



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE November 10, 2004

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Clemons, Iowa.

The City's receipts totaled \$127,609 for the year ended June 30, 2003. The receipts included \$46,194 from township contributions, \$15,582 in property tax, \$13,762 from the state, \$11,540 in local option sales tax and \$1,600 in interest on investments.

Disbursements for the year totaled \$213,830, and included \$119,343 for public safety, \$26,851 for debt service and \$46,320 for business type activities.

The report contains recommendations to the City Council and other City officials. For example, the City should review its control activities to obtain maximum internal control possible under the circumstances and the City should amend the annual budget in sufficient amounts as required by Chapter 348.18 of the Code of Iowa before disbursements are allowed to exceed the budget. The City should also comply with the provisions contained in Chapter 372.13(6) of the Code of Iowa by including total disbursements by fund in the minutes. In addition, the City should implement dual signatures on checks for better internal control, collections should be deposited timely and bank and utility reconciliations should be performed monthly. The City has responded to the comments.

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 CLEMONS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2003

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City of Clemons

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald Owen	Mayor	(Deceased)
Chad Jones	Council Member	Jan 2004
Jack Mackin	Council Member	Jan 2004
Donald W. Davis	Council Member	Jan 2004
Tony Grage	Council Member	Jan 2004
Frank Paronish	Council Member	Jan 2004
Juanita Mason	City Clerk	Indefinite

City of Clemons



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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 Clemons, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Clemons' management. Our responsibility is to express an opinion on these financial statements based on our audit.

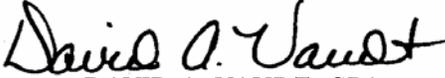
Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United 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 our audit provides a reasonable basis for our opinion.

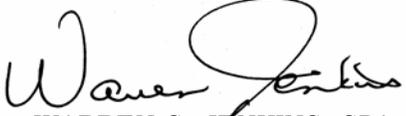
As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not 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, 2002.

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, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Clemons as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2004 on our consideration of the City of Clemons' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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 4 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 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, 2002, as discussed in the third preceding 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

August 13, 2004

Financial Statements

Exhibit A

City of Clemons
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2003

	Governmental Fund Types			Proprietary	Total (Memorandum Only)
	General	Special	Debt	Fund Type	
		Revenue	Service	Enterprise	
Receipts:					
Property tax	\$ 14,615	-	967	-	15,582
Other city tax	11,856	-	-	-	11,856
Use of money and property	844	-	676	340	1,860
Intergovernmental	16,318	12,049	32,457	-	60,824
Charges for service	-	-	-	37,440	37,440
Miscellaneous	47	-	-	-	47
Total receipts	43,680	12,049	34,100	37,780	127,609
Disbursements:					
Public safety	119,343	-	-	-	119,343
Public works	-	4,168	-	-	4,168
Culture and recreation	5,068	-	-	-	5,068
General government	12,080	-	-	-	12,080
Debt service	-	-	26,851	-	26,851
Business type activities	-	-	-	46,320	46,320
Total disbursements	136,491	4,168	26,851	46,320	213,830
Excess (deficiency) of receipts over (under) disbursements	(92,811)	7,881	7,249	(8,540)	(86,221)
Other financing sources:					
Sale of equipment	-	751	-	-	751
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(92,811)	8,632	7,249	(8,540)	(85,470)
Balance beginning of year	120,614	38,662	1,723	46,564	207,563
Balance end of year	\$ 27,803	47,294	8,972	38,024	122,093

See notes to financial statements.

City of Clemons

Comparison of Receipts, Disbursements and Changes in Balances –

Actual to Budget

Year ended June 30, 2003

	Actual	Amended Budget	Variance Favorable (Unfavorable)	Actual as % of Amended Budget
Receipts:				
Property tax	\$ 15,582	15,629	(47)	100%
Other city tax	11,856	4,240	7,616	280%
Use of money and property	1,860	1,399	461	133%
Intergovernmental	60,824	32,575	28,249	187%
Charges for service	37,440	39,205	(1,765)	95%
Miscellaneous	47	900	(853)	0%
Total receipts	<u>127,609</u>	<u>93,948</u>	<u>33,661</u>	<u>136%</u>
Disbursements:				
Public safety	119,343	20,209	(99,134)	591%
Public works	4,168	3,600	(568)	116%
Culture and recreation	5,068	4,325	(743)	117%
General government	12,080	12,753	673	95%
Debt service	26,851	7,500	(19,351)	358%
Business type activities	46,320	44,251	(2,069)	105%
Total disbursements	<u>213,830</u>	<u>92,638</u>	<u>(121,192)</u>	<u>231%</u>
Excess (deficiency) of receipts over (under) disbursements	(86,221)	1,310		
Other financing sources	<u>751</u>	-		
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(85,470)	1,310		
Balance beginning of year	<u>207,563</u>	<u>120,167</u>		
Balance end of year	<u>\$ 122,093</u>	<u>121,477</u>		

See notes to financial statements.

