

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, 2018 to December 31, 2022



FILED

01/02/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Drew Cooper Tim Mundell (interim) Steve Holmes Tim Mundell	01-01-18 to 06-04-19 06-05-19 to 06-16-19 06-17-19 to 12-31-19 01-01-20 to 12-31-23
President of the Town Council	Jake Smith	01-01-18 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF MIDDLETOWN, HENRY COUNTY, INDIANA

This report is supplemental to the audit report of the Town of Middletown (Town), for the period from January 1, 2018 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with the Financial Statements Audit Report of the Town, which provides our opinions on the Town's financial statements. 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

December 20, 2023

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CLERK-TREASURER
TOWN OF MIDDLETOWN

CLERK-TREASURER
TOWN OF MIDDLETOWN
AUDIT RESULTS AND COMMENTS

CASH AND INVESTMENTS

Condition and Context

Bank reconcilements were performed by the Clerk-Treasurer with no oversight by another individual. As a result, we determined:

- The record balance per the month-end bank reconcilements did not agree with the ending cash and investment balance per the fund reports for July 2020, and September 2020 through December 2022. The differences varied during this period; however, the variance was \$27 as of December 31, 2022.
- A check issued on July 8, 2020, in the amount of \$142 for a meter deposit refund was indicated as clearing in May 2021; however, the cancelled check was not observed clearing the bank, nor was a record posting observed showing the amount receipted back to the records.

The Town routinely purchases certificates of deposit for investment purposes; however, the Town did not properly account for them. During the audit, we determined the following:

- The Investment Register, General Form 350, was not maintained.
- Interest was added automatically to the investment.
- The Annual Investment Reports for 2018 and 2019 did not include the maturity amounts of the cashed investments.
- The Annual Investment Report for 2020 did not include the maturing of three investments, the interest income for the four matured investments, or the maturity amounts of the cashed investments.

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. . . ."

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

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

A certificate of deposit may be renewed for an additional term if authorized by the governing board, without the original certificate of deposit being paid by the depository and a warrant or check being issued for the purchase of a new certificate of deposit. However, if renewed, the interest due the political subdivision shall be paid to the fiscal officer at each maturity date, so the records will reflect the true financial condition and the amount invested at all times. The interest shall not be added to the original deposit and reinvested by the depository. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

The Town had not designed or implemented a system of internal controls, which would include appropriate segregation of duties, that would be effective in preventing, or detecting and correcting, errors related to 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 Town's financial statement. An oversight or review process had not been designed or implemented that would likely prevent, or detect and correct, errors on the financial statement. Due to the lack of internal controls, the July 2019 debt payments of \$83,760 and \$73,023, related to the SRF 2014 and SRF 2015 bonds, respectively, were incorrectly posted as negative receipts instead of as disbursements.

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](#)."

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

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EMERGENCY MEDICAL SERVICE PAYMENTS

This same comment appeared in a Management Letter addressed to the Clerk-Treasurer for the audit period ending December 31, 2017.

Condition and Context

The Town made payments on behalf of the Middletown EMS Corporation without a written contract.

Criteria

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

STORM WATER FEES NOT PROPERLY CHARGED

Condition and Context

During our sample testing of 25 customer billing charges, we determined 2 customers were not charged the storm water fee with no explanation provided for the omission.

Criteria

Each 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)

CAPITAL ASSETS

Condition and Context

Documentation was not presented for audit to support that a complete physical inventory of all assets was performed yearly as mandated in the Town's capital asset policy.

The presented capital asset listing was not properly maintained during the audit period due to the following errors observed during our capital asset testing:

- Additions identified of a Samsung OS 7200-S Phone System, 2019 Ford F-150, 4 post 12,000 pound Vehicle Lift, 2021 Dodge Durango, 2022 Chevrolet Tahoe, and a Spartan ER S-180 Pumper Fire Truck were not observed included on the provided listing.

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

- A Ford E Super D Ambulance, 2018 Chevrolet Silverado Truck, and 2014 Ford F-150 were disposed of during the audit period, but were observed still included on the provided listing.

Criteria

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

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report via the Indiana Gateway for Government Units (Gateway) financial reporting system. The accounts payable, accounts receivable, and debt information entered into Gateway contained the following errors:

- Trash receivable of \$35,869 and accounts payable information were missing.
- Vehicle lease payments totaling \$27,482 were missing.

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](#)."

LOANS FROM ELECTRIC UTILITY

Condition and Context

As of December 2022, the Town had five loans made from the Electric Utility Cash Reserve to the other utilities. During our audit, we determined:

- Documentation was not provided showing the tracking of repayments for the various loans to their related amortization schedules.
- Repayments were not made in November 2019 and December 2019 for all loans, from April 2020 through December 2022 for one loan, and from October 2020 through December 2022 for the other four loans.

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

- As a result of repayments not being made, the loans were not repaid within the required five-year period.

Criteria

Indiana Code 8-1.5-3-11(f) states: "A cash reserve fund, if authorized by ordinance, may be used to make loans to another utility owned by the same municipality, for periods not to exceed five (5) years, at any interest rate. The repayment of the loan and interest shall be returned to the cash reserve fund."

CLERK-TREASURER
TOWN OF MIDDLETOWN
EXIT CONFERENCE

The contents of this report were discussed on August 15, 2023, with Tim Mundell, Clerk-Treasurer; Jake Smith, President of the Town Council; Dan Fountain, Town Council member; and Dave Wagner, Town Council member.

An additional exit conference was held on December 20, 2023, with Tim Mundell, Clerk-Treasurer, and Dave Wagner, Town Council member.