



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 _____ July 8, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Maharishi Vedic 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. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements exceed the budgeted amounts.

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/1321-0957-BL0F.pdf>.

###

CITY OF MAHARISHI VEDIC 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
Chart of Accounts	B 7
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C 7
City Council Minutes	D 7
Certified Budget	E 8
Business Transactions	F 8
Questionable Disbursements	G 8
Hotel/Motel Tax	H 9
Bond Coverage	I 9
Petty Cash Fund	J 9
Payroll	K 9
Sales Tax	L 9
Employee Leave	M 9
Housing Revenue Bond	N 9-10
Staff	11

City of Maharishi Vedic City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert G. Wynne	Mayor	Jan 2014
Rogers Badgett	Council Member	Jan 2014
Tim Fitz-Randolph	Council Member	Jan 2014
Bill Goldstein	Council Member	Jan 2014
Chris Johnson	Council Member	Jan 2014
Maureen Wynne	Council Member	Jan 2014
Kathy Petersen	City Clerk/Treasurer	Indefinite
Nancy Watkins	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 Maharishi Vedic 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 Maharishi Vedic 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 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.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.

10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Maharishi Vedic City, the objective of which is the expression of opinions on 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 Maharishi Vedic 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 Maharishi Vedic City and other parties to whom the City of Maharishi Vedic 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 Maharishi Vedic 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

December 12, 2013

Detailed Recommendations

City of Maharishi Vedic 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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Financial reporting – preparing and reconciling.
- (6) Journal entries – preparing and journalizing.

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

- (B) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee on September 25, 2002. Subsequent to June 30, 2013, the City purchased and implemented a new software system for financial reporting.

Recommendation – To provide better financial information and control, the recommended Uniform Chart of Accounts, or equivalent, should be followed.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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

- (D) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires the publication of minutes include “a list of all claims allowed and a summary of all receipts” and “the total expenditure from each city fund.” The City does not include a summary of all receipts or a summary of total expenditures from each City fund in the minutes record.

Recommendation – The City should comply with the Code of Iowa and publish minutes which include a summary of all receipts and a summary of total expenditures from each City fund.

City of Maharishi Vedic City

Detailed Recommendations

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

- (E) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the public works function. 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.

- (F) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Rogers Badgett, City Council Member, Owner of The Raj	Sewer maintenance	\$84,500
Rogers Badgett, City Council Member, Revenue note holder	Principal	452

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with The Raj may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

In accordance with Chapter 362.5(3)(m) of the Code of Iowa, the City Council Member’s investment in the City’s revenue notes may represent a conflict of interest.

Recommendation – The City should consult legal counsel to determine the disposition of these matters.

- (G) Questionable Disbursements – Certain disbursements we believe 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 were noted. This disbursement is detailed as follows:

Paid to	Purpose	Amount
The Raj	Lodging, day spa and wellness sessions for investors	\$ 1,069

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

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

City of Maharishi Vedic City

Detailed Recommendations

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

- (H) Hotel/Motel Tax – The City credits hotel/motel tax receipts to a Special Revenue Fund rather than the General Fund as required by Chapter 423A.7 of the Code of Iowa.
- Recommendation – The City should credit hotel/motel tax to the General Fund as required.
- (I) Bond Coverage – Surety bond coverage does not cover the Mayor as required by Chapters 64.13 and Chapter 64.15 of the Code of Iowa.
- Recommendation – The City should ensure the Mayor is covered by a surety bond as required by the Code of Iowa.
- (J) Petty Cash Fund – The City’s petty cash fund is commingled with the building resident’s petty cash fund.
- Recommendation – The City should ensure the City’s petty cash fund is properly segregated from other petty cash funds.
- (K) Payroll – Time sheets are not maintained for salaried employees. In addition, the City Council minutes did not always reflect the approved annual salary of the employees.
- Recommendation – Time sheets should be prepared for all City employees and annual salaries for employees should be reflected in the City Council minutes.
- (L) Sales Tax – The amount the City collects for sales tax and remits to the State of Iowa is not included in the City’s receipts and disbursements. In addition, the City Council does not approve these disbursements.
- Recommendation – All collections and payments should be included in the City’s financial reporting and all disbursements should be approved by the City Council.
- (M) Employee leave – The City does not formally track employee vacation and sick leave usage and balances.
- Recommendation – The City should formally track employee vacation and sick leave usage and balances.
- (N) Housing Revenue Bond – In 2010, the City issued a \$600,000 Taxable Housing Development Fund Revenue Bond payable solely and only from revenues from the City’s Housing Development Fund. The City remits the proceeds of the bond to the Maharishi Vedic City Development Foundation (Foundation) for housing construction. The Foundation receives proceeds from the sale of housing and remits funds to the City to make the bond principal and interest payments. The City has not entered into a 28E agreement with the Foundation to ensure the revenues collected by the Foundation will be made available to repay the City’s bond obligation.

We previously requested a letter of advice from the Iowa Attorney General regarding gifts to governmental entities and the propriety of a Library Board of Trustees giving proceeds from a gift to a private non-profit Foundation. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2009. The advice letter states, in part:

City of Maharishi Vedic City

Detailed Recommendations

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

"... I do not believe that a city library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be 'public funds,' subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking."

A 28E agreement, as described in the letter of advice, does not exist. We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over the public funds to a separate non-profit organization.

In addition, the Foundation did not enter into the contracts for housing construction using competitive bids as required by Chapter 26.3 of the Code of Iowa.

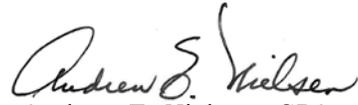
Recommendation – The City should consult legal counsel about the disposition of this matter. The City should determine if a 28E agreement should be entered into requiring the Foundation to use the bond proceeds for housing construction and ensure the revenues collected by the Foundation are made available to repay the bond. In addition, the City should consult legal counsel to determine the relevance of Chapter 26 bidding requirements to the housing construction projects.

City of Maharishi Vedic City

Staff

This examination was performed by:

Donna F. Kruger, CPA, Manager
Jessica L. Barloon, Staff Auditor
Trent M. Mussman, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State