City of Clemons
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes: Fire truck	Jun 15, 2002	5.25%	\$ 100,000
Lease purchase agreement: Diesel truck	Nov 13, 1996	6.75%	\$ 46,120

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
100,000	-	12,000	88,000	5,049
19,689	-	6,171	13,518	1,329

City of Clemons

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of Clemons is a political subdivision of the State of Iowa located in Marshall County. It was first incorporated in 1903 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 and recreation, community and economic development, general government and business type activities.

A. Reporting Entity

For financial reporting purposes, the City of Clemons 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 Clemons has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City 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: Marshall County Solid Waste Commission, Marshall County Emergency Management Commission and Marshall County Joint E911 Service 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 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 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 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.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Proprietary Funds

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

C. Basis of Accounting

The City of Clemons 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 nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate 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, 2003 were entirely covered by federal depository insurance or 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) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes		
	Interest Rates	Principal	Interest
2004	5.25%	\$ 13,000	4,632
2005	5.25	14,000	3,937
2006	5.25	14,000	3,203
2007	5.25	15,000	2,467
2008	5.25	16,000	1,684
2009	5.25	16,000	841
Total		<u>\$ 88,000</u>	<u>16,764</u>

During the year ended June 30, 2003, the City retired \$12,000 of notes.

(4) Lease Purchase Agreement

On November 13, 1996, the City entered into an agreement to lease a diesel truck under a noncancelable lease purchase agreement. The following is a schedule of future minimum rental payments, including interest at 6.75% per annum, and the present value of net minimum rental payments under the above agreement in effect at June 30, 2003.

Year Ending June 30,	Amount
2004	\$ 7,500
2005	<u>7,500</u>
Total rental payments	15,000
Less amount representing interest	<u>(1,482)</u>
Present value of net rental payments	<u>\$ 13,518</u>

Payments under the lease purchase agreement for the year ended June 30, 2003 totaled \$7,500.

(5) 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 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$ 278, equal to the required contribution for the year.

(6) Risk Management

The City 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 did not exceed commercial insurance coverage in the fiscal year ended June 30, 2003.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the function level. During the year ended June 30, 2003, disbursements in the public safety, public works, culture and recreation, debt service and business type activities functions exceeded the amounts budgeted.

(8) Subsequent Event

In November 2003, the City was awarded a grant from the Federal Emergency Management Agency for \$54,585, with a local share commitment of \$6,065. The Assistance to Firefighters Grant Program funds are to be used to purchase firefighter equipment.

City of Clemons

Supplemental Information

Schedule 1

City of Clemons
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	General Reserve	Total
Receipts:			
Property tax	\$ 14,615	-	14,615
Other city tax:			
Local option sales tax	11,540	-	11,540
Cable franchise fee	316	-	316
	<u>11,856</u>	<u>-</u>	<u>11,856</u>
Use of money and property:			
Interest on investments	530	54	584
Rental income	260	-	260
	<u>790</u>	<u>54</u>	<u>844</u>
Intergovernmental:			
Hazard mitigation grant	868	-	868
Property tax replacement	1,713	-	1,713
Township contributions	-	13,737	13,737
	<u>2,581</u>	<u>13,737</u>	<u>16,318</u>
Miscellaneous	47	-	47
Total receipts	<u>29,889</u>	<u>13,791</u>	<u>43,680</u>
Disbursements:			
Public safety:			
Police:			
Personal services	1,105	-	1,105
Services and commodities	3,938	-	3,938
	<u>5,043</u>	<u>-</u>	<u>5,043</u>
Fire protection:			
Services and commodities	-	35,387	35,387
Capital outlay	-	78,025	78,025
	<u>-</u>	<u>113,412</u>	<u>113,412</u>
Ambulance:			
Services and commodities	-	888	888
	<u>5,043</u>	<u>114,300</u>	<u>119,343</u>
Culture and recreation:			
Parks:			
Services and commodities	3,146	-	3,146
Community center:			
Services and commodities	1,797	-	1,797

