



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE October 13, 2002

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Bronson, Iowa.

The City's receipts totaled \$213,581 for the year ended June 30, 2002. The receipts included \$30,121 in property tax, \$21,776 in local option sales tax, \$24,968 from the state, and \$69,462 in charges for service.

Disbursements for the year totaled \$128,118 and included \$6,272 for community protection, \$36,119 for human development, \$64,416 for home and community environment and \$21,311 for policy and administration.

This report contains recommendations to the City Council and other city officials. For example, the City should segregate accounting duties to the extent possible with the existing personnel and procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The City has responded to each item in the report and stated that corrective action is being taken.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF BRONSON
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

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City of Bronson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Paul Hinds	Mayor	Jan 2002
Mike Ott	Mayor Pro tem	Jan 2002
Keith Baker	Council Member	Jan 2002
Matt Plummer	Council Member	Resigned
Brad Baldwin (Appointed)	Council Member	Jan 2002
Ron Lewon	Council Member	Jan 2002
Dave West	Council Member	Jan 2004
Gina Main	Clerk/Treasurer	Indefinite
Glenn Metcalf	City Attorney	Indefinite
(After January 2002)		
Ava Lewon	Mayor	Jan 2004
Ron Lewon	Mayor Pro tem	Jan 2006
Dave West	Council Member	Jan 2004
Lisa Crilly	Council Member	Jan 2006
Brad Baldwin	Council Member	Jan 2006
Michael Laughlin	Council Member	Jan 2006
Gina Main	Clerk/Treasurer	Resigned March 1, 2003
Lindy Jesson (Appointed)	Clerk/Treasurer	Indefinite
Glenn Metcalf	City Attorney	Indefinite

City of Bronson



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Bronson, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Bronson's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following two paragraphs, 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 statements are 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, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

For the year ended June 30, 2002, certain collections indicated as paid on the utility register could not be traced to deposits. Further, utility billings, collections and delinquent accounts were not reconciled and certain billing and collection information was not retained. The City's records do not permit the application of other auditing procedures to utility records. Since we were not able to apply other auditing procedures to satisfy ourselves as to utility billings and collections, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the Enterprise Funds.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2001, as discussed in the third paragraph, the aforementioned financial statements, excluding those of the Enterprise Funds, on which we express no opinion, present fairly, in all material respects, the results of the cash transactions of the funds of the City of Bronson as of and for the year ended June 30, 2002, and its indebtedness at 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 March 27, 2003 on our consideration of the City of Bronson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements, excluding those of the Enterprise Funds, and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2001, as discussed in the third paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 27, 2003

Financial Statements

City of Bronson
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Receipts:			
Property tax	\$ 30,121	-	-
Other city tax	21,798	-	-
Licenses and permits	235	-	-
Use of money and property	5,517	-	-
Intergovernmental	5,066	21,546	-
Charges for service	4,263	-	-
Miscellaneous	14,821	-	-
Total receipts	<u>81,821</u>	<u>21,546</u>	<u>-</u>
Disbursements:			
Community Protection Program	6,272	-	-
Human Development Program	10,155	3,728	-
Home and Community Environment Program	-	-	10,367
Policy and Administration Program	17,555	1,092	-
Total disbursements	<u>33,982</u>	<u>4,820</u>	<u>10,367</u>
Excess (deficiency) of receipts over (under) disbursements	<u>47,839</u>	<u>16,726</u>	<u>(10,367)</u>
Other financing sources (uses):			
Note proceeds	-	-	-
Operating transfers in	-	-	10,367
Operating transfers out	(10,367)	-	-
Total other financing sources (uses)	<u>(10,367)</u>	<u>-</u>	<u>10,367</u>
Excess of receipts and other financing sources over disbursements and other financing uses	37,472	16,726	-
Balance beginning of year	<u>108,050</u>	<u>38,104</u>	<u>-</u>
Balance end of year	<u>\$ 145,522</u>	<u>54,830</u>	<u>-</u>

See notes to financial statements.

