



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____ March 11, 2014 _____ Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Central City, Iowa for the period July 1, 2012 through June 30, 2013. The examination was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. The City should also ensure all tax increment financing obligations are properly certified to the County Auditor.

A copy of the examination report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1321-0541-BLOF.pdf>.

###

CITY OF CENTRAL CITY
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Examination Report	4-5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Certified Budget	B 7
Tax Increment Financing	C 7-8
Urban Renewal Annual Report	D 8
Financial Reporting	E 8
Payment of General Obligation Bonds	F 8
Financial Condition	G 8
Computer System	H 8
Staff	9

City of Central City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Gray	Mayor	Jan 2016
Chris Arthur	Council Member	Jan 2014
Michelle Curtis	Council Member	Jan 2014
Ray Taylor	Council Member	Jan 2014
Jason Levenhagen	Council Member	Jan 2016
Mike Robinson	Council Member	Jan 2016
LaNeil McFadden	City Administrator	Indefinite
William J. Sueppel	Attorney	Indefinite



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Central City pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Central City for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related repayments were properly accounted for.

10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

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

We were not engaged to and did not conduct an audit of the City of Central City, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Central City, additional matters might have come to our attention that would have been reported to you.

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 Central City and other parties to whom the City of Central City 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 Central City during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 5, 2014

Detailed Recommendations

City of Central City

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash - handling, reconciling and recording.
- (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Debt – recordkeeping, compliance and debt payment processing.
- (6) Journal entries – preparing and journalizing.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – recordkeeping, preparing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.

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

(B) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the capital projects function prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the public works, community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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.

(C) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified

City of Central City

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

During the current and prior years, the City paid principal and interest on its 2011 general obligation bonds from the Special Revenue, Tax Increment Financing Fund through transfers to the Debt Service Fund. However, based on the review of the County Auditor's "Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation" prepared in November 2012, the 2011 general obligation bond principal of \$1,270,000 and interest of \$154,638 have not been certified to the County Auditor as a TIF obligation.

Recommendation – The City should certify the 2011 general obligation bond principal and interest expected to be repaid, including past principal and interest amounts paid, with TIF collections to the County Auditor as a TIF obligation.

- (D) Urban Renewal Annual Report (URAR) – The City understated the amount reported as TIF debt outstanding on the URAR Levy Authority Summary by \$139,938.

Recommendation – The City should ensure amounts reported on the AURR Levy Authority Summary agree with the City's records.

- (E) Financial Reporting – The total fund balance of \$873,304 reported on the fiscal year 2013 Annual Financial Report (AFR) was \$901 greater than the City's general ledger and bank balance of \$872,403. Although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting. The \$901 represents liabilities remaining on the General Fund "Balance Sheet" report at June 30, 2013.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded and reported using the cash basis of accounting established by the City.

- (F) Payment of General Obligation Bonds – Principal and interest on the City's general obligation sanitary sewer bonds were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

- (G) Financial Condition – At June 30, 2013, the City had a deficit balance of \$225 in the Debt Service Fund.

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

- (H) Computer System – The City does not have a written disaster recovery plan for its computer system.

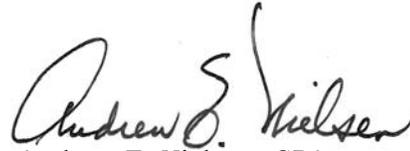
Recommendation – The City should develop and implement a written disaster recovery plan.

City of Central City

Staff

This examination was performed by:

Marlys K. Gaston, CPA, Manager
Tyler L. Carter, Staff Auditor
Jesse J. Harthan, Assistant 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