



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 2, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Middletown, Iowa for the period October 1, 2016 through September 30, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible and implement procedures to provide an adequate segregation of duties. The City should also establish procedures to ensure monthly bank and utility reconciliations are performed and are independently reviewed. In addition, the City should established procedures to ensure records are maintained to facilitate fund accounting and should utilize the recommended Uniform Chart of Accounts for Iowa City Governments.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1722-0270-EP0P>.

###

CITY OF MIDDLETOWN

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
OCTOBER 1, 2016 THROUGH SEPTEMBER 30, 2017

Table of Contents

		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Bank Reconciliations	B	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C	9
Utility Rates	D	9
City Financial Management Information	E	9
Annual Financial Report	F	10
Deposits and Investments	G	10
City Council Meeting Minutes	H	10
Investments	I	10
Accounting Policies and Procedures Manual	J	11
Prenumbered Receipts	K	11
Journal Entry Documentation	L	11
Payroll	M	11
Local Option Sales Tax	N	11
Receipts	O	12
Disbursements	P	12
Payment of General Obligation Bonds/Notes	Q	12
Certified Budget	R	12
Surety Bond Coverage	S	12
Staff		13

City of Middletown

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Doug Coyle	Mayor	Jan 2016	Jan 2018
A.J. Fessler	Mayor Pro/Tem	Jan 2014	Jan 2018
Jason Green	Council Member	Jan 2014	Jan 2018
Orrin Asmus	Council Member	Jan 2016	Jan 2020
Donald Kirkpatrick	Council Member	Aug 2016	Nov 2017
Earl Martin	Council Member	Jan 2016	Jan 2020
Tom Clements	City Clerk/Treasurer		Indefinite

City of Middletown



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Accountant's Report on Applying Agreed-Up Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Middletown for the period October 1, 2016 through September 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Middletown's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.


9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Middletown during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

May 29, 2018

Detailed Recommendations

City of Middletown

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Investments - investing, recordkeeping and custody.
 - (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (5) Payroll – recordkeeping, preparing and distributing.
 - (6) Utilities – billing, collecting, depositing and posting.
 - (7) Debt – record keeping, compliance, and debt payment processing.
 - (8) Financial reporting – preparing and reconciling.
 - (9) Journal entries – preparing and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Bank and investment balances were not reconciled to the City's general ledger balances monthly. For month ended September 30, 2017, for which AOS prepared a reconciliation, the City's bank and investment balances were \$5,940 higher than the City's general ledger balance. The City made subsequent adjustments to the general ledger while auditors were on site. Supporting documents for the adjustments were not maintained by the City. The adjustments resulted in negative balances in two of the four general ledger cash accounts and a total bank and investment balance which was \$44,932 higher than the City's general ledger balance. We subsequently requested and reviewed the bank reconciliation for March 31, 2018 prepared by the City. Based on our review, the City bank and investment balances at March 31, 2018 reconcile to the general ledger within an immaterial variance.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. In addition, the City should ensure supporting documentation is maintained for all adjustments made to the accounting system. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Middletown

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Utility Rates – The utility rates entered into the system are not reviewed and approved to ensure proper utility calculations and billings.

Recommendation – An independent person should review utility rates periodically and when rate changes occur to ensure proper utility calculations and billings.

- (E) City Financial Management Information – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and bond, note and loan proceeds.

The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate preparation of and to support the Annual Financial Report (AFR).

Monthly financial reports, including receipts, disbursements and beginning and ending fund balances for each fund and comparisons of actual results to budget by function, were not compiled from the accounting records and provided to the City Council for review and approval.

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Year-to-date totals of receipts by fund and source and disbursements by fund and function should be maintained to facilitate preparation of and to support the AFR. Monthly financial reports provided to the City Council should include receipts, disbursements and beginning and ending fund balances for each fund and comparisons of disbursements by function to budgeted disbursements.

