



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

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NEWS RELEASE

FOR RELEASE

June 7, 2011

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

The Water Department's receipts totaled \$148,387 for the year ended June 30, 2010. The receipts included \$105,047 in charges for service and \$9,536 of miscellaneous receipts.

Disbursements for the year totaled \$167,800, which included \$53,480 for debt service and \$46,844 for capital outlay.

A copy of the audit report is available for review in the Water Department's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1023-0363-B00F.pdf>.

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**BAYARD WATER DEPARTMENT**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2010**

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**Bayard Water Department**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Jack Lloyd	Mayor	Jan 2010
Kathy Carstens	Council Member	Jan 2010
Richard Stone	Council Member	Jan 2010
Mark Bonnie	Council Member	Jan 2012
Brian Hoffman	Council Member	Jan 2012
Dean Hopkins	Council Member	Jan 2012
Jerry Stone	Superintendent	Indefinite
Cindy Kinnick	City Clerk	Indefinite
David Bruner	City Attorney	Indefinite
<b>(After January 2010)</b>		
Gary Haverman	Mayor	Jan 2012
Mark Bonnie	Council Member	Jan 2012
Brian Hoffman	Council Member	Jan 2012
Dean Hopkins	Council Member	Jan 2012
Kathy Carstens	Council Member	Jan 2014
Richard Stone	Council Member	Jan 2014
Jerry Stone	Superintendent	Indefinite
Cindy Kinnick	City Clerk	Indefinite
David Bruner	City Attorney	Indefinite

**Bayard Water Department**



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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statement of the Bayard Water Department, Bayard, Iowa, as of and for the year ended June 30, 2010. This financial statement is the responsibility of the City of Bayard's officials. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was 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 discussed in Note 1, the financial statement of the Bayard Water Department is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Bayard that is attributable to the transactions of the Bayard Water Department.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Bayard Water Department as of June 30, 2010, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

The Department has an unrestricted deficit of \$132,423 at June 30, 2010. The deficit is approximately 116% of the Department's recurring receipts of \$114,583 for the year ended June 30, 2010.

In accordance with Government Auditing Standards, we have also issued our report dated May 9, 2011 on our consideration of the Bayard Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Bayard Water Department has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statement.

Budgetary comparison information on pages 16 and 17 is not a required part of the basic financial statement, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in our audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 9, 2011

## **Financial Statement**

**Bayard Water Department**

Bayard Water Department  
Statement of Cash Receipts, Disbursements and  
Changes in Cash Basis Net Assets

As of and for the year ended June 30, 2010

Operating receipts:	
Charges for service	\$ 105,047
Miscellaneous	9,536
Total operating receipts	<u>114,583</u>
Operating disbursements:	
Business type activities	<u>67,476</u>
Excess of operating receipts over operating disbursements	<u>47,107</u>
Non-operating receipts (disbursements):	
Interest on investments	167
Bond and note proceeds	22,864
Community Development Block grant	10,773
Debt service:	
Principal redeemed	(22,000)
Interest and servicing fees	(31,480)
Capital outlay	<u>(46,844)</u>
Net non-operating receipts (disbursements)	<u>(66,520)</u>
Net change in cash basis net assets	(19,413)
Cash basis net assets beginning of year	<u>(106,387)</u>
Cash basis net assets end of year	<u><u>\$ (125,800)</u></u>
<b>Cash Basis Net Assets</b>	
Restricted for debt service	\$ 6,623
Unrestricted	<u>(132,423)</u>
Total cash basis net assets	<u><u>\$ (125,800)</u></u>

See notes to financial statement.

Bayard Water Department  
Notes to Financial Statement  
June 30, 2010

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

The Bayard Water Department is department of the City of Bayard, Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis.

B. Basis of Presentation

The accounts of the Water Department are classified as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Bayard Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Water Department is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the fund in accordance with U.S. generally accepted accounting principles.