<u>Proprietary Fund Type</u> Enterprise	<u>Fiduciary Fund Type</u> Trust	Total (Memorandum Only)
-	-	30,121
-	-	21,798
-	-	235
3,305	-	8,822
-	-	26,612
65,199	-	69,462
7,198	34,512	56,531
<u>75,702</u>	<u>34,512</u>	<u>213,581</u>
-	-	6,272
-	22,236	36,119
54,049	-	64,416
2,664	-	21,311
<u>56,713</u>	<u>22,236</u>	<u>128,118</u>
<u>18,989</u>	<u>12,276</u>	<u>85,463</u>
7,767	-	7,767
-	-	10,367
-	-	(10,367)
<u>7,767</u>	<u>-</u>	<u>7,767</u>
26,756	12,276	93,230
<u>111,592</u>	<u>9,054</u>	<u>266,800</u>
<u>138,348</u>	<u>21,330</u>	<u>360,030</u>

City of Bronson

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	<u>Actual</u>	<u>Budget</u>
Receipts:		
Property tax	\$ 30,121	47,573
Other city tax	21,798	20,638
Licenses and permits	235	200
Use of money and property	8,822	6,134
Intergovernmental	26,612	20,078
Charges for service	69,462	68,200
Miscellaneous	56,531	800
Total receipts	<u>213,581</u>	<u>163,623</u>
Disbursements:		
Community Protection Program	6,272	12,700
Human Development Program	36,119	7,250
Home and Community Environment Program	64,416	108,400
Policy and Administration Program	21,311	29,319
Total disbursements	<u>128,118</u>	<u>157,669</u>
Excess of receipts over disbursements	85,463	5,954
Other financing sources, net	<u>7,767</u>	<u>7,000</u>
Excess of receipts and other financing sources over disbursements and other financing uses	93,230	12,954
Balance beginning of year	<u>266,800</u>	<u>208,659</u>
Balance end of year	<u>\$ 360,030</u>	<u>221,613</u>

See notes to financial statements.

<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual</u> <u>as % of</u> <u>Budget</u>
(17,452)	63%
1,160	106%
35	118%
2,688	144%
6,534	133%
1,262	102%
55,731	7066%
<u>49,958</u>	<u>131%</u>
6,428	49%
(28,869)	498%
43,984	59%
8,008	73%
<u>29,551</u>	<u>81%</u>

City of Bronson
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue capital loan notes: Sewer	Apr 1, 2000	3.92%	\$ 230,000
Emergency medical service loan: Ambulance	Jun 13, 2000	-	\$ 11,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
222,233	7,767	12,000	218,000	8,713
8,800	-	-	8,800	-

City of Bronson

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Bronson is a political subdivision of the State of Iowa located in Woodbury County. It was first incorporated in 1967 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Bronson has included all funds, organizations, agencies, boards, commissions and authorities. The City 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 City are such that exclusion would cause the City'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 City 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 City. The City of Bronson has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Woodbury County E-911 Service Board and Woodbury County Assessor's Conference Board.

B. Fund Accounting

The accounts of the City 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 various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid through other funds.

Special Revenue Fund – The Special Revenue Fund is utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Capital Projects Fund – The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Funds

Trust Fund – The Trust Fund is used to account for monies and properties received and held by the city in a trustee capacity. This includes the expendable trust fund.

C. Basis of Accounting

The City of Bronson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned “Memorandum Only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City’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 City 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 City Council; 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 City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Long-Term Debt

Notes Payable

On April 1, 2000, the City entered into agreements with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa, N.A. for issuance of \$230,000 of sewer revenue notes with 3.9% per annum interest. The notes were issued pursuant to the provisions of sections 384.24A and 394.83 of the Code of Iowa to construct improvements and extensions to a municipal sanitary sewer system.

Annual debt service requirements to maturity for the sewer revenue capital loan notes is as follows:

Year ending June 30,	Interest Rate	Sewer Revenue Capital Loan Notes	
		Principal	Interest
2003	3.92%	\$ 8,000	8,389
2004	3.92	8,000	8,075
2005	3.92	9,000	7,742
2006	3.92	9,000	7,389
2007	3.92	9,000	7,036
2008	3.92	10,000	6,664
2009	3.92	10,000	6,272
2010	3.92	11,000	5,860
2011	3.92	11,000	5,429
2012	3.92	11,000	4,998
2013	3.92	12,000	4,547
2014	3.92	12,000	4,077
2015	3.92	12,000	3,606
2016	3.92	13,000	3,116
2017	3.92	13,000	2,607
2018	3.92	14,000	2,078
2019	3.92	15,000	1,509
2020	3.92	15,000	921
2021	3.92	16,000	314
Total		<u>\$ 218,000</u>	<u>90,629</u>

The resolution providing for the issuance of the sewer revenue capital loan notes, series 2000 issued under a loan agreement between the City of Bronson, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa, N.A. includes the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payment when due.
- c) Additional monthly transfers to a separate sewer revenue note reserve account shall be made until a specific minimum balance has been accumulated. The account is to be used solely for the purpose of paying principal and interest of the notes when insufficient funds are available in the sinking account.
- d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

The City has not established the sinking and reserve accounts required by the sewer revenue note resolution.

