

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MIDDLEBURY

ELKHART COUNTY, INDIANA

January 1, 2014 to December 31, 2014



**FILED**  
03/14/2017



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Peggy A. Hutchison	01-01-12 to 12-31-19
President of the Town Council	Gary L. O'Dell	01-01-14 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF MIDDLEBURY, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Middlebury (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/](http://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

January 19, 2017

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CLERK-TREASURER  
TOWN OF MIDDLEBURY

CLERK-TREASURER  
TOWN OF MIDDLEBURY  
FEDERAL FINDINGS

**FINDING 2014-001 - INTERNAL CONTROL OVER FINANCIAL TRANSACTIONS AND REPORTING**

*Condition*

There were several deficiencies in the internal control system of the Town related to the financial transactions and reporting. The following deficiencies constituted material weaknesses:

- Lack of Segregation of Duties: The Town had not separated incompatible activities related to financial transactions and reporting related to receipts, cash and investments, and financial close and reporting. There were not adequate controls in place to reduce risks of errors in financial reporting.
- Monitoring of Controls: The Town had no process to identify or communicate corrective actions to improve controls. Effective internal control over financial reporting required the Town to monitor and assess the quality of the system of internal control.

*Criteria*

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)

*Cause*

Management of the Town had not established a proper system of internal control.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

*Views of Responsible Officials*

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



CLERK-TREASURER  
TOWN OF MIDDLEBURY  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-002 - INTERNAL CONTROL OVER PAYROLL PROCESSING***

*Condition*

Deficiencies were noted in the internal control system of the Town related to payroll processing. The following deficiencies constituted material weaknesses.

- Lack of Segregation of Duties: The Town had not separated incompatible activities related to payroll and related liabilities. The Clerk-Treasurer primarily handled the Town's payroll processing which included: preparing the payroll claims, issuing the payroll checks, preparing the payroll earnings and deductions reports, and preparing the W-2s. The employee timesheets were not consistently reviewed and approved.
- Monitoring of Controls: The Town had no process to identify or communicate corrective actions to improve controls. Effective internal control over financial reporting required the Town to monitor and assess the quality of the system of internal control.

*Criteria*

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.

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The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Town at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

*Views of Responsible Officials*

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



418 North Main Street  
Middlebury, Indiana 46540  
Phone: 574-825-1499  
Fax: 574-825-1485  
www.middleburyin.com

## CORRECTIVE ACTION PLAN

### ***FINDING 2014 - 001***

Contact Person Responsible for Corrective Action: Peggy A Hutchison  
Contact Phone Number: 574-825-2166

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: These issues have been addressed in our new Internal Controls Manual. Steps have already been implemented and we are working diligently to correct any and all issues. If a copy of the new Internal Controls Manual is required, this will be provided.

Anticipated Completion Date: New controls have already been implemented and this is continual and daily process.

### ***FINDING 2014 - 002***

Contact Person Responsible for Corrective Action: Peggy A Hutchison  
Contact Phone Number: 574-825-2166

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: These issues have been addressed in our new Internal Controls Manual. Steps have already been implemented and we are working diligently to correct any and all issues. If a copy of the new Internal Controls Manual is required, this will be provided.

Anticipated Completion Date: New controls have already been implemented and this is continual and daily process.

Peggy A. Hutchison  
Clerk-Treasurer  
December 27, 2016

CLERK-TREASURER  
TOWN OF MIDDLEBURY  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS OVER ACCOUNTS PAYABLE VOUCHERS**

Internal controls over the Town's approval of accounts payable vouchers were insufficient. The Town Council and fiscal officer approved accounts payable vouchers through their system generated report, "Accounts Payable Voucher Register Summary." This report did not adequately detail the accounts payable vouchers and fund appropriations associated with each check.

A similar comment appeared in the prior Report B47760.

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 this publication: *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. . . ."

**INTERNAL CONTROLS OVER UTILITY OVERPAYMENTS**

Internal controls over the refunding of utility overpayments were insufficient. The Utilities Deputy Clerk prepares, signs, and sends manual checks for refunds of utility overpayments from the Utilities collection bank account without any oversight or approval process.

A similar comment appeared in the prior Report B47760.

