



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE _____ November 7, 2002

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released an audit report on Adair County Sanitary Landfill Commission for the year ended June 30, 2002.

The Commission had total receipts of \$470,791 during the year ended June 30, 2002, a 1.1 percent increase from the prior year. The receipts included county and city contributions of \$78,011 and gate and recycling fees of \$281,711.

Disbursements totaled \$453,168 for the year ended June 30, 2002, a 34 percent decrease from the prior year, and included \$92,844 for solid waste operator contractor fees and \$34,210 in recycling contract fees.

This report contains recommendations to the Commission to review operating procedures to obtain the maximum internal control possible and to establish procedures to reconcile customer billings, collections and receivables monthly. The report also recommends that the Commission contact the Iowa Department of Natural Resources to resolve issues concerning closure and post-closure care costs that are not properly assured through an approved financial assurance mechanism. The Commission has responded favorably to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and at the Adair County Sanitary Landfill Commission.

###

ADAIR COUNTY SANITARY LANDFILL COMMISSION

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SCHEDULE OF FINDINGS**

JUNE 30, 2002

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5
Financial Statement:	<u>Exhibit</u>
Statement of Cash Transactions - Operating Fund	A 9
Notes to Financial Statement	10-15
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	17-18
Schedule of Findings	19-22
Staff	23

Adair County Sanitary Landfill Commission

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Chuck Avey	President	City of Stuart
Gary Firch	Vice President	City of Bridgewater
Ron Wilson	Member	City of Adair
Kevin Hall	Member	City of Greenfield
Robert Jensen	Member	City of Orient
Pat Keating	Member	City of Casey
Richard Dolan	Member	Adair County
Larry Guisinger	Member	City of Menlo
Larry Baudler	Member	Adair County
Don Tiedeman	Member	City of Fontanelle
Barbara Jean Funke	Director	

Adair County Sanitary Landfill Commission



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

Independent Auditor's Report

To the Members of the Adair County Sanitary Landfill Commission:

We have audited the accompanying financial statement, listed as an exhibit in the table of contents of this report, of the Adair County Sanitary Landfill Commission as of and for the year ended June 30, 2002. This financial statement is the responsibility of the Commission's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, this financial statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of the cash transactions of Adair County Sanitary Landfill Commission as of and for the year ended June 30, 2002 on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2002 on our consideration of the Adair County Sanitary Landfill Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 18, 2002

Adair County Sanitary Landfill Commission

Financial Statement

Adair County Sanitary Landfill Commission

Adair County Sanitary Landfill Commission
Statement of Cash Transactions – Operating Fund
Year ended June 30, 2002

Receipts:	
Gate and recycling fees	\$ 281,711
County contributions	31,923
City contributions	46,088
Interest on investments	49,747
Recycling freight	35,565
Tire grants	12,000
Land rent	11,160
Miscellaneous	<u>2,597</u>
Total receipts	<u>470,791</u>
 Disbursements:	
Salaries and benefits	152,547
Training and travel	5,958
Equipment	1,890
Maintenance and repair	13,768
Utilities	7,118
Rock	1,436
Insurance	12,497
Operator contract	92,844
Recycling contract	34,210
Household hazard facility contract	8,465
Fuel	1,187
Advertising and supplies	7,512
Professional services	26,591
Tonnage fees	15,436
Loan repayments	42,513
Tire grant	11,258
Disposal costs	10,359
Miscellaneous	<u>7,512</u>
Total disbursements	<u>453,168</u>
Excess of receipts over disbursements	17,623
 Other financing sources:	
Department of Natural Resources loan proceeds	<u>632</u>
Excess of receipts and other financing sources over disbursements	18,255
Balance beginning of year	<u>767,338</u>
Balance end of year	<u>\$ 785,593</u>

See notes to financial statement.

Adair County Sanitary Landfill Commission

Notes to Financial Statement

June 30, 2002

(1) Summary of Significant Accounting Policies

The Adair County Sanitary Landfill Commission was formed in 1973 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Commission is to develop, operate and maintain solid waste and recycling facilities in Adair County on behalf of the units of government which are members of the Commission.

The governing body of the Commission is composed of one representative from each of the eight member cities and two representatives from Adair County. The member cities are: Adair, Orient, Stuart, Bridgewater, Casey, Fontanelle, Greenfield and Menlo. The commissioners are appointed by the participating governmental subdivisions and each has one vote for each one hundred population except for Adair County whose votes are to be shared by two members.

A. Reporting Entity

For financial reporting purposes, the Adair County Sanitary Landfill Commission has included all funds, organizations, agencies, boards, commissions and authorities. The Commission has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commission to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Commission. The Commission has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The accounts of the Commission are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The Commission utilizes a sanitary disposal fund, which is the general operating fund of the Commission.

