

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MIDDLETOWN

HENRY COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
01/29/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Drew Cooper	01-01-12 to 12-31-15
President of the Town Council	Betty Riley	01-01-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF MIDDLETOWN, HENRY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Middletown (Town), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the Town, which provides our opinions on the Town's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

October 21, 2015

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CLERK-TREASURER
TOWN OF MIDDLETOWN

CLERK-TREASURER
TOWN OF MIDDLETOWN
FEDERAL FINDINGS

FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards (SEFA) is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, for entities receiving federal funds in excess of \$500,000 to summarize the use of federal monies received. The Town did not have proper procedures in place to ensure that the SEFA was accurate.

Effective internal control over preparation of the SEFA involves the identification and analysis of the risks of material misstatement to the Town's audited SEFA and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of a SEFA and, as a result, has failed to design effective controls over the preparation of the SEFA.

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.

CLERK-TREASURER
TOWN OF MIDDLETOWN
FEDERAL FINDINGS
(Continued)

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2014-002 - FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town 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, 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. Monitoring of Controls: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statement and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of a reliable financial statement and, as a result, has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. The financial statement did not include the financial activity of the SRF Construction fund. The SRF Construction fund accounts for the financial activity of the Town's stormwater/wastewater capitalization loan used to separate the Town's stormwater and wastewater. The monies from the loan are maintained by an outside Trustee in bank accounts in the name of the Town. Although held outside the physical custody of the Town, the activity in the bank accounts held by the Trustee is part of the financial activity of the Town and should be reflected on the Town's financial statement.

The SRF Construction fund's financial activity was determined from the bank account statements presented for audit. Audit adjustments were proposed, accepted by the Town, and made to the financial statement presented in this report.

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 MIDDLETOWN
CORRECTIVE ACTION PLAN



Town of Middletown
653 Locust Street
Middletown, IN 47356
office: (765) 354 2268
fax: (765) 354 3068

CORRECTIVE ACTION PLAN

Finding 2014-001

Contact Person Responsible for Corrective Action: Drew Cooper, Clerk-Treasurer
Contact Phone Number: (765) 354-2268

Description of Corrective Action Plan:

I have prepared a file to maintain documentation on federal programs, so that I will have the information available to prepare the SEFA in the future.

Finding 2014-002

Contact Person Responsible for Corrective Action: Drew Cooper, Clerk-Treasurer
Contact Phone Number: (765) 354-2268

Description of Corrective Action Plan:

I will set up a fund for any future Federal Projects and will maintain accounting information the same as we would any other fund.

Anticipated Completion Date: 12/31/2015



Drew Cooper, Middletown Clerk-Treasurer

October 19, 2015

CLERK-TREASURER
TOWN OF MIDDLETOWN
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE

The financial statements presented for audit included the following fund with an overdrawn cash balance at December 31, 2014:

Fund	Amount Overdrawn
Ricoh Rebate	\$ 920

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 governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

EXPENDITURES IN EXCESS OF APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Year	Excess Amount Expended
General	2014	\$ 14,515
Lease Rental	2014	7
Motor Vehicle	2014	7,784
Civic Center	2014	1,499
CCFEE	2014	1,116

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CLERK-TREASURER
TOWN OF MIDDLETOWN
EXIT CONFERENCE

The contents of this report were discussed on October 21, 2015, with Drew Cooper, Clerk-Treasurer, and Betty Riley, President of the Town Council.

TOWN COUNCIL
TOWN OF MIDDLETOWN

TOWN COUNCIL
TOWN OF MIDDLETOWN
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Internal controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. There was not sufficient segregation of duties.

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)

ORDINANCES AND RESOLUTIONS

The Town has several ordinances concerning payment of utility service provided to the Town by the Town Utilities. However, as noted in the three prior Reports B31537, B38065, and B41171, the Town did not fully comply with its ordinances. Although the Town paid the current charges during our audit period for its Hydrant Rental, it still owed the Water Utility \$124,711 for Hydrant Rental of previous years. The Town is also \$49,000 delinquent in its payments to the Electric Utility.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

TOWN COUNCIL
TOWN OF MIDDLETOWN
EXIT CONFERENCE

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