D. Restricted Assets and Net Assets

Funds set aside for debt service are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The Water Department's deposits in banks at June 30, 2010 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 Water Department 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 Board of Trustees; 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 Water Department had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Bond and Note Payable**

Annual debt service requirements to maturity for the water revenue bond and the water revenue capital loan note are as follows:

Years Ending June 30,	Water Revenue Bond		Water Revenue Capital Loan Note		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	\$ 23,000	28,530	1,253	601	24,253	29,131	53,384
2012	23,000	27,840	1,283	571	24,283	28,411	52,694
2013	24,000	27,150	1,339	516	25,339	27,666	53,005
2014	25,000	26,430	1,396	458	26,396	26,888	53,284
2015	26,000	25,680	1,456	398	27,456	26,078	53,534
2016-2020	140,000	116,400	8,273	997	148,273	117,397	265,670
2021-2025	165,000	93,900	-	-	165,000	93,900	258,900
2026-2030	194,000	67,470	-	-	194,000	67,470	261,470
2031-2035	229,000	36,360	-	-	229,000	36,360	265,360
2036-2037	102,000	4,620	-	-	102,000	4,620	106,620
Total	\$ 951,000	454,380	15,000	3,541	966,000	457,921	1,423,921

Water Revenue Bond

On November 17, 2006, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a water revenue bond of up to \$1,200,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the water treatment plant. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn down \$1,024,000 of the authorized amount, including the final draw of \$7,864 made on January 8, 2010. An initiation fee of 1% of the authorized borrowing was withheld from the first proceeds of the water revenue bond drawn by the City during the year ended June 30, 2007. During fiscal year 2010, the City paid principal of \$22,000 and interest of \$29,048 on the bond. The balance on the bond at June 30, 2010 was \$951,000.

The resolution providing for the issuance of the water revenue bond includes the following provisions.

- (1) The bond will only be redeemed from the future earning of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.

- (2) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (3) 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 bond falling due in the same year.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue bond. The bond is payable solely from water customer net receipts. Annual principal and interest payments on the bond require more than 100% of net receipts. The total amount of principal and interest remaining to be paid on the bond at June 30, 2010 is \$1,405,380. For the current year, principal and interest paid and total customer net receipts were \$51,048 and \$47,107, respectively.

The City's net revenues for the year ended June 30, 2010 were less than the required 110% of principal and interest on the bond falling due during the year.

#### Water Revenue Capital Loan Note

On June 14, 2010, the City issued a \$15,000 water revenue capital loan note at 4.25% per annum for the purpose of paying costs of a water plant aerator for the municipal water utility system. The note was issued pursuant to Chapters 384.24A and 384.82 of the Code of Iowa.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the \$15,000 water revenue capital loan note. The note is payable solely from water customer net receipts and is payable through 2020. The total principal and interest remaining to be paid on the note is \$18,541. No principal or interest was paid in the current year.

The resolution providing for the issuance of the water revenue capital loan note includes the following provisions.

- (a) The note will only be redeemed from the future earnings of the enterprise activity and is not payable in any manner by taxation.
- (b) Sufficient monthly transfers shall be made to a separate water sinking account for the purpose of making the note principal and interest payments when due.

#### **(4) Pension and Retirement Benefits**

The Water Department 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.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the Water Department is required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The Water Department's contribution to IPERS for the year ended June 30, 2010 was \$1,680, equal to the required contribution for the year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description – The Water Department participates in the City’s single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. The Department has one active member in the plan and no retired members. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The Water Department currently finances its retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Department and plan members are \$312. The same monthly premiums would apply to retirees. For the year ended June 30, 2010, the City contributed \$3,876 and plan members eligible for benefits made no contributions to the plan.

**(6) Compensated Absences**

Water Department employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Department until used or paid. The Water Department’s approximate liability for earned compensated absences payable to employees at June 30, 2010 is \$350. This liability has been computed based on rates of pay in effect at June 30, 2010.

**(7) Risk Management**

The Water Department 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. Settled claims from these risks did not exceed commercial insurance coverage during the current fiscal year.

**(8) Deficit Balance**

The Water Department had an unrestricted deficit balance of \$132,423 at June 30, 2010. The deficit balance was a result of disbursements for capital improvements. The deficit will be eliminated through closer tracking of expenses by the City Council and future water sales.