Emergency Medical Service Loan

On June 13, 2000, the City entered into an interest free loan agreement with Woodbury County to purchase an ambulance for \$11,000. The loan is to be repaid in five annual payments of \$2,200. The unpaid principal on the loan at June 30, 2002 is \$8,800.

(4) Pension and Retirement Benefits

The City 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 City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$1,261, equal to the required contribution for that year.

(5) Risk Management

The City of Bronson is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2002.

(6) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed appropriations at the program level. During the year ended June 30, 2002, disbursements in the Human Development program exceeded the amount budgeted.

Supplemental Information

City of Bronson
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	General	Ambulance	Total
Receipts:			
Property tax	\$ 30,121	-	30,121
Other city tax:			
Local option sales tax	21,776	-	21,776
Gaming tax	22	-	22
	<u>21,798</u>	<u>-</u>	<u>21,798</u>
Licenses and permits	235	-	235
Use of money and property:			
Interest on investments	3,951	266	4,217
Shelter rent	1,300	-	1,300
	<u>5,251</u>	<u>266</u>	<u>5,517</u>
Intergovernmental:			
State allocation	3,422	-	3,422
Woodbury County ambulance training grant	-	1,644	1,644
	<u>3,422</u>	<u>1,644</u>	<u>5,066</u>
Charges for service:			
Park	175	-	175
Ambulance usage	-	4,088	4,088
	<u>175</u>	<u>4,088</u>	<u>4,263</u>
Miscellaneous			
Missouri River Historical Development grant	10,000	-	10,000
Refunds and reimbursements	80	-	80
Donations	945	3,543	4,488
Miscellaneous	253	-	253
	<u>11,278</u>	<u>3,543</u>	<u>14,821</u>
Total receipts	<u>72,280</u>	<u>9,541</u>	<u>81,821</u>

Schedule 1

City of Bronson
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

	<u>General</u>	<u>Ambulance</u>	<u>Total</u>
Disbursements:			
Community Protection Program:			
Street lighting	2,227	-	2,227
Fire department	1,000	-	1,000
Ambulance	-	3,045	3,045
	<u>3,227</u>	<u>3,045</u>	<u>6,272</u>
Human Development Program:			
Park and recreation	10,095	-	10,095
Community pride	60	-	60
	<u>10,155</u>	<u>-</u>	<u>10,155</u>
Policy and Administration Program:			
Mayor and council members	1,566	-	1,566
Clerk/Treasurer	2,574	-	2,574
Legal and professional	525	-	525
City hall	2,256	-	2,256
General administration	10,634	-	10,634
	<u>17,555</u>	<u>-</u>	<u>17,555</u>
Total disbursements	<u>30,937</u>	<u>3,045</u>	<u>33,982</u>
Excess of receipts over disbursements	41,343	6,496	47,839
Other financing uses:			
Operating transfers out:			
Capital Projects:			
Road Project	(10,367)	-	(10,367)
Excess of receipts over disbursements and other financing uses	30,976	6,496	37,472
Balance beginning of year	<u>98,672</u>	<u>9,378</u>	<u>108,050</u>
Balance end of year	<u>\$ 129,648</u>	<u>15,874</u>	<u>145,522</u>

See accompanying independent auditor's report.

City of Bronson
 Schedule of Cash Transactions
 Special Revenue Fund
 Year ended June 30, 2002

	<u>Road Use Tax</u>
Receipts:	
Intergovernmental:	
Road use tax allocation	\$ 21,546
Disbursements:	
Home and Community Environment Program:	
Bridges, roads, and sidewalks	3,728
Policy and Administration Program:	
Clerk/Treasurer	1,092
Total disbursements	4,820
Excess of receipts over disbursements	16,726
Balance beginning of year	38,104
Balance end of year	\$ 54,830

See accompanying independent auditor's report.