C. Basis of Accounting

The Adair County Sanitary Landfill Commission maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Commission is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items, including the estimated payables for closure and post-closure care costs. Accordingly, the financial statement does not present the financial position and results of operations of the Commission in accordance with U.S. generally accepted accounting principles.

(2) Cash and Investments

The Commission's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Commission is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Commission; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Commission had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Pension and Retirement Benefits

The Commission contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Commission is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Commission's contribution to IPERS for the year ended June 30, 2002, 2001, and 2000 were \$5,928, \$4,969, and \$4,021, respectively, equal to the required contribution for the year.

(4) Closure and Post Closure Care Costs

To comply with federal and state regulations, the Commission is required to complete a monitoring system plan and a closure/post-closure plan to provide funding necessary to effect closure and post-closure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty year care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and post-closure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and post-closure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs would consist of four components: (1) the cost of

equipment and facilities used in post-closure monitoring care, (2) the cost of final cover (material and labor), (3) the cost of monitoring and landfill during the post-closure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost would be based on the cost to purchase those services and equipment currently and would be required to be updated annually for changes to inflation or deflation, technology, or applicable laws or regulations.

These costs for the Adair County Sanitary Landfill Commission have been estimated to be \$245,462 for closure and \$529,800 for post-closure. These amounts are based on what it would cost to perform all closure and postclosure care during the year ended June 30, 2002. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure accounts to accumulate resources for the payment of closure and postclosure care costs. Effective July 1, 2002, Chapter 567-111.8(8) of the Iowa Administrative Code (IAC) requires annual deposits to these closure and postclosure accounts determined by the following formula:

$$\frac{CE-CB}{RPC} \times TR = \text{yearly deposit to account}$$

CE = current cost estimate of closure and postclosure costs

CB = current balance of the closure and postclosure accounts

RPC = remaining permitted capacity, in tons, of the landfill as of the start of the permit holder's first fiscal year

TR = the number of tons of solid waste disposed of at the facility in the prior year

The Adair County Sanitary Landfill Commission began accumulating resources to fund the closure and post-closure care costs prior to July 1, 2002 and has designated certificates of deposit for these purposes. The deposits for the fiscal year ended June 30, 2002 were not calculated using the above formula, since the formula is not effective until July 1, 2002. Following are the amounts designated for closure and post-closure care costs at June 30, 2002:

	Closure	Post-Closure	Total
Balance of funds held at July 1, 2001	\$ 213,657	135,537	349,194
Current year deposits	16,777	20,470	37,247
Balance of funds held at June 30, 2002	\$ 230,434	156,007	386,441

Also, pursuant to Chapter 567-111.3(3) of the IAC, since the estimated closure and post-closure costs are not fully funded, the Commission is required to demonstrate financial assurance for the unfunded costs. Prior to March 2002, the Commission demonstrated this financial assurance through the Dedicated Fund mechanism. Effective April 1, 2002, the Commission has adopted the Local Government Guaranty mechanism. Under this mechanism, the Commission must certify the following to the Iowa Department of Natural Resources:

- The Commission satisfies the financial test requirements of IAC, Chapter 567-111.6(6)"a"(1), (2) and (3).

- The Commission has complied with the public notice requirements of IAC, Chapter 567-111.6(6)"b".
- The Commission is using a financial test to assure only those cost estimates that do not exceed 43% of the Commission's total annual revenue.
- The Commission's bond rating, or a statement that the Commission currently has no general obligation bonds outstanding.

For the year ended June 30, 2002, the costs to be assured for closure and post-closure care are \$388,821, which is 83% of the fiscal 2002 annual revenues of \$470,791. This percentage exceeds the 43% allowed by the IAC.

(5) Solid Waste Tonnage Fees Retained

Chapter 455B.310 of the Code of Iowa establishes a tonnage fee of four dollars and twenty-five cents per ton of solid waste. The Sanitary landfill operator shall retain ninety-five cents of the tonnage fee to be used as described in the following paragraph and can retain an additional twenty-five cents of the tonnage fee as described below if an updated comprehensive plan has been approved for the Commission. The remainder of the tonnage fee is remitted to the Iowa Department of Natural Resources on a quarterly basis.

