



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 1, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Ely, Iowa for the period July 1, 2015 through June 30, 2016. 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. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. In addition, the City should comply with Code of Iowa requirements for publishing City Council meeting minutes, adopting budget amendments and administering tax increment financing.

A copy of the agreed-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 <https://auditor.iowa.gov/reports/1621-0543-BL0F>.

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CITY OF ELY
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

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City of Ely

Officials

(Before January 2016)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|--------------------------|---------------------|
| Jim Doyle | Mayor | Jan 2016 |
| Robert Ballentyne | Council Member | Jan 2016 |
| Bill Grove | Council Member | Jan 2016 |
| Dave Rasmussen | Council Member | Jan 2016 |
| Kay Hale | Council Member | Jan 2018 |
| Stephanie Mehmen | Council Member | Jan 2018 |
| Aaron Anderson | City Clerk/Administrator | Indefinite |
| Robert Hatala | Attorney | Indefinite |

(After January 2016)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|--------------------------|---------------------|
| Eldy Miller | Mayor | Jan 2020 |
| Kay Hale | Council Member | Jan 2018 |
| Stephanie Mehmen | Council Member | Jan 2018 |
| Teri Billick | Council Member | Jan 2020 |
| Elizabeth Rohner | Council Member | Jan 2020 |
| Judy Wery | Council Member | Jan 2020 |
| Denise Hoy | City Clerk/Administrator | Indefinite |
| Robert Hatala | Attorney | Indefinite |

City of Ely



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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 Ely for the period July 1, 2015 through June 30, 2016. The City of Ely'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 2016 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 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 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 Ely, 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 Ely and other parties to whom the City of Ely 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 Ely 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

February 23, 2017

Detailed Recommendations

City of Ely

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

(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) Investments – custody and record keeping.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting and maintaining detailed accounts receivable records.
- (7) Financial reporting – preparing and reconciling.

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) 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 designed 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 the review.

(C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For two months reviewed, bank and book balances did not properly reconcile. Variances of \$45,146 and \$13,067 were not resolved. The variances appear to be the result of unrecorded ACH transactions.

Recommendation – The City should establish procedures to ensure cash and investment account balances are reconciled to the general ledger balances monthly. Variances, if any, should be reviewed and resolved timely.

(D) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements from each fund, a list of all claims allowed and a summary of receipts. Minutes for two meetings tested were not published within fifteen days and the publications for two meetings could not be located. Also, minutes publications do not include total disbursements from each fund, a list of all claims allowed or a summary of receipts.

City of Ely

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. Documentation supporting the minutes publications should be retained. The published minutes should include total disbursements by fund, a list of all claims allowed and a summary of receipts, as required.

- (E) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the culture and recreation and capital projects functions prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the culture and recreation, debt service 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.

- (F) Tax Increment Financing Refunded Debt – The City refunded a Tax Increment Financing (TIF) general obligation bond with proceeds from the issuance of the Series 2011 general obligation capital loan and refunding notes. The City did not properly decertify the refunded principal and interest previously certified. In addition, the City is not properly decertifying the amount of interest earned and credited to the TIF Fund.

Recommendation – The City should decertify the principal and interest of the refunded debt on Form 3 and certify the additional TIF debt incurred from the Series 2011 general obligation capital loan and refunding notes. In addition, the City should decertify the amount of interest credited to the TIF Fund.

- (G) Tax Increment Financing Debt Certification – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the certified indebtedness is paid.

Based on review of the TIF reconciliation provided to the City by the County Auditor, the City has under certified TIF debt. Previous amounts certified by the City for the Series 2011B general obligation capital loan notes and the Series 2014 general obligation corporate purpose bonds excluded the interest portion of these obligations. In addition, for the Series 2011 general obligation capital loan and refunding notes, \$10,000 of principal and related interest was excluded from the certification.

Recommendation – The City should use Form 1 to certify the portions of TIF obligations which have not been previously certified.

- (H) Computer System – During our review of internal control, the existing control activities in the City’s computer system were evaluated to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer system were noted:

City of Ely

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

The City does not have written policies for:

- A disaster recovery plan to include all operations of the City.
- Requiring time out/log off or screen saver passwords to protect computer terminals when not in use.
- Requiring password changes because software does not require the user to change logins/passwords periodically.

Recommendation – The City should develop written policies addressing the above items to improve the City’s internal control over its computer system.

- (I) Investments – The City does not maintain a record or schedule of investment transactions.

Recommendation – The City should maintain a record of transactions for investments.

- (J) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (K) Financial Condition – At June 30, 2016, the City had a deficit balance of \$119,179 in the Debt Service Fund.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial condition.

- (L) Monthly City Clerk’s Report – A monthly City Clerk’s report, including a summary of receipts, disbursements and balances for each fund, is not prepared.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a summary of receipts, disbursements and balances for each fund. The City Council should review and approve the City Clerk’s report monthly.

- (M) Unrecorded Receipts – One receipt tested totaling \$930 was deposited in the bank, but was not posted to the general ledger.

Recommendation – All receipts should be properly recorded in the general ledger.

City of Ely

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (N) Questionable Disbursement – For the period reviewed, \$1,002 was disbursed for beer to be sold at the Ely Fall Festival. 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 benefits to be derived have not been clearly identified.

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 requirements for proper public purpose documentation.

- (O) Annual Urban Renewal Report – The City overstated the amount reported as TIF debt outstanding on the Annual Urban Renewal Report (AURR) Levy Authority Summary by \$17,648. In addition, a variance of \$26,666 exists between the ending fund balance on the AURR and the City’s records.

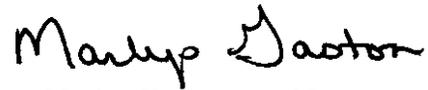
Recommendation – The City should ensure amounts reported on the AURR Levy Authority Summary agree with the City’s records.

City of Ely

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Nicole L. Roethlisberger, Staff Auditor
Cody J. Pifer, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director