City of Clemons
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	General Reserve	Total
Disbursements (continued):			
Culture and recreation:			
Cemetery:			
Services and commodities	50	-	50
Library:			
Services and commodities	75	-	75
	<u>5,068</u>	<u>-</u>	<u>5,068</u>
General government:			
Mayor and council members:			
Personal services	1,350	-	1,350
City clerk:			
Personal services	1,550	-	1,550
City hall and general buildings:			
Services and commodities	9,180	-	9,180
	<u>12,080</u>	<u>-</u>	<u>12,080</u>
Total disbursements	<u>22,191</u>	<u>114,300</u>	<u>136,491</u>
Excess (deficiency) of receipts over (under) disbursements	<u>7,698</u>	<u>(100,509)</u>	<u>(92,811)</u>
Other financing sources (uses):			
Operating transfers in (out):			
General Reserve	(1,963)	-	(1,963)
General	-	1,963	1,963
Total other financing sources (uses)	<u>(1,963)</u>	<u>1,963</u>	<u>-</u>
Excess (deficiency) of receipts and other finances sources over (under) disbursements and other financing uses	5,735	(98,546)	(92,811)
Balance beginning of year	<u>15,508</u>	<u>105,106</u>	<u>120,614</u>
Balance end of year	<u>\$ 21,243</u>	<u>6,560</u>	<u>27,803</u>

See accompanying independent auditor's report

Schedule 2

City of Clemons
Schedule of Cash Transactions
Special Revenue Fund
Year ended June 30, 2003

Receipts:	
Intergovernmental:	
Road use tax allocation	\$ 12,049
Disbursements:	
Public works:	
Roadway maintenance:	
Services and commodities	<u>4,168</u>
Excess of receipts over disbursements	7,881
Other financing sources:	
Sale of equipment	<u>751</u>
Excess of receipts and other financing sources over disbursements	8,632
Balance beginning of year	<u>38,662</u>
Balance end of year	<u><u>\$ 47,294</u></u>

See accompanying independent auditor's report.

City of Clemons
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2003

Receipts:		
Property tax	\$	967
Use of money and property:		
Interest on investments		676
Intergovernmental:		
Township contributions		32,457
Total receipts		<u>34,100</u>
Disbursements:		
Debt service:		
Principal redeemed		18,171
Interest paid		6,378
Contractual services		2,302
Total disbursements		<u>26,851</u>
Excess of receipts over disbursements		7,249
Balance beginning of year		<u>1,723</u>
Balance end of year	\$	<u>8,972</u>

See accompanying independent auditor's report.

Schedule 4

City of Clemons
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Sewer	Total
Receipts:			
Use of money and property:			
Interest on investments	\$ 170	170	340
Charges for service:			
Sale of water	20,166	-	20,166
Sewer rental fees	-	17,274	17,274
	<u>20,166</u>	<u>17,274</u>	<u>37,440</u>
Total receipts	<u>20,336</u>	<u>17,444</u>	<u>37,780</u>
Disbursements:			
Business type activities:			
Personal services	2,722	2,128	4,850
Services and commodities	13,463	28,007	41,470
Total disbursements	<u>16,185</u>	<u>30,135</u>	<u>46,320</u>
Excess (deficiency) of receipts over (under) disbursements	4,151	(12,691)	(8,540)
Balance beginning of year	<u>13,791</u>	<u>32,773</u>	<u>46,564</u>
Balance end of year	<u>\$ 17,942</u>	<u>20,082</u>	<u>38,024</u>

See accompanying independent auditor's report.



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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 have audited the financial statements of the City of Clemons, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 13, 2004. 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, 2002.

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 Clemons' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Clemons' operations for the year ended June 30, 2003 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. Prior audit statutory comments have been resolved except for items (1) and (2).

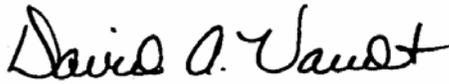
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Clemons' 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 Clemons' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. 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), (B), (C) and (D) are material weaknesses. Prior audit reportable conditions have been resolved except for item (A).

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 Clemons and other parties to whom the City of Clemons 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 Clemons 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

August 13, 2004

City of Clemons
Schedule of Findings
Year ended June 30, 2003

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 handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions, and handling and recording cash.
- (2) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Long term debt – recording and reconciling.
- (6) Payroll – preparing and distributing.
- (7) Disbursements – check writing, signing, posting and reconciling.