The Commission has established an account for restricting and using solid waste tonnage fees retained by the Commission in accordance with Chapter 455B.310 of the Code of Iowa. As required by the Code of Iowa, fifty cents per ton of the solid waste tonnage fee must be used for the following: (1) development and implementation of an approved comprehensive plan, (2) development of a closure or post-closure care plan, (3) development of a plan for the control and treatment of leachate which may include a facility plan or detailed plans and specifications, and (4) preparation of a financial plan. Forty-five cents per ton of the tonnage fee shall be disbursed to a city, county, or public agency using the sanitary disposal project for the purpose of implementation of waste volume reduction and recycling required by the Commission's approved comprehensive plan. The fees retained may also be used for other environmental protection and environmental compliance activities.

An updated comprehensive plan was approved by the Iowa Department of Natural Resources allowing the Commission to retain an additional twenty-five cents per ton of the tonnage fee. The twenty-five cents per ton of the tonnage fee will be used for waste reduction, recycling, or small business pollution prevention purposes.

At June 30, 2002, the Commission had no unspent tonnage fees.

(6) Risk Management

The Adair County Sanitary Landfill Commission is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 400 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contribution.

The Commission's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Commission's annual contributions to the Pool for the year ended June 30, 2002 were \$7,302.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Commission does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2002, no liability has been recorded in the Commission's financial statements. As of June 30, 2002, settled claims have not exceeded the risk pool or reinsurance company coverage in any of the past three fiscal years.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal and the member's proportionate share of any capital deficiency.

The Commission also carries commercial insurance purchased from another insurer for coverage associated with the employee blanket bond. The Commission assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Operator Contract

The Adair County Sanitary Landfill Commission has entered into an operator contract commencing October 1, 2001. Under the contract, the contractor is to operate the landfill site in compliance with all applicable laws, rules and regulations. The contractor is to furnish all labor, tools, and equipment necessary for operation, except for recycling responsibilities and collection of gate fees. For these services, the operator was paid \$9,048 per month July through September 2001 and \$7,300 per month October 2001 through June 2002.

(8) Financial Assistance Program Loans

During the fiscal year ended June 30, 1997, the Adair County Sanitary Landfill Commission entered into a contract with the Iowa Department of Natural Resources under the Landfill Alternatives Financial Assistance Program and received a \$186,065 interest-free loan. The proceeds were used for constructing and equipping a recycling processing center. The promissory note is to be repaid over 84 months, with quarterly payments of \$6,645 beginning November 1997 and the final payment due August 2004. Four payments totaling \$26,581 were made during the fiscal year ended June 30, 2002. At June 30, 2002 the unpaid balance of the loan was \$59,808.

On November 9, 1998, the Commission approved a comprehensive plan for recycling expansion and entered into an agreement with the Iowa Department of Natural Resources for a \$111,524 interest-free loan to fund the expansion. The promissory note is to be repaid over 84 months, with quarterly payments of \$3,983 beginning January 15, 2000 and ending October 15, 2006. Four payments totaling \$15,932 were made during the fiscal year ended June 30, 2002. At June 30, 2002 the unpaid balance of the loan was \$71,694.

On April 8, 2002, the Commission approved a contract for recycling expansion and entered into an agreement with the Iowa Department of Natural Resources for a forgivable loan of \$20,000, an interest-free loan of \$150,000 and a 3% interest loan of \$52,210. The loans are to be repaid over 84 months with quarterly payments of \$7,431 beginning March 15, 2003 and ending December 15, 2009. At June 30, 2002, the landfill had drawn down \$632 of the \$222,210 authorized. No repayments were made on the loans during the fiscal year ended June 30, 2002. At June 30, 2002 the unpaid balance of the loans was \$632.

(9) Restricted/Designated Funds

The Commission maintains restricted and/or designated funds in separate certificates of deposit and savings accounts which are identified for specific purposes as follows:

Planning	\$ 219,401
Equipment	90,202
Closure	230,434
Post-closure	<u>156,007</u>
Total	<u>\$ 696,044</u>

Adair County Sanitary Landfill Commission



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Members of the Adair County Sanitary Landfill Commission:

We have audited the financial statement of the Adair County Sanitary Landfill Commission as of and for the year ended June 30, 2002, and have issued our report thereon dated September 18, 2002. Our report expressed an unqualified opinion on the financial statement, which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Adair County Sanitary Landfill Commission's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of 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 no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Adair County Sanitary Landfill Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Adair County Sanitary Landfill Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses. Prior year reportable conditions have been resolved except for items (A) and (B).

This report, a public record by law, is intended solely for the information and use of the members and customers of the Adair County Sanitary Landfill Commission and other parties to whom the Commission may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Adair County Sanitary Landfill Commission during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 18, 2002

Adair County Sanitary Landfill Commission

Schedule of Findings

Year ended June 30, 2002

Findings Related to the Financial Statement:

REPORTABLE CONDITIONS:

- (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. One person has primary control over each of the following areas for the Commission:

- (1) Receipts - posting and deposit preparation.
- (2) Charge accounts - billing, deposit preparation, posting to receipts record and individual charge account records, and reconciling.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Commission should review its control activities to obtain the maximum internal control possible under the circumstances.

Response - The Commission will look at this area regarding segregation of duties and will see, with a limited number of staff, how this can be corrected with minimal additional expenses.

Conclusion - Response accepted.

- (B) Reconciliation of Billings, Collections and Delinquent Accounts - Reconciliations of billings, collections and accounts receivable are not performed monthly.

Recommendation - Procedures should be established to reconcile billings, collections and accounts receivable monthly. The Commission should review the reconciliations, including tracing reconciling items to supporting documentation.

Response - We will prepare reconciliations monthly. The Commission will review reconciliations and tracing these items to documentation.

Conclusion - Response accepted.

- (C) Financial Records - The Commission's scale program is interfaced with the accounting package and periodically transfers gate and tipping fee transactions from weigh tickets to the accounting package. The Commission accounts for and reports transactions on a cash basis, however, the transactions posted from the scale program to the accounting package appear to be charges on account rather than payments on account.

Recommendation - To facilitate the proper accounting for cash transactions and the reconciling of book balances to the monthly bank balances, the accounting package should reflect payments on account from the scale program, not charges on account. The Commission should consult with the software providers and modifications should be made to allow for the proper accounting and reporting of all cash transactions.

Adair County Sanitary Landfill Commission

Schedule of Findings

Year ended June 30, 2002

Response - The Commission is currently consulting with software providers to make sure all transactions are being accounted for properly in both programs, including the cash transactions.

Conclusion - Response accepted.

- (D) Monthly Bank Reconciliations - Although monthly bank reconciliations were prepared, the reconciliations included only the checking accounts and did not include investments and other reconciling items. The general ledger (book) balance carried forward each month does not include investments.

Recommendation - To provide better control over financial transactions and overall accountability, the general ledger balance and monthly bank reconciliations should be prepared to include all checking accounts, investments and petty cash. Any variances should be investigated and resolved in a timely manner.

Response - Will complete monthly reconciliations, including investments and petty cash.

Conclusion - Response accepted.

Adair County Sanitary Landfill Commission

Schedule of Findings

Year ended June 30, 2002

Other Findings Related to Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories has been approved by the Commission. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2002.
- (2) Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No disbursements of Commission money for travel expenses of spouses of Commission officials or employees were noted.
- (4) Commission Minutes - No transactions were found that we believe should have been approved in the Commission minutes but were not.
- (5) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Commission's investment policy were noted.
- (6) Solid Waste Tonnage Fees Retained - During the year ended June 30, 2002, the Commission used or retained the solid waste fees in accordance with Chapter 455B.310(3) and 4) of the Code of Iowa.
- (7) Financial Assurance - Effective April 1, 2002, the Commission adopted the Local Government Guaranty financial assurance mechanism as allowed by Chapter 567-111.6(8) of the Iowa Administrative Rules. To utilize this mechanism, the Commission must certify that costs to be assured, that is those in excess of funds already accumulated for closure and post-closure care costs, do not exceed 43% of the Commission's annual revenue. For the year ended June 30, 2002, the Commission's costs to be assured are 83% of the annual revenue as calculated below:

Total estimated closure and post-closure care costs at June 30, 2002	\$ 775,262
Less: Funds designated for closure and post-closure care costs at June 30, 2002	<u>(386,441)</u>
Closure and post-closure care costs to be assured through the financial assurance mechanism	<u>\$ 388,821</u>

Adair County Sanitary Landfill Commission

Schedule of Findings

Year ended June 30, 2002

Fiscal 2002 total annual revenue	\$ 470,791
	<u>x 43%</u>
Maximum closure and post-closure care costs that can be assured through the financial assurance mechanism	202,440
Less closure and post-closure care costs to be assured (representing 83% of total annual revenue)	<u>(388,821)</u>
Closure and post-closure care costs that are not assured through the financial assurance mechanism	<u>\$ 186,381</u>

Recommendation - The Commission should contact the Iowa Department of Natural resources to determine the alternatives available to assure the remaining costs.

Response - The Commission has contacted IDNR and is reviewing their options with Landfill consultant to rectify this issue.

Conclusion - Response accepted.

- (8) Electronic Record Retention - Chapter 554D.114 of the Code of Iowa allows the Commission to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Commission retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The Commission should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The Commission has informed their bank of this requirement and will comply on all current and future checking accounts.

Conclusion - Response accepted.

Adair County Sanitary Landfill Commission

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Gary D. Van Lengen, CPA, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State