

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, 2015 to December 31, 2018



FILED
09/09/2019

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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	01-01-15 to 12-31-19



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, 2015 to December 31, 2018. 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 our Financial Statements Audit Report of the Town, which provides our opinion 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.

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

August 14, 2019

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CLERK-TREASURER
TOWN OF MIDDLEBURY

CLERK-TREASURER
TOWN OF MIDDLEBURY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

The same comment also appeared in prior Report B47811.

The Town had not separated incompatible activities related to cash and investments, receipts, and financial close and reporting. There was no segregation of duties, such as a documented oversight, review, or approval process over the Town's Utility Collections bank account, receipts, including transfers, or of the information uploaded to the Indiana Gateway for Government Units financial reporting system from the Town's accounting system, which is used to compile the Town's financial statements.

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. . . ."

BANK ACCOUNT RECONCILIATIONS

The Town has a Utility Collections bank account that is manually reconciled. There was only one Utility Collections bank account reconciliation out of eight tested that documented the date of completion. As a result, there was not sufficient audit evidence to determine whether the Utility Collections bank account reconciliations were being completed timely after month-end. In addition, the Utility Collections bank account reconciliations were not detailed enough to identify reconciling amounts, such as outstanding deposits, transfers, or unposted interest.

The Town also has a Debt Service bank account. Bank reconciliations for the Debt Service account were only completed on a quarterly basis and not a monthly basis.

Indiana Code 5-13-6-1(e) states: "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."

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

SUPPORTING DOCUMENTATION - DEBT PAYMENTS

The Town did not have sufficient supporting documentation attached to their Accounts Payable Vouchers (APV) for debt payments made by electronic funds transfer. Of 50 debt payments tested, 18 APVs did not have supporting documentation; 4 APVs in 2015, 7 APVs in 2016, 5 APVs in 2017, and 2 APVs in 2018.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CREDIT CARDS

Of 10 credit card payments tested, there was no approval on the Accounts Payable Voucher (APV) or on the invoice from the Town Manager or the employee who received the goods or services. Town Ordinance No. 584-A requires the Town employee or representative receiving the goods or services to approve each invoice or bill. In addition, the Town was not maintaining an accounting system or log to document employee usage who are not the authorized card holder.

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

1. The governing board must authorize credit card use through an ordinance/resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use should be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must 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.
6. Credit cards must 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 body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must 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 may be the personal obligation of the responsible officer or employee.

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

8. If authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERDRAWN CASH BALANCES

The financial statements presented in the Financial Statements Audit Report included the Debt Service fund with overdrawn cash balances at December 31, 2016, December 31, 2017, and December 31, 2018, of \$5,933, \$15,113, and \$22,052; respectively.

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 unit. (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 August 14, 2019, with Peggy A. Hutchison, Clerk-Treasurer; Miranda J. Cripe, Town Council member; and Mary M. Cripe, Town Manager.