

Borough of Middletown

Contract Financial Statements

For the Contract Period
July 1, 2004 to June 30, 2009
With Independent Auditor's Reports

New Communities Program Grant

Contract Number C000012844

BOROUGH OF MIDDLETOWN

NEW COMMUNITIES PROGRAM GRANT

CONTRACT NUMBER C000012844

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FOR THE CONTRACT PERIOD JULY 1, 2004 TO JUNE 30, 2009

TABLE OF CONTENTS

Independent Auditor's Report

Contract Financial Statements:

Contract Balance Sheet	1
Statement of Contract Revenue and Contract Expenditures	2
Budget Comparison Statement	3
Notes to Contract Financial Statements	4

Independent Auditor's Report in Accordance with *Government Auditing Standards*:

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Contract Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5
Schedule of Findings and Responses	7

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Independent Auditor's Report

Borough Council
Borough of Middletown

We have audited the accompanying contract balance sheet of the Borough of Middletown (Borough) – New Communities Program Grant, Contract Number C000012844, as of June 30, 2009, and the related statement of contract revenue and contract expenditures and the budget comparison statement for the contract period from July 1, 2004 to June 30, 2009. These contract financial statements are the responsibility of the Borough's management. Our responsibility is to express an opinion on these contract financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the contract financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the contract financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall contract financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying contract financial statements include only the activity of the Borough – New Communities Program Grant, Contract Number C000012844 and are not intended to present financial activity of the Borough taken as a whole.

In our opinion, the contract financial statements referred to above present fairly, in all material respects, the financial position of the Borough – New Communities Program Grant, Contract Number C000012844, as of June 30, 2009 and the results of its operations (including comparison to budget) for the contract period July 1, 2004 to June 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated Date, on our consideration of the Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of management of the Borough, Members of Borough Council, others within the Borough, and the Commonwealth of Pennsylvania Department of Community and Economic Development and is not intended to be and should not be used by anyone other than these specified parties.

Harrisburg, Pennsylvania

Date

BOROUGH OF MIDDLETOWN
NEW COMMUNITIES PROGRAM GRANT
CONTRACT NUMBER C000012844
CONTRACT BALANCE SHEET

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JUNE 30, 2009

Assets

Due from Greater Middletown Development
Corporation

\$ 10,678

Liabilities

Accrued expenditures
Due to Commonwealth of Pennsylvania
Total Liabilities

\$ 2,000
8,678
\$ 10,678

The accompanying notes are an integral part of these contract financial statements.

BOROUGH OF MIDDLETOWN
NEW COMMUNITIES PROGRAM GRANT
CONTRACT NUMBER C000012844

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STATEMENT OF CONTRACT REVENUE AND CONTRACT EXPENDITURES
FOR THE CONTRACT PERIOD JULY 1, 2004 TO JUNE 30, 2009

Contract Revenue:

DCED grant	\$ 160,000
Borough match	35,000
Façade program match	52,695
	247,695

Contract Expenditures:

Salary and fringe benefits	155,993
Renovations	75,719
Office equipment	3,607
Audit fees	2,000
Recruitment	1,698
	239,017

Excess Contract Revenue Over Contract Expenditures

\$ 8,678

The accompanying notes are an integral part of these contract financial statements.

BOROUGH OF MIDDLETOWN
NEW COMMUNITIES PROGRAM GRANT
CONTRACT NUMBER C00012844

BUDGET COMPARISON STATEMENT

FOR THE CONTRACT PERIOD JULY 1, 2004 TO JUNE 30, 2009

	Final Approved Budget - DCED	Final Approved Budget - Borough Match	Final Approved Budget - Façade Program Match	Final Approved Budget - Total	Actual - DCED	Actual - Borough Match	Actual - Façade Program Match	Actual - Total
Contract Revenue:								
DCED grant	\$ 160,000	-	\$ -	\$ 160,000	\$ 160,000	-	\$ -	\$ 160,000
Borough match	-	35,000	-	35,000	-	35,000	-	35,000
Façade program match	-	-	60,000	60,000	-	-	52,695	52,695
	160,000	35,000	60,000	255,000	160,000	35,000	52,695	247,695
Contract Expenditures:								
Salary and fringe benefits	92,000	35,000	-	127,000	120,993	35,000	-	155,993
Renovations	60,000	-	60,000	120,000	23,024	-	52,695	75,719
Office equipment	3,500	-	-	3,500	3,607	-	-	3,607
Audit fees	3,000	-	-	3,000	2,000	-	-	2,000
Recruitment	1,500	-	-	1,500	1,698	-	-	1,698
	160,000	35,000	60,000	255,000	151,322	35,000	52,695	239,017
Excess Contract Revenue Over Contract Expenditures	\$ -	\$ -	\$ -	\$ -	\$ 8,678	\$ -	\$ -	\$ 8,678

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The accompanying notes are an integral part of these contract financial statements.