**Bayard Water Department**

**Required Supplementary Information**

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Bayard Water Department

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis)

Year ended June 30, 2010

	Actual	Budgeted Amounts Original/Final	Final to Actual Variance
Receipts:			
Use of money and property	\$ 167	-	167
Charges for service	105,047	98,000	7,047
Intergovernmental	10,773	-	10,773
Miscellaneous	9,536	12,100	(2,564)
Total receipts	125,523	110,100	15,423
Disbursements:			
Business type activities	167,800	98,000	(69,800)
Excess (deficiency) of receipts over (under) disbursements	(42,277)	12,100	(54,377)
Other financing sources, net	22,864	-	22,864
Change in cash basis net assets	(19,413)	12,100	(31,513)
Cash basis net assets beginning of year	(106,387)	18,209	(124,596)
Cash basis net assets end of year	\$ (125,800)	30,309	(156,109)

See accompanying independent auditor's report.

Bayard Water Department

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The Bayard Water Department prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Water Department's disbursements are budgeted in the business type activities function. The Water Department's budget is reflected in the original and final budgeted amount. The Water Department's budget was not amended during the year.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted for the Water Department.

**Bayard Water Department**

**Other Supplementary Information**

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Bayard Water Department  
Schedule of Indebtedness  
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Water revenue:			
Bond	Nov 17, 2006 *	3.00%	\$ 1,024,000
Capital loan note	Jun 14, 2010	4.25	15,000
Total			

\*The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
965,136	7,864	22,000	951,000	29,048
-	15,000	-	15,000	-
<u>\$ 965,136</u>	<u>22,864</u>	<u>22,000</u>	<u>966,000</u>	<u>29,048</u>

**Schedule 2**

## Bayard Water Department

## Bond and Note Maturities

Year ended June 30, 2010

Year Ending June 30,	Water Revenue Bond		Water Revenue Capital Loan Note		Total
	Issued Nov 17, 2006		Issued June 14, 2010		
	Interest	Amount	Interest	Amount	
2011	3.00%	\$ 23,000	4.25%	\$ 1,253	24,253
2012	3.00	23,000	4.25	1,283	24,283
2013	3.00	24,000	4.25	1,339	25,339
2014	3.00	25,000	4.25	1,396	26,396
2015	3.00	26,000	4.25	1,456	27,456
2016	3.00	26,000	4.25	1,518	27,518
2017	3.00	27,000	4.25	1,584	28,584
2018	3.00	28,000	4.25	1,651	29,651
2019	3.00	29,000	4.25	1,723	30,723
2020	3.00	30,000	4.25	1,797	31,797
2021	3.00	31,000	-	-	31,000
2022	3.00	32,000	-	-	32,000
2023	3.00	33,000	-	-	33,000
2024	3.00	34,000	-	-	34,000
2025	3.00	35,000	-	-	35,000
2026	3.00	36,000	-	-	36,000
2027	3.00	38,000	-	-	38,000
2028	3.00	39,000	-	-	39,000
2029	3.00	40,000	-	-	40,000
2030	3.00	41,000	-	-	41,000
2031	3.00	43,000	-	-	43,000
2032	3.00	44,000	-	-	44,000
2033	3.00	46,000	-	-	46,000
2034	3.00	47,000	-	-	47,000
2035	3.00	49,000	-	-	49,000
2036	3.00	50,000	-	-	50,000
2037	3.00	52,000	-	-	52,000
Total		<u>\$ 951,000</u>		<u>\$ 15,000</u>	<u>966,000</u>

See accompanying independent auditor's report.



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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statement of the Bayard Water Department, Bayard, Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated May 9, 2011. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bayard Water Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement but not for the purpose of expressing our opinion on the effectiveness of the Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Bayard Water Department's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (G) to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bayard Water Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Water Department's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Water Department. 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.

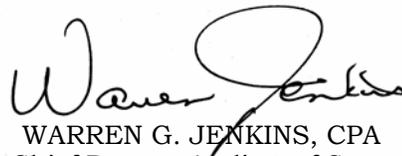
The Bayard Water Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Water Department's responses, we did not audit the Water Department's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Bayard Water Department and other parties to whom the Bayard Water Department 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 Bayard Water Department 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

May 9, 2011

Bayard Water Department

Schedule of Findings

Year ended June 30, 2010

**Findings Related to the Financial Statement:**

**INTERNAL CONTROL DEFICIENCIES:**

- (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. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over utility meter reading, utility billing preparation and recording receipts.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and utility officials.

