

CITY OF COLO

**INDEPENDENT ACCOUNTANT'S
EXAMINATION REPORT**

**For the Period
July 1, 2012 through June 30, 2013**

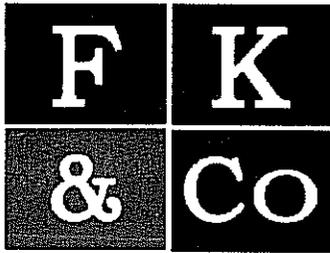
Table of Contents

	<u>Page</u>
Officials	1
Independent Accountant's Examination Report	2-4
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 5
Reconciliation of Utility Billings, Collections and Delinquent Accounts	B 5
City Council Minutes	C 5
Certified Budget	D 6
Payment of General Obligation Bonds	E 6
Tax Increment Financing	F 6
Separately Maintained Records	G 7
Electronic Check Retention	H 7
Investment Policy	I 7
Local Option Sales Tax	J 8
Compliance with Fund Accounting and Chart of Accounts	K 8
Annual Financial Report	L 9

City of Colo

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John C. Wilson	Mayor	Jan 2016
Patrick Peakin	Council Member	Jan 2014
Paul Conrad	Council Member	Jan 2014
Diane Nichols	Council Member	Jan 2014
Tyler Norgart	Council Member	Jan 2016
Alex Patrick	Council Member	Jan 2016
Scott Berka	Clerk/Treasurer	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Examination Report

To the Honorable Mayor
and Members of City Council:

We have performed an examination of the City of Colo 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 Colo, 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 security 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 (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2012 Annual Financial Report (AFR) 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 proceeds and 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 CFC recommended chart of accounts.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts 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 operations of the City of Colo, 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 Colo, 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 Colo and other parties to whom the City of Colo 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 Colo 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.

Faller, Kincheloe & Co, PLC

Faller, Kincheloe & Co, PLC

October 23, 2013

CITY OF COLO
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. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. 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 evidenced by the signature or initials of the reviewer and the date of the review.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not completely reconciled throughout the year. The City performed this reconciliation each month; however, the ending accounts receivable balance as computed did not agree to the actual ending accounts receivable balance as noted on the City's reports.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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.

(C) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings and total expenditures from each City fund be published within fifteen days of the meeting. In addition, this same Code section requires that this publication shall include a list of all claims allowed, a summary of all receipts and the reason for the claim.

CITY OF COLO
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

We noted that total expenditures from each City fund is not published in the newspaper. In addition, the claims paid by the Colo Fire Department and the Colo Recreation Department are not published in the newspaper. A summary of all receipts is not published for one fund. Also, the reasons for the claims were not consistently published in some instances. For one of thirty claims tested, there was no indication the City Council approved the claim.

Recommendation – The City should comply with the Code of Iowa and publish total expenditures from each City fund, all claims be published in the newspaper, a summary of receipts be published for all funds, the reasons for the claims be published, and the City Council approve all claims, as required.

- (D) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, public works and general government 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.

- (E) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation capital loan notes were paid from the Special Revenue, Tax Increment Financing 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 Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payments on the notes should be made from the Debt Service Fund as required.

- (F) Tax Increment Financing – 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 and, as such, the County Auditor shall provide available incremental property tax in subsequent fiscal years without further certification until the amount of the certified indebtedness is paid to the City. 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 indebtedness.

CITY OF COLO
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

For one of the economic development agreements, the City certified the total rebate amount. The agreement states the rebate payment shall be subject to annual appropriation. Until appropriated, the payments do not represent debt and, accordingly, should not have been certified as debt. Although the City has properly requested the current year appropriated amount on TIF Form 2 and has not received funds in excess of amounts to be rebated, the total debt certified to the County Auditor is overstated by \$125,000.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City’s TIF certification and the amount of TIF debt to be decertified, if any.

- (G) Separately Maintained Records – The City of Colo Fire Department and the City of Colo Recreation Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (H) 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 does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (I) Investment Policy – The City’s investment policy refers to an outdated Code Section of the State of Iowa. As a result, it does not appear the City is in compliance with the provisions of Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should implement procedures to ensure its investment policy is in compliance with Chapter 12B.10B of the Code of Iowa.

CITY OF COLO
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

- (J) Local Option Sales Tax – The City imposed a local option sales tax, as allowed by Chapter 423B of the Code of Iowa. The local option sales tax ballot states that 60% of the proceeds were to be used for property tax relief, and the other 40% of the proceeds were to be used for community improvement.

The City does not keep adequate records to ensure the local option sales tax monies are spent in accordance with the sales tax ballot requirements. Specifically, the City was unable to document how they accomplished compliance with the provision that 60% of the local option sales tax proceeds were used for property tax relief.

Recommendation – The City should implement procedures to ensure compliance with the ballot language requirements in relation to the uses of the local option sales tax proceeds.

- (K) Compliance with Fund Accounting and Chart of Accounts – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City credited the emergency tax levy to the General Fund rather than establishing a separate fund.

The City levied a tax to pay employee benefit costs, in accordance with Chapter 384.6 of the Code of Iowa. However, the City was unable to document that the proceeds of this levy were used only for benefits for employees whose compensation is paid from the General Fund or the Special Revenue, Road Use Tax Fund, in accordance with City Finance Committee Rules.

The City levies a tax to pay for liability insurance. The proceeds of this tax are used to pay all the costs associated with liability insurance coverage, including the costs associated with the water and sewer operations. The costs incurred by the water and sewer operations for workers compensation insurance is also charged to the General Fund, instead of the Enterprise, Water Fund and the Enterprise, Sewer Fund.

Recommendation - The City should establish a separate fund for the Emergency Fund. The City should also implement procedures to ensure compliance with payments from the employee benefits levy, in accordance with the City Finance Committee Rules. In addition, all costs incurred by the Enterprise, Water Fund and the Enterprise, Sewer Fund should be paid from those funds. To ensure the Enterprise Funds pay for all of its costs, all costs incurred by the Enterprise, Water Fund and the Enterprise, Sewer Fund should be paid by those funds, including costs for liability insurance and workers compensation insurance.

CITY OF COLO
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

(L) Annual Financial Report – The City prepared the Annual Financial Report for the fiscal year ended June 30, 2012. However, the report did not include the separately maintained records for the Colo Fire Department and the Colo Recreation Department for the year as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The Annual Financial Report should be completed and filed as required by Chapter 384.22 of the Code of Iowa.