BOROUGH OF MIDDLETOWN

NEW COMMUNITIES PROGRAM GRANT

CONTRACT NUMBER C000012844

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NOTES TO CONTRACT FINANCIAL STATEMENTS

FOR THE CONTRACT PERIOD JULY 1, 2004 TO JUNE 30, 2009

1. PROGRAM DESCRIPTION

In May 2005, the Borough of Middletown (Borough) entered into a contract with the Commonwealth of Pennsylvania Department of Community and Economic Development (DCED) for the New Communities Program Grant - Contract Number C000012844. The purpose of the grant was to provide funding for downtown revitalization efforts.

The accompanying contract financial statements include only the contract revenue and contract expenditures for the activity of the Borough's participation in the New Communities Program Grant from the DCED.

The term of the contract is for the period July 1, 2004 through June 30, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying statement of contract revenue and contract expenditures is a summary of the activity of the Borough's participation in the New Communities Program Grant on the modified accrual basis of accounting. Accordingly, revenues are recognized when available and measurable, and expenditures when incurred.

3. DUE TO COMMONWEALTH OF PENNSYLVANIA

The New Communities Program Grant was not fully spent as of the contract period ending June 30, 2009. As a result, the excess amount of grant proceeds over expenses is reported as a due to the Commonwealth of Pennsylvania.

Borough of Middletown

**Independent Auditor's Report
In Accordance with
*Government Auditing Standards***

**For the Contract Period
July 1, 2004 to June 30, 2009**

New Communities Program Grant

Contract Number C000012844

DRAFT

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Contract Financial Statements
Performed in Accordance with *Government Auditing Standards*

Borough Council
Borough of Middletown

We have audited the contract financial statements of the Borough of Middletown (Borough) – New Communities Program Grant - Contract Number C000012844, for the contract period July 1, 2004 to June 30, 2009, and have issued our report thereon dated Date. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Borough's New Communities Program Grant's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the contract financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's New Communities Program Grant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Borough's New Communities Program Grant's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Borough's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Borough's contract financial statements that is more than inconsequential will not be prevented or detected by the Borough's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2009-01 and 2009-02 to be significant deficiencies in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the contract financial statements will not be prevented or detected by the Borough's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies noted above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough's New Communities Program Grant's contract financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of contract financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Findings 2009-01 and 2009-02.

The Borough's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Borough's responses and, accordingly, we express no opinion on them.

* * * * *

This report is intended solely for the information and use of management of the Borough, Members of Borough Council, others within the Borough, and the Commonwealth of Pennsylvania Department of Community and Economic Development and is not intended to be and should not be used by anyone other than these specified parties.

Harrisburg, Pennsylvania
Date

BOROUGH OF MIDDLETOWN

NEW COMMUNITIES PROGRAM GRANT

CONTRACT NUMBER C000012844

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SCHEDULE OF FINDINGS AND RESPONSES

FOR THE CONTRACT PERIOD JULY 1, 2004 TO JUNE 30, 2009

Finding 2009-01: Monitoring Grant Expenses

Control Deficiency: Material Weakness

Condition: The Borough of Middletown (Borough) failed to monitor grant related expenses which resulted in actual expenses varying significantly from the approved budget. Additionally, the match requirement set forth by the grant contract was not met.

Criteria: Article III of the Commonwealth of Pennsylvania Department of Community and Economic Development (DCED) contract, entitled "Payment Provisions and Fiscal Responsibilities," indicates that DCED will pay the Borough for eligible project costs incurred under the contract that are made in accordance with the proposed budget.

Cause of Condition: The Borough does not have an established grant monitoring process.

Questioned Cost: None

Effect of Condition: DCED has the right to disapprove any expenditure made by the Borough that is not in accordance with the terms of the contract.

Recommendation: We recommend that the Borough develop a monitoring process through which all grant expenses and related grant match are reviewed for compliance with the requirements outlined by the grant contract.

Grantee Response: The New Communities Program Grant was passed through to a third party for administration of the funds. The Borough did not closely monitor the third party's administration of the grant funds. A process will be established to closely monitor all grant funds received by the Borough.

Finding 2009-02: Maintaining Supporting Documentation of Grant Related Expenses

Control Deficiency: Material Weakness

Condition: Certain documents supporting the match portion of the grant were not maintained by the Borough.

Criteria: Article XI of the DCED contract, entitled "Records," indicates that the Borough shall maintain complete and accurate records and accounts including documents, correspondence, and other evidence pertaining to costs and expenses of the contract.

BOROUGH OF MIDDLETOWN

NEW COMMUNITIES PROGRAM GRANT

CONTRACT NUMBER C000012844

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SCHEDULE OF FINDINGS AND RESPONSES

FOR THE CONTRACT PERIOD JULY 1, 2004 TO JUNE 30, 2009

Cause of Condition: The Borough did not maintain adequate documentation supporting the match portion of the grant.

Questioned Cost: Although the Borough documented a bid for \$9,880 in renovation costs related to the matching requirements of the grant, actual invoices were not maintained.

Effect of Condition: Failure to maintain proper supporting documentation could result in potential loss of future grant funding.

Recommendation: We recommend that the Borough develop a record-keeping process to ensure that all grant related documents are maintained in accordance with the terms of the grant contract.

Grantee Response: The New Communities Program Grant was administered by a third party, and certain supporting documents were not maintained. The Borough will develop a process through which all grant activity is closely monitored, and all supporting documentation is appropriately maintained on file.