Schedule 3

City of Bronson
Schedule of Cash Transactions
Capital Projects Fund
Year ended June 30, 2002

	<u>Road Project</u>
Receipts:	
None	\$ -
Disbursements:	
Home and Community Environment Program:	
Roads, bridges, and sidewalks	<u>10,367</u>
Deficiency of receipts under disbursements	(10,367)
Other financing sources:	
Operating transfers in:	
General:	
General	<u>10,367</u>
Excess of receipts and other financing sources over disbursements	-
Balance beginning of year	<u>-</u>
Balance end of year	<u><u>\$ -</u></u>

See accompanying independent auditor's report.

City of Bronson
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water Utility	Sewer Utility	Sewer Operation	Garbage	Total
Receipts:					
Use of money and property:					
Interest on investments	\$ 878	1,653	137	637	3,305
Charges for service:					
Sale of water	16,684	-	-	-	16,684
Sewer rental fees	-	38,023	-	-	38,023
Installations and connections	400	300	-	-	700
Garbage services	-	-	-	9,792	9,792
	<u>17,084</u>	<u>38,323</u>	<u>-</u>	<u>9,792</u>	<u>65,199</u>
Miscellaneous					
Refunds and reimbursements	-	6,106	-	-	6,106
Sales tax collected	1,092	-	-	-	1,092
	<u>1,092</u>	<u>6,106</u>	<u>-</u>	<u>-</u>	<u>7,198</u>
Total receipts	<u>19,054</u>	<u>46,082</u>	<u>137</u>	<u>10,429</u>	<u>75,702</u>
Disbursements:					
Home and Community Environment Program:					
Water utility	10,409	-	-	-	10,409
Sewer utility	-	12,491	-	-	12,491
Garbage	-	-	-	10,256	10,256
Debt service:					
Principal redeemed	-	12,000	-	-	12,000
Interest paid	-	8,713	-	-	8,713
Administrative fee	-	180	-	-	180
	<u>10,409</u>	<u>33,384</u>	<u>-</u>	<u>10,256</u>	<u>54,049</u>
Policy and Administration					
Clerk/Treasurer	1,332	1,332	-	-	2,664
Total disbursements	<u>11,741</u>	<u>34,716</u>	<u>-</u>	<u>10,256</u>	<u>56,713</u>
Excess of receipts over disbursements	7,313	11,366	137	173	18,989
Other financing sources:					
Note proceeds	-	7,767	-	-	7,767
Excess of receipts and other financing sources over disbursements	7,313	19,133	137	173	26,756
Balance beginning of year	32,679	50,687	4,552	23,674	111,592
Balance end of year	<u>\$ 39,992</u>	<u>69,820</u>	<u>4,689</u>	<u>23,847</u>	<u>138,348</u>

See accompanying independent auditor's report.

Schedule 5

City of Bronson
Schedule of Cash Transactions
Trust Fund
Year ended June 30, 2002

	<u>Expendable Trust Bronson Community Trust</u>
Receipts:	
Miscellaneous:	
Donations	\$ 34,512
Disbursements:	
Human Development Program:	
Commodities	<u>22,236</u>
Excess of receipts over disbursements	12,276
Balance beginning of year	<u>9,054</u>
Balance end of year	<u><u>\$ 21,330</u></u>

See accompanying independent auditor's report.



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

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

To the Honorable Mayor and
Members of the City Council:

We were engaged to audit the financial statements of the City of Bronson, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 27, 2003. Due to the unavailability of certain utility records, our report disclaimed an opinion on the financial statements of the Enterprise Funds. Except for the Enterprise Funds, our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

Except as noted in the Independent Auditor's Report, 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Bronson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 City of Bronson'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 City. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Bronson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements 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 City of Bronson's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The 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 statements 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Bronson and other parties to whom the City of Bronson 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 City of Bronson 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.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 27, 2003

City of Bronson
Schedule of Findings
Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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 performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over one or more of the following areas:

- (1) Accounting system – performance of all accounting functions and custody of assets.
- (2) Cash – preparing bank account reconciliations, cash receipt and disbursement functions, handling and recording cash.
- (3) Receipts – collecting, depositing, journalizing and recording.
- (4) Utility receipts – billing, collecting, depositing and recording.

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

Response – Operating procedures will be reviewed to improve internal control.

Conclusion – Response accepted.

(B) Chart of Accounts – The City does not have an established chart of accounts.

Recommendation – To provide better financial information and control, a chart of accounts such as the one endorsed by the City Finance Committee should be established. Appropriate ledgers and subsidiary ledgers should be maintained and reconciled monthly for all funds.