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

Response – We will do our best to follow this recommendation.

Conclusion – Response accepted.

(B) Disbursements – City checks for disbursements only require the City Clerk's signature. In addition, one payroll disbursement totaling \$89 and two of 25 non-payroll disbursements of \$7,534 and \$20 were not supported by invoices or other supporting documentation. An invoice was subsequently received from the vendor supporting the \$7,534 disbursement.

Recommendation – To strengthen internal control, a countersignature should be required on all checks issued. In addition, documentation should be maintained to support all disbursements.

Response – We will do our best at following this recommendation.

Conclusion – Response accepted.

City of Clemons

Schedule of Findings

Year ended June 30, 2003

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, a delinquent accounts listing was not prepared.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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. Billing stubs received from customers should be retained to support the amount deposited.

Response – We will do our best on preparing a monthly reconciliation and delinquency log.

Conclusion – Response acknowledged. The City should also retain billing stubs received from customers to support the amount deposited.

- (D) Bank Reconciliations – The Clerk's balances were not reconciled to the bank accounts and investments monthly. The Clerk reconciles deposits and warrants written during the month to the bank statement. However, the Clerk's ending balances are not reconciled to the bank account and investments.

Recommendation – To improve financial accountability and control, the book and bank balances should be reconciled monthly and retained. Any variances should be investigated and resolved timely.

Response – We will do our best at following this recommendation.

Conclusion – Response accepted.

- (E) Deposits – Receipts are deposited once per month.

Recommendation – All receipts should be deposited timely.

Response – We will do our best at following this recommendation.

Conclusion – Response accepted.

- (F) Investment Records – Detailed written investment records were not maintained.

Recommendation – The City should keep a written detailed investment record for all City investment activity. At a minimum, the record should include investment number, date purchased, maturity date, interest rate, interest earned, fund(s) held for, copies of the original investment document and paid interest stubs.

Response – We will do our best at trying to maintain these records.

Conclusion – Response accepted.

City of Clemons
Schedule of Findings
Year ended June 30, 2003

Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming an official depository has not been approved by the City.

Recommendation – A resolution naming an official depository, including amounts sufficient to cover anticipated balances, should be approved by the City.

Response – We will look into doing this.

Conclusion – Response accepted.

- (2) Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the public safety, public works, culture and recreation, debt service and business type activities functions. 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.

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do our best in seeing this does not happen again.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- (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 was not maintained for the year ended June 30, 2003. Chapter 64 of the Code of Iowa requires all public officers, except as specifically provided, to give bond.

Recommendation – The City should comply with the provisions contained in Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

Response – We will do our best at following this recommendation.

Conclusion – Response accepted.

- (7) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

City of Clemons

Schedule of Findings

Year ended June 30, 2003

During the year ended June 30, 2003, one transaction was not approved in the Council minutes and two transactions were approved subsequent to payment.

In addition, although minutes of Council proceedings were posted, the posting did not include total disbursements from each fund as required by Chapter 372.13(6) and support for the dates of the postings was not maintained.

Recommendation – The City should ensure total disbursements by fund are posted as required by Chapter 372.13(6) of the Code of Iowa and ensure support for the posting of the minutes is retained. The Council should also document approval of all bills prior to payment.

Response – We will do our best at following this recommendation.

Conclusion – Response accepted.

- (8) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – We will do our best at this recommendation and present a policy to the Council.

Conclusion – Response accepted.

- (9) 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 – Bank was contacted and this recommendation was done 08/23/2004.

Conclusion – Response accepted.

- (10) Annual Financial Report – The 2003 Annual Financial Report submitted to the State does not accurately reflect the activity recorded in the City's financial records.

Recommendation – The Annual Financial Report should accurately reflect the activity recorded in the City's financial records.

Response – We will do our best to follow this recommendation.

Conclusion – Response accepted.

City of Clemons

Schedule of Findings

Year ended June 30, 2003

- (11) Sewer Rates – Chapter 384.84 of the Code of Iowa requires utility rates be established by ordinance of the Council. The sewer rate increase effective July 1, 2002 was not established by ordinance of the Council.

Recommendation – The City should establish or amend rates by ordinance as required.

Response – The City will be amending this ordinance.

Conclusion – Response accepted.

- (12) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Clemons

Staff

This audit was performed by:
Suzanne R. Hanft, CPA, Manager
Billie Jo Heth, Senior Auditor
Heather B. Allen, Staff Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State