City of Middletown

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” Receipts and ending fund balances reported on the Annual Financial Report (AFR) for year ended June 30, 2016 did not agree with the City’s financial records. We were unable to determine the accuracy of disbursements reported on the AFR as the City’s financial records do not classify disbursements by function and information supporting the amounts reported was not retained. In addition, the City reported a deficit balance of \$75,119 in the Proprietary Fund however the City’s general ledger reported a balance of \$77,492 for the year ended June 30, 2016.

Recommendation – The City should establish procedures to ensure amounts reported on their AFR are supported by the general ledger and are properly classified. In addition, if deficit balances are reported, the City should investigate alternatives to eliminate the deficits to return the funds to a sound financial position.

- (G) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (H) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements from each fund, a summary of receipts, a listing of claims allowed and a summary of ordinances or amendments adopted. No evidence was retained to determine if four of four monthly minutes reviewed were published within fifteen days. Also, four of four monthly minutes publications reviewed did not include total disbursements from each fund, a summary of receipts, a listing of claims allowed and a summary of ordinances or amendments adopted. In addition, meeting minutes and several resolutions were not signed as required by Chapter 380.7 of the Code of Iowa and meetings were not preceded by proper notice in accordance with Chapter 21.4 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, including total disbursements by fund, a summary of receipts, a listing of claims allowed and a summary of ordinances or amendments adopted. In addition, all minutes and resolutions should be signed to authenticate the actions taken and City Council meetings should be preceded by proper notice, as required by the Code of Iowa.

- (I) Investments – An accounting record/register is not maintained for each investment.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

City of Middletown

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (J) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (K) Prenumbered Receipts – Although prenumbered receipts were issued for all collections and an initial listing of collections was prepared, collections were not compared to the bank deposit and the accounting records by an independent person.

Recommendation – Prenumbered receipts should be issued for all collections and an initial listing of collections should be prepared. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (L) Journal Entry Documentation – Supporting documentation was not maintained for journal entries. Additionally, journal entries are not approved.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Journal entries should be approved by an independent person and evidence of the approval should be documented.

- (M) Payroll – Five of five timesheets tested did not include evidence of supervisory review. In addition, a review of wage and withholding rates entered into the payroll system is not performed by an independent person and vacation earned and used is not formally tracked.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, procedures should be established to ensure approved payroll rates are entered into the payroll system and reviewed by an independent person. The review should be documented. Employee vacation hours earned and used should be formally tracked.

- (N) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the General Fund. The LOST ballot requires the receipts be used for specified purposes. During the year, LOST disbursements were not tracked in a manner which documented compliance with the LOST ballot referendum provisions.

Recommendation – The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement and balance of all LOST funds. All LOST disbursements should be tracked to document compliance with the LOST ballot referendum provisions.

City of Middletown

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (O) Receipts – During the period reviewed, we identified receipts which were not traceable to the general ledger or were incorrectly recorded in the general ledger. Two of ten state warrants totaling \$134 could not be traced to the general ledger and another receipt was incorrectly entered, understating the City’s receipts by \$46.

Recommendation – The City should establish procedures to ensure all receipts are recorded accurately in the City’s general ledger.

- (P) Disbursements – Thirteen of thirty disbursements tested were not properly supported by an invoice.

Recommendation – The City should retain original invoices for all disbursements.

- (Q) Payment of General Obligation Bonds/Notes – Principal and interest payments on general obligation bonds/notes were not accurately recorded in the general ledger. Principal payments were understated by \$33,315 and interest payments were understated by \$24,548.

Recommendation – Principal and interest on general obligation bonds/notes should be properly and accurately recorded.

- (R) Certified Budget – Disbursements during the year ended June 30, 2017 were not classified by function. Therefore, we were not able to determine if the actual disbursement amounts exceeded the budgeted amounts by function. In addition, the City did not retain proof of publication for the fiscal year 2017 budget.

Recommendation – Disbursements should be recorded and tracked by function to facilitate ensuring disbursements do not exceed budgeted amounts before a budget amendment is approved. In addition, the City should retain documentation of the budget publication.

- (S) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

City of Middletown

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager
Jesse J. Probasco, CPA, Senior Auditor
Heather M. Poula, Assistant Auditor


Marlys K. Gaston, CPA
Director