Response – We are unable to do anything at this time. Will review in the future. We are implementing new summit software in 2011 which may help eliminate some of these issues.

Conclusion – Response acknowledged. The City should utilize current personnel to provide additional control through review of financial transactions, including billings, collections and reports.

- (B) City Financial Management Information – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting, including fund accounting for the Water Department. 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, but not limited to, property tax levied for specific purposes, road use tax, bond/note proceeds and utility collections.

The City has hired an outside firm to provide accounting services to the City. This firm records activity for all City funds, including the Water Department, performs monthly bank reconciliations and prepares monthly reports for Council approval. However, monthly financial reports which include fund balances and comparisons of actual results to budget by function were not compiled from accounting records and provided to the Council for review and approval. In addition, no evidence exists to indicate the Council has reviewed and approved receipt, disbursement and fund balance activity for the Water Department for accuracy and completeness. The Council also does not review the monthly bank reconciliations prepared by the accounting service.

A check register is not maintained and checks issued are not compared to the general ledger postings.

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 improve financial accountability and control, a monthly report should be submitted to the Council showing beginning balance, receipts, disbursements, transfers and ending balance for each individual fund, including the Water Fund. To provide better control over budgeted disbursements and the opportunity for timely amendments to the budget, the monthly financial reports to the Council should include comparisons to the certified budget by function.

Bayard Water Department

Schedule of Findings

Year ended June 30, 2010

Response – All will be improved with new accounting system.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits. Certain billings were calculated incorrectly and late fees were not carried forward for future collection when payment was not made by the past due date.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. Also, the City should review the billing system to ensure billings are calculated correctly and late fees are carried forward for future collection when payment is not made by the past due date.

Response – These issues will all be improved with new accounting system.

Conclusion – Response acknowledged. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts. The Council should review those reconciliations.

- (D) Information System – The following weaknesses in the City's computer-based system were noted:

The City does not have written policies for:

- (1) Requiring time out/log off or screen saver password to protect computer terminals when not in use.
- (2) Requiring passwords.
- (3) Requiring passwords to be changed at least every 60 to 90 days.
- (4) Maintaining password privacy and confidentiality.
- (5) Requiring the use of anti-virus programs on computers.
- (6) Personal use of computer equipment and software.
- (7) Physical access to computer facility limiting unauthorized personnel.
- (8) Ensuring software not licensed to the City is not installed.
- (9) Usage of the internet.
- (10) Requiring backups be performed (daily, weekly, monthly and yearly) and the backup tapes be stored off site daily.
- (11) Ownership of in-house developed software and data.
- (12) Requiring computer system be backed up periodically.

Also, the City does not have a written disaster recovery plan.

Bayard Water Department

Schedule of Findings

Year ended June 30, 2010

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over the computer-based system. A written disaster recovery plan should be developed and should be tested periodically.

Response – The new software program will help with these issues and the Council will work on policies.

Conclusion – Response accepted.

- (E) Water Deposits – The Water Department collects deposits from new water customers. These deposits are refundable upon termination of service if the terminated account is current. The Department does not maintain a record of customer deposits collected and held.

Recommendation – The City should establish policies and procedures to ensure a record of all customer deposits collected and held be maintained.

Response – We have started keeping track of deposits with the help of the new billing system.

Conclusion – Response accepted.

- (F) Credit Card Policy – The City has credit cards for use by employees, including Water Department employees, while on City business. The City has not adopted a formal policy to regulate the use of credit cards. Also, credit card purchases did not include a vendor invoice or receipt to support the charges.

Recommendation – The City should adopt a formal written policy regulating the use of credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use the cards and for what purposes, as well as the types of supporting documentation required to substantiate charges and a maximum allowable limit of charges.

Response – The Council will review the recommended policies and take action as necessary.

Conclusion – Response acknowledged. The Council should adopt a formal policy regulating the use of credit cards.

