



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ March 31, 2016 _____

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, 2014 through June 30, 2015. The agreed-upon procedures engagement 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 comply with the budget amendment requirements of Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

A copy of the agree-upon procedures 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/1521-0541-BL0F.pdf>.

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CITY OF CENTRAL CITY
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

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City of Central City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Gray	Mayor	Jan 2016
Jason Levenhagen	Council Member	Jan 2016
Mike Robinson	Council Member	Jan 2016
Chris Arthur	Council Member	Jan 2018
Lindsey Eiben	Council Member	Jan 2018
Dave Welter	Council Member	Jan 2018
LaNeil McFadden	City Administrator	Indefinite
William J. Sueppel	Attorney	Indefinite

City of Central City



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. 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, 2014 through June 30, 2015. The City of Central City's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

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 2015 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.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. 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 agreed-upon procedures engagement. 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 18, 2016

Detailed Recommendations

City of Central City

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (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 documented by the signature or initials of the reviewer and the date of the review.

- (B) Monthly Financial Reports – The City Clerk’s financial reports to the City Council included cash and investment balances and year-to-date receipts and disbursements, but did not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons of total disbursements for all funds to the certified budget by function.

City of Central City

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (C) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works and capital projects 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.

- (D) Financial Reporting – In January 2004, the City entered into a Management and Use Payment Agreement with the Central City Community School District to provide for the use, management and operation of a daycare facility by the School. The City subsequently issued \$790,000 of child care facility revenue notes to provide financing for the construction and furnishing of a child care facility and pledged future customer receipts, net of specified operating disbursements, to repay the notes. The Central Community School District remits \$3,580 to the City’s revenue note sinking account each month for the purpose of making the note principal and interest payments when due.

During the year, principal and interest was paid on the notes in accordance with the note resolution. However, the payment activity was not recorded in the City’s general ledger during February 2015.

Recommendation – The City should implement procedures to ensure all financial transactions are properly recorded and reported.

- (E) Questionable Disbursement – During the year, \$235 was disbursed for individual employee membership fees to Sam’s Club. This disbursement may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

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 before authorizing any further payments for Sam’s Club membership fees. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

- (F) Annual Urban Renewal Report (AURR) – Although the City certified the AURR report to the Iowa Department of Management on or before December 1, the report was not approved by the City Council until December 10.

In addition, the City understated the amount reported as TIF debt outstanding on the AURR Levy Authority Summary by \$248,502.

Recommendation – The City Council should properly approve the AURR report prior to certifying the report and should ensure the amounts reported on the Levy Authority Summary agree with the City’s records.

City of Central City

Staff

This agreed-upon procedures engagement was performed by:

Timothy D. Houlette, CPA, Manager
Melissa E. Janssen, CPA, Staff Auditor
Jon M. Mader, Assistant Auditor


Marlys K. Gaston, CPA
Director