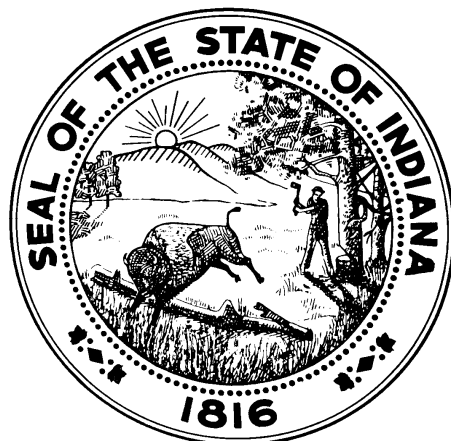


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
TOWN OF MIDDLETOWN
HENRY COUNTY, INDIANA
January 1, 2006 to December 31, 2006



FILED
12/31/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donita Chambless	01-01-04 to 12-31-07
President of the Town Council	Roscoe J. Smith	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We were engaged to examine the schedules of receipts, disbursements, and cash and investment balances of the Town of Middletown (Town), for the period of January 1, 2006 to December 31, 2006. The Town's management is responsible for these schedules.

Town officials did not conform to the principle that payments from funds be directly related to the purposes of the fund. The disbursements of the governmental, enterprise, and fiduciary funds may or may not have been made from the fund which received the benefit of the good or service for which payment was made.

Because of the restrictions on our examination as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether schedules referred to above present fairly, in all material respects, the cash transactions of the Town for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

October 30, 2007

TOWN OF MIDDLETOWN
COMBINED CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, ENTERPRISE AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2006

	<u>Total All Funds</u>
Cash and Investments - December 31	<u>\$ 737,349</u>

The accompanying notes are an integral part of the financial information.

TOWN OF MIDDLETOWN
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, general administrative services, electric, water and wastewater services.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (Indiana Code 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% 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 become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were 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 statute (Indiana Code 5-13-9) authorizes 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.

TOWN OF MIDDLETOWN
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

TOWN OF MIDDLETOWN
OTHER REPORT

The examination report presented herein was prepared in addition to the official report prepared by the individual office listed below:

Utility Clerk

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

As noted in the prior Report B29120, based on the following conditions, the State Board of Accounts was unable to provide an opinion on the Independent Auditor's Report for the financial statements.

Records that were presented did not conform to the principle that expenses paid from utility funds should be directly related to the operation of the municipally owned utility (some payments were for town governmental expenses). In addition, utility related expenses were paid from town governmental funds. Prior amounts were owed between utilities and the Town for disbursements from improper funds. As of December 31, 2006, these amounts had not been repaid.

The resources of a particular fund may be used only for the purposes for which the fund was created or as otherwise authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

OVERDRAWN CASH BALANCES

The cash balance of the Sewage Second Bond and Interest Fund and the Payroll Fund were overdrawn in 2006 by \$50,548 and \$85,751 respectively. Also, if the corrections given to the unit to correct the deficit in the Payroll Fund and other adjustments for July 31, 2007, are made, the Park Fund would be overdrawn by \$83,574; the Water Operating Fund by \$49,380; the Wastewater Operating Fund by \$170,950; and the Sewage Bond and Interest Fund by \$40,439. The Payroll Fund balance would then be \$3,195.

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)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

As stated in the prior Report B29120, the Town does not have a policy relating to the write off of uncollectible accounts and other adjustments to account balances. Currently, the Town has on its records \$178,354 worth of delinquent accounts receivable on 754 closed accounts. Documentation does not exist for collection efforts made for these accounts.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. The customer deposit amounts for the Electric, Water, and Wastewater were short of the detailed register by \$51,623, \$566, and \$250, respectively. In the case of the electric utility, the balance in the operating fund is not sufficient to cover the deficit in the meter deposit fund. In addition numerous posting errors were found during the review of meter deposit receipts and disbursements.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances presented for examination were incorrect. Adjustments were made to the records to balance with the bank without identifying errors in the records causing fund balances to be incorrect.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

PAYROLL FUND

As noted in the prior two Reports B24829 and B29120, we were not able to determine the correctness of balances maintained in the Payroll Fund throughout the examination period. No subsidiary record is maintained to allow for reconciliation with the control balances.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

CAPITAL ASSET RECORDS

Capital asset ledgers were presented for examination for the Town and its Utilities. As stated in the prior two Reports B24829 and B29120, the records presented were incomplete and had not been updated for several years. Some assets were either not recorded or were not classified.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. 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 7)

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

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

<u>Fund</u>	<u>Excess Amount Expended</u>
General	\$ 100,334
Lease rental	47,088
Local road and street	6,923
Park	41,142

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."

ORDINANCES AND RESOLUTIONS - UTILITIES

The Wastewater Utility has an ordinance concerning transfers to the bond and interest account and minimum balance requirements. However, the Wastewater Utility did not make the required monthly transfers in 2006 resulting in a deficit balance in the Bond and Interest Fund of \$50,548. In addition no Wastewater Reserve Fund was established to meet the requirements of the bond ordinance at December 31, 2006.

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)

ERRORS ON CLAIMS

Claims were not adequately itemized and bills were paid from monthly statements instead of invoices.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

CREDIT CARDS

The Town is using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

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

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

FINANCE CHARGES

The Town incurred, and subsequently paid, finance charges and late payment fees for delinquent payment of vendor invoices and tax payments. During 2006, the total charges were \$1,307.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALES TAX

Sales tax totaling \$495 was paid on some purchases during 2006.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS

As stated in the prior Report B29120, 36% of the receipts tested for December 2006 were deposited later than the next business day.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

RECEIPT ISSUANCE

The test of gun permits issued for the Town of Middletown revealed that application fees for three gun permits were not collected or deposited in the Town's bank account.

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 7)

HYDRANT RENTAL

The Town of Middletown owes the Water Utility hydrant rental of \$26,241 as of December 31, 2006 pursuant to Rate Ordinance 4-4-00 passed by the Council.

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)

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

DELINQUENT WASTEWATER ACCOUNTS

As noted in the prior report, delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) a description of the premises, as shown by the records of the county auditor; and
 - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

DELINQUENT ACCOUNTS RECEIVABLE

As stated in the prior Report B29120, Ordinance 14-92 established the shutoff policy for delinquent customers. The policy requires that delinquent customers sign an agreement establishing a repayment plan. Not all delinquent customer files contained evidence of this agreement, nor was there evidence that delinquent customers had been shut off as required by the ordinance.

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)

TOWN OF MIDDLETOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

PERSONAL USE OF TOWN OWNED VEHICLE

A truck is furnished by the Town to the Park Superintendent. The salary ordinance for the Park Superintendent provides that he may use his take home truck for personal driving as well as for park business. The Superintendent did not maintain a log of personal miles driven. No additional income was shown on this employee's W-2 form.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MIDDLETOWN
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2007, with Donita Chambless, Clerk-Treasurer; Roscoe J. Smith, President of the Town Council; and Martha Minnick, Town Council member. The officials concurred with our findings.