Total receipts	-	174,885	7,000	12,000	35,245	4,166	1,912,476
Disbursements:							
Personal services	-	-	-	-	-	-	84,079
Supplies	-	-	-	-	-	-	16,390
Other services and charges	-	-	-	-	-	-	1,113,396
Capital outlay	-	-	-	-	-	-	42,096
Utility operating expenses	-	113,897	-	-	-	-	204,507
Other disbursements	-	51,411	4,405	-	35,245	-	507,002
Total disbursements	-	165,308	4,405	-	35,245	-	1,967,470
Excess (deficiency) of receipts over disbursements	-	9,577	2,595	12,000	-	4,166	(54,994)
Cash and investments - ending	\$ 111,372	\$ 110,842	\$ 24,700	\$ 71,432	\$ -	\$ 47,023	\$ 859,608

TOWN OF MEDARYVILLE
 SCHEDULE OF DEBT
 December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
SRF Loan of 1994	Wastewater Utility	\$ 120,000	\$ 42,400
Revenue bonds of 1995	Wastewater Utility	<u>175,000</u>	<u>66,029</u>
Total Wastewater		<u>295,000</u>	<u>108,429</u>
Water:			
Revenue bonds of 2003	Water Utility	<u>760,000</u>	<u>47,200</u>
Totals		<u><u>\$ 1,055,000</u></u>	<u><u>\$ 155,629</u></u>

TOWN OF MEDARYVILLE
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Infrastructure	\$ 3,005
Buildings	141,347
Machinery, equipment, and vehicles	262,711
Total governmental activities	407,063
Wastewater:	
Infrastructure	1,055,839
Buildings	341,006
Machinery, equipment, and vehicles	29,900
Total Wastewater	1,426,745
Water:	
Improvements other than buildings	417,102
Machinery, equipment, and vehicles	3,000
Total Water	420,102
Total capital assets	\$ 2,253,910

TOWN OF MEDARYVILLE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town of Medaryville related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Town did not have controls in place to account for or track all federal grants for reporting on the Schedule of Expenditures of Federal Awards.

TOWN OF MEDARYVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Federal Circular A-133, Subpart C, section 300 outlines the responsibilities placed on the recipient of federal awards. The unit is required to do the following:

- a. Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the federal agency, and name of the pass-through entity.
- b. Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- c. Comply with laws, regulations and the provisions of contracts or grant agreements related to each of its Federal programs.
- d. Prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with section .310.
- e. Ensure that the audits required by this part are properly performed and submitted when due.
- f. Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with section .315(b) and .315(c), respectively.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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 EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE TOWN OF MEDARYVILLE, PULASKI COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Medaryville's (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of January 1, 2011 to December 31, 2012. The Town'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance on the Town'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Town'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 on the Town's major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Major Federal Program

In our opinion, the Town 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 period of January 1, 2011 to December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the type 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 OMB Circular A-133, 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 Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3 to be a material weakness.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

June 20, 2013

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

(This page intentionally left blank.)

TOWN OF MEDARYVILLE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs CDBG - State-Administered CDBG Cluster Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	A192-11-DR2-09-106	\$ 78,079	\$ 844,601

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF MEDARYVILLE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Medaryville and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF MEDARYVILLE
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; Unqualified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

_____ Name of Federal Program or Cluster _____
CDBG – State-Administered CDBG Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town of Medaryville related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

TOWN OF MEDARYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FINDING 2012-2 - INTERNAL CONTROL OVER THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The Town 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 Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MEDARYVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT THE TO STATE ADMINISTERED CDBG PROGRAM

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): A192-10-DR2-09-106
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Management of the Town of Medaryville has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: activities allowed or unallowed; allowable costs/cost principles; cash management; davis-bacon act; equipment and real property management; matching, level of effort, earmarking; period of availability; procurement and suspension and debarment; reporting; and special tests and provisions. The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 (b) states:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

TOWN OF MEDARYVILLE

INCORPORATED MAY 31, 1900

MEDARYVILLE, INDIANA 47957

Corrective Action Plan

Section II – Financial Statement Findings

Finding Number 2012-1 – Internal Controls Over Financial Transactions and Reporting

Auditee Contact Person: Judy Harwood
Title of Contact Person: Medaryville Clerk-Treasurer
Phone Number: 219-843-2101

Lack of Segregation of Duties:

Preparing Financial Statements:

Monitoring of Controls:

The Town of Medaryville will review all procedures and attempt to institute to some degree controls as stated in Chapter 7, Accounting and Uniform Compliance Guidelines Manual for Cities and Towns. The Town has determined to attempt to comply with safeguarding controls.

TOWN OF MEDARYVILLE
INCORPORATED MAY 31, 1900
MEDARYVILLE, INDIANA 47957

Corrective Action Plan

Finding Number 2012-2 – Internal Control Over the Schedule of Expenditures of Federal Awards

Auditee Contact Person: Judy Harwood
Title of Contact Person: Medaryville Clerk-Treasurer
Phone Number: 219-843-2101

Preparing the Schedule of Expenditures of Federal Awards (SEFA):

Town of Medaryville Council will agree to review and attempt to establish controls including segregation of duties related to any future grants by establishing more detailed minutes on the compliance requirements and creating a detailed check list for internal control over Federal Programs that provide reasonable assurance in the managing of Federal Awards.

Section III – Federal Award Findings and Questioned Costs

Finding Number 2012-3 – Internal Controls Over Compliance Requirements That Have a Direct and Material Effect to the State Administered CDBG Program

Federal Agency: U.S. 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: B-10-DC-18-0001 ID-10-001 - 2010
Pass-Through Entity: Office of Community and Rural Affairs

Internal Controls Over Compliance Requirements:

Town of Medaryville Council will agree to review and attempt to establish controls including segregation of duties related to any future grants by establishing more detailed minutes on the compliance requirements and creating a detailed check list for internal control over Federal Programs that provide reasonable assurance in the managing of Federal Awards.



06-20-2013

TOWN OF MEDARYVILLE
EXIT CONFERENCE

The contents of this report were discussed on June 20, 2013, with Gene Payne, President of the Town Council; Judy Harwood, Clerk-Treasurer; Jackie Hines, Deputy Clerk-Treasurer; and Corrie Hauptli, Utility Clerk. The officials concurred with our audit findings.