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TOWN OF MIDDLEBURY  
AUDIT RESULTS AND COMMENTS  
(Continued)

**CAPITAL ASSETS**

The Town did not properly maintain a complete inventory of capital assets owned.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the applicable Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**ORDINANCES/RESOLUTIONS**

The Town did not comply with the following ordinances:

1. The Town had an ordinance concerning purchasing procedures under \$50,000 in accordance with Indiana Code 5-22-8-2. The ordinance authorizes the Town Council as the purchasing agency for the Town. The Town Council designated the following representatives of the Town to serve as purchasing agents subject to the following amounts:

<u>Town of Middlebury Representative</u>	<u>Dollar Limit Purchasing Authority</u>
Middlebury Clerk-Treasurer	Not to exceed \$5,000
Middlebury Town Manager	Not to exceed \$5,000
Department Heads	Not to exceed \$1,000
Departmental Employees with prior approval of Department Head	Not to exceed \$200

We noted instances where prior approvals for purchases were required by the above ordinance, but there was no documentation that the prior approvals were obtained before the purchase.

2. The Town's credit card ordinance stated: "The Middlebury Clerk-Treasurer shall not draw a warrant or check for payment on any credit card or fuel card statement unless payment of the credit card or fuel card statement is allowed by the Middlebury Town Council at a proper public meeting." Warrants were drawn for credit card payments prior to Town Council approval.
3. The Town's sewer rate ordinance stated: "In order that domestic and residential users of sewage services shall not be penalized for sprinkling lawns during the months of July, August, and September, the billing for sewage services for residential and/or domestic users for said months shall be based upon the average water usage per month for the previous billed months of October through June, if such average usage is lower than the summer months, and if the owner of the property remains the same." The Town calculated the average water usage per month for the previous billed months of January, February, and March instead of the previous billed months of October through June.

TOWN OF MIDDLEBURY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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 1)

***UTILITIES COLLECTIONS***

Utility collections were deposited by the next business day in the Town's utility collections bank account. The Utility Deputy Clerk did not issue receipts and post the collections the same day as deposited in the bank account. The collections are receipted in and posted at a later date.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



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Official Response  
2014 State Board of Accounts Report  
Clerk-Treasurer and Town Council

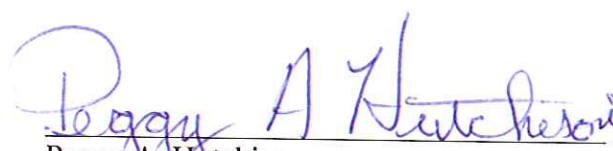
Mr. Paul E. Joyce, CPA – State Examiner  
State Board of Accounts  
302 West Washington St.  
Room E418  
Indianapolis, IN 46204-2738

Dear Mr. Joyce,

The following is the response to the preliminary draft of the Audit Results and Comments for the 2014 Audit for the Town of Middlebury.

Concerning issues with the Internal Controls, we have implemented a new Internal Controls Policy which has addressed these issues. Every effort is being made by the Town Council, Clerk-Treasurer and all Town employees to follow the new policy going forward.

  
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Gary L. O'Dell  
Town Council President

  
\_\_\_\_\_  
Peggy A. Hutchison  
Clerk-Treasurer

CLERK-TREASURER  
TOWN OF MIDDLEBURY  
EXIT CONFERENCE

The contents of this report were discussed on January 19, 2017, with Peggy A. Hutchison, Clerk-Treasurer; Mary. M. Cripe, Town Manager; and Gary L. O'Dell, President of the Town Council.

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TOWN COUNCIL  
TOWN OF MIDDLEBURY

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AUDIT RESULTS AND COMMENTS

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AUDIT RESULTS AND COMMENTS  
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Official Response  
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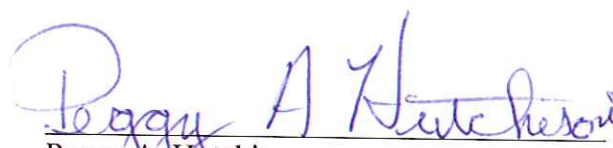
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Town Council President

  
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TOWN OF MIDDLEBURY  
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