



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 8, 2017

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Water and Waste Disposal Systems for Rural Communities program for the City of Mystic, Iowa.

The City of Mystic's Water and Waste Disposal Systems for Rural Communities program disbursements totaled \$510,205 for the year ended June 30, 2014.

A copy of the audit 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/1422-0021-BC00>.

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**CITY OF MYSTIC
WATER AND WASTE DISPOSAL SYSTEMS
FOR RURAL COMMUNITIES PROGRAM**

**INDEPENDENT AUDITOR'S REPORTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2014

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City of Mystic

Officials

(Before January 2014)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Chris Chester	Mayor	Jan 2014
John Hatfield	Council Member	Jan 2014
Nancy Robinson	Council Member	Jan 2014
Larry Simmons	Council Member	Jan 2014
Arnold Pilkenton	Council Member	Jan 2014
Richard Thomas	Council Member	Jan 2014
Laurie Roof	City Clerk	Indefinite
Deb George	Attorney	Indefinite

(After January 2014)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frankie Belzer	Mayor	(Resigned May 2014)
Carl Clark (Appointed May 2014)	Mayor	Nov 2015
John Hatfield	Mayor Pro tem/Council Member	Jan 2016
Chris Chester	Council Member	Jan 2016
James Hatfield	Council Member	Jan 2016
Phil Hudson	Council Member	Jan 2016
Terry Whittom	Council Member	Jan 2016
Laurie Roof	City Clerk	Indefinite
Deb George	Attorney	Indefinite

City of Mystic

Water and Waste Disposal Systems for Rural Communities Program



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of expenditures of federal awards for the Water and Waste Disposal Systems for Rural Communities program of the City of Mystic, Iowa for the year ended June 30, 2014, and the related note (the financial statement).

Management's Responsibility for the Schedule of Expenditures of Federal Awards

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards for the Water and Waste Disposal Systems for Rural Communities program for the City of Mystic for the year ended June 30, 2014, in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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 Mystic and other parties to whom the City of Mystic may report, including federal awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.


MARY MOSIMAN, CPA
Auditor of State

October 30, 2017

City of Mystic

Water and Waste Disposal Systems for Rural Communities Program

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
Direct:			
U.S. Department of Agriculture:			
Water