- (G) Accounting Policies and Procedures Manual – The City, including the Water Department, 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 personnel.
- (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.

Bayard Water Department

Schedule of Findings

Year ended June 30, 2010

Response – The Council will review the recommended policies and take action as necessary.

Conclusion – Response acknowledged. The Council should develop an accounting policies and procedures manual.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Bayard Water Department

Schedule of Findings

Year ended June 30, 2010

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – The budget certified by the City includes an amount for the Water Department. Disbursements during the year ended June 30, 2010 exceeded the amount budgeted for the Water Department.

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

Response – We realize this and will ensure the budget is amended in the future before disbursements are allowed to exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe 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 Water Department money for travel expenses of spouses of Water Department officials or employees were noted.
- (4) Business Transactions – No business transactions between the Water Department and Water Department officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Water Department officials and employees is carried by the City in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found we believe should have been approved in the Council minutes but were not, except as follows:

Transfers between the general checking bank account (pooled account for all funds, including water) and the water sinking and savings bank accounts were not approved by the Council.

Although Council minutes were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. The publications did not include total disbursements from each fund and a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa, including receipts and disbursements of the Water Department.

Minutes of Council meetings were not signed as required by Chapter 380.7 of the Code of Iowa and certain meeting minutes from fiscal year 2010 were not available.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes as required. Council minutes are a permanent record and should be retained. Council minutes should be signed as required by Chapter 380.7 of the Code of Iowa. The Council should approve all transfers between bank accounts, including those to Water Department accounts.

Bayard Water Department

Schedule of Findings

Year ended June 30, 2010

Response – The City Clerk and Council are working on correcting these errors.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were identified, except as follows:

The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

A resolution naming official depositories and maximum deposit amounts 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 Council, by resolution, should approve amounts sufficient to cover anticipated balances, including Water Department balances, at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Response – The City will take the recommended action.

Conclusion – Response accepted.

- (8) Financial Condition – The Enterprise, Water Fund had an unrestricted deficit balance at June 30, 2010 of \$132,423.

Recommendation – The City should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

Response – We are in process of working on ways to eliminate the deficit.

Conclusion – Response accepted.

- (9) Annual Financial Report - The City filed the annual financial report for the fiscal year ended June 30, 2010 with the Office of Auditor of State, as required by Chapter 384.22 of the Code of Iowa. However, line items related to the Water Department did not agree with the June 30, 2010 financial statement. Also, evidence of publication of the annual financial report was not available.

Recommendation – The City should amend the annual financial report to properly reflect Water Department activity. The City should publish the annual report as required by Chapter 384.22 of the Code of Iowa and retain evidence of publication.

Response – We will be forwarding you a copy of the publication of the annual report. We will amend the annual report.

Conclusion – Response accepted.

Bayard Water Department

Schedule of Findings

Year ended June 30, 2010

- (10) Revenue Bond – The City’s revenue bond resolution requires the City establish, impose, adjust and provide for the collection of rates to be charged to utility customers which produce net operating revenues equal to at least 110% of the principal and interest coming due in each fiscal year. The fiscal year 2010 net water operating receipts of \$47,107 were less than 110% of the \$51,048 of water revenue bond principal and interest due during fiscal year 2010.

Recommendation – The City should review water rates and consult bond counsel to determine the disposition of the matter.

Response – We will review water rates and consult bond counsel to determine the disposition of this matter.

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 electronic images of the front of cancelled checks, including those pertaining to the Water Department, but not the back of cancelled checks.

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

Response – The City will request backs of checks from our bank.

Conclusion – Response accepted.

- (12) Unclaimed Property – The City has several outstanding checks greater than one year old, including checks issued for the Water Department. These are considered unclaimed property and should be remitted to the State Treasurer in accordance with Chapter 556 of the Code of Iowa.

Recommendation – The City should report unclaimed property to the State Treasurer as required.

Response – We will report unclaimed property as required. We did not realize this was to be done.

Conclusion – Response accepted.

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Bayard Water Department

Staff

This audit was performed by:

Marlys Gaston, CPA, Manager  
Janet K. Mortvedt, CPA, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State