

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, 2013 to December 31, 2013



FILED
03/06/2017

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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	01-01-13 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2013 to December 31, 2013. 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

January 19, 2017

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CLERK-TREASURER
TOWN OF MIDDLEBURY

CLERK-TREASURER
TOWN OF MIDDLEBURY
FEDERAL FINDINGS

FINDING 2013-001 - 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:

1. **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 the risks of errors in financial reporting.
2. **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.

The Town is required to report all financial information in the Annual Financial Report. This information is used to compile the financial statement. The Town's financial records and subsequently the Town's financial statement (Gateway Report) contained the following deficiencies:

The Town did not include the Sewer Construction - Bank of N.Y. fund and Water Construction - Bank of N.Y. fund bank accounts activities, which resulted in receipts and disbursements being understated, in the same amounts, by \$4,702,891 and \$108,709; respectively.

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 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 2013-002 - 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.

1. **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 W-2s issued for 2013 contained overstated "Wages, tips, other compensation amounts," in box 1, for all full-time Town employees. In addition, employee timesheets were not consistently reviewed and approved.
2. **Monitoring of Controls:** The Town had no process to identify or communicate corrective actions to improve controls. Effective internal control over payroll processing 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)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (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 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
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CORRECTIVE ACTION PLAN

FINDING 2013 - 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: We changed to a new financial software program (Keystone) in August of 2013. In January of 2014, Umbaugh helped us create a new fund just for the purpose of reporting the construction advances for our Wastewater Treatment Plant upgrades. Once that fund was created, we have reported the construction advances ever since.

A new fund for the Water Plant upgrades should have been created at the same time, but was not. There have not been any construction advances made for the Water Plant upgrade since 2013.

Anticipated Completion Date: This has already been completed.

FINDING 2013 - 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: As stated above, we changed financial software and the old system and new system did not conform to one another. Therefore, any W2 which showed any Section 125 funds did not compute correctly.

We will contact the IRS and see what action needs to be taken. Since 2013, there have not been any miscalculations.

Anticipated Completion Date: We will contact the IRS after the first of the year of 2017.

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 beginning on November 4, 2013. 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. Prior to November 4, 2013, the Town Council and Fiscal Officer approved accounts payable vouchers through their system generated report, "Accounts Payable Register" that adequately detailed the accounts payable vouchers and fund appropriations associated with each check.

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. . . ."

INTERNAL CONTROLS OVER UTILITY OVERPAYMENTS

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

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

CAPITAL ASSETS

The Town did not properly maintained 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 authorized 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.

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 were 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)

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. Smith, 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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TOWN COUNCIL
TOWN OF MIDDLEBURY
EXIT CONFERENCE

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