Response – The City is in the process of automating certain bookkeeping and accounting functions. The automated system will assist in providing additional control. Software under consideration incorporates a chart of accounts.

Conclusion – Response accepted.

(C) Receipts – Receipts were not issued for collections

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

City of Bronson

Schedule of Findings

Year ended June 30, 2002

Response – The City is in the process of automating certain bookkeeping and accounting functions. The automated system will assist in providing additional control, including the issuance of prenumbered receipts.

Conclusion – Response accepted.

(D) Disbursements – Sales tax was paid on several purchases made by the City.

Recommendation – Sales tax should not be paid on exempt goods and services.

Response – Exception noted.

Conclusion – Response acknowledged. The City should not pay sales tax on exempt goods and services.

(E) Accounting Manual – An office procedures and standardized accounting manual should be developed for the City. This manual should provide the following benefits:

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

Recommendation – An office procedures and standardized accounting manual should be prepared.

Response – The City will investigate the cost benefits versus the expense of an accounting manual.

Conclusion – Response accepted.

(F) Local Option Sales Tax – City ordinance provides for 10 percent of local option sales tax collections to be allocated for property tax relief and 90 percent to be allocated for maintenance and improvements on municipal buildings. For the year ended June 30, 2002, these collections were credited to the General Fund, General Account.

Recommendation – The City should establish a Special Revenue Fund to account for local option sales tax collections.

Response – The City Treasurer will be instructed to establish the fund as recommended.

Conclusion – Response accepted.

City of Bronson

Schedule of Findings

Year ended June 30, 2002

(G) Utility Procedures and Collections – The City bills, collects, deposits, and records utility payments. The Clerk is to maintain a subsidiary ledger card for each utility customer that summarizes monthly water meter readings, the resulting billings and subsequent collection from each customer.

In addition to identifying several collections that were not deposited timely, the following concerns regarding the City's processing of utility billings and collections were identified:

- Because subsidiary ledger cards were not subsequently accounted for and a master list of customers was not maintained, we were not able to determine if the subsidiary ledger cards held by the City represent a complete population of utility customers.
- A listing of utility payments collected is not prepared and the remittance documents submitted with the utility collections are not retained. In addition, the remittance documents are not totaled and compared to the collections subsequently deposited by an independent party.
- While delinquent notices are prepared and distributed to customers each month, a listing of delinquent accounts is not prepared. In addition, the monthly billings and collections, including delinquent accounts, were not reconciled throughout the year.
- Deposits of utility collections do not distinguish between cash and check.
- At the end of each fiscal year, meter readings are removed from the meter book and attached to customer ledger cards.

As a result of these conditions, we are not able to determine if all utility payments collected were deposited appropriately to the City's bank account. We attempted to reconcile the March 2002 billings to subsequent deposit. Using bank records, we identified several collections that were deposited but not recorded on a customer ledger card. In addition, through review of billing and receipt registers, we identified several customers that appear to have been billed regularly and have remitted payments on a regular basis. However, the payments from these customers could not be located on the bank deposit slips.

Recommendation – In order to ensure adequate records are maintained for utility payments the City should:

- Use pre-numbered ledger cards, assign an account number to each customer account and maintain an up-to-date master utility listing with all active customer accounts.
- Retain the yellow remittance documents, issue a receipt for all collections and reconcile totals with deposits to ensure that all collections are deposited.
- Prepare a listing of delinquent accounts monthly. The listing should be reviewed and monitored by the Council or an independent person designated by the Council.

City of Bronson

Schedule of Findings

Year ended June 30, 2002

- Note on each deposit slip the amount of cash that is being deposited. In addition, collections should be deposited timely.
- Meter readings should be retained intact by fiscal year and not removed and stapled to customer ledger cards.
- Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or an independent person designated by the Council should review the reconciliations and monitor delinquencies.

Response – The City is in the process of automating certain bookkeeping and accounting functions. The automated system will assist in providing additional control. The City will consider and adopt to the extent possible all the foregoing in the development of an automated system.

Conclusion – Response accepted.

- (H) Clerk's Utility Billings – While reviewing the utility activity for the fiscal year, we discovered irregularities between the former clerk's utility billings and payments. Due to the nature of the irregularities, we reviewed the former clerk's utility account for the period of July 2002 through February 2003. The former Clerk was employed by the City from July 1, 2000 to March 1, 2003.

We were unable to locate the customer ledger card for the former Clerk for the period of July 1, 2000 through February 2003. Meter readings were not available for the same time period. It was the former Clerk's practice to staple the meter readings to each customer's ledger card at the end of the fiscal year.

Because the former Clerk's subsidiary ledger cards and meter readings were not available, we compared the City's billing register to the peg board receipt and related deposit slips to determine if the former Clerk received a utility billing each month, subsequently paid, and deposited the payment to the City's account.

According to the billing register, the former Clerk was billed 13 times based on actual usage, 7 times based on estimated usage and was not billed for 11 months of service. Using the meter readings documented on the billing register and the City's minimum monthly utility rates as established by City ordinance, the former Clerk should have been billed \$1,316 for the period of July 1, 2000 to January 31, 2003. However, the former Clerk was billed only \$812. The difference of \$504 represents the amount the former Clerk was under billed.

In addition, by examining the receipt register and bank deposits, we determined that the former Clerk paid and deposited only \$305 into the City's account.

Because the former Clerk should have been billed \$1,316 and she remitted only \$305 for the period July 1, 2000 through January 31, 2003, the former Clerk owes \$1,011 to the City for utility services.

City of Bronson

Schedule of Findings

Year ended June 30, 2002

Recommendation – The City should consult legal council to determine the proper procedures for obtaining amounts due to the City from the former City Clerk.

Response – The City Attorney, after consultation with the County Attorney, has agreed the matter will be referred to the Iowa Bureau of Criminal Investigation. The referral includes the matters in comments (G) and (H).

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the City Council. However, maximum amounts for each bank were not included on the depository resolution.

Recommendation – The City Council should adopt a resolution naming official depositories, including the maximum deposit amount for each bank

Response – A new depository resolution setting a maximum has been adopted by the Council.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2002, exceeded the amount budgeted in the Home and Community Environment program. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Also, the City did not retain a copy of the budget publications. Therefore, we were unable to determine if the amounts certified were the amounts published. The budget was not certified or published by March 15. The tax levy was limited to last year's budgeted amount, as required by Chapter 384.16 of the Code of Iowa, since the budget was not certified by March 15.

Recommendation – The budget should have been amended in sufficient amount in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Also, the City should retain a copy of all budget publications. In addition, the budget should be certified and published by March 15 as required by Chapter 384.16 of the Code of Iowa

Response – The City will retain copies of future budget publications and request copies of prior year budgets as published. All persons involved in the budget process will be advised/reminded of the deadlines by the City Attorney each January.

Conclusion – Response accepted.

City of Bronson

Schedule of Findings

Year ended June 30, 2002

- (3) Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Flower Talk	Flowers for funeral of City official’s relative	\$ <u>37</u>

According to the opinion, it is possible for such disbursements to meet the test of serving public purpose under certain circumstances, although such items will certainly be subject to deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice continues, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – The City will discontinue the practice of sending flowers for bereavement purposes. Future distributions of like nature will be approved in advance whenever possible with a statement of public purpose accompanying the authorizing resolution.

Conclusion – Response accepted.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (7) Council Minutes – The City did not publish or post the actual gross wages of city employees as required by Chapter 372.13 of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 372.13 of the Code of Iowa and publish or post gross wages as required.

Response – The City will comply with Section 372.13 of the Code of Iowa.

Conclusion – Response accepted.

- (8) Deposits and Investments – Except as noted in item (1) above, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

City of Bronson

Schedule of Findings

Year ended June 30, 2002

- (9) Revenue Notes – The City has not established the sinking and reserve accounts required by the revenue note resolution.

Recommendation – The City should establish these accounts and make the required transfers.

Response – The City Treasurer will be instructed to establish the accounts and make the transfers. The Clerk will maintain records reflecting the sinking and reserve funds.

Conclusion – Response accepted.

- (10) City Code – The City last had its City Code recodified in 1989. Chapter 380.8 of the Code of Iowa states in part, “At least once every five years, a City shall compile a code or ordinances containing all of the City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances vacating streets and alleys.”

Recommendation – The City should have its City Code recodified as required by the Code of Iowa.

Response – The City will comply and have its Code of ordinances recodified.

Conclusion – Response accepted.

- (11) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City 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 City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

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

Response – The depository bank has been contacted and will provide copies of both sides of the checks in the future.

Conclusion – Response accepted.

City of Bronson

Staff

This audit was performed by:

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Kathleen S. Caggiano, Staff Auditor
Nicholas A. Freymann, Staff Auditor

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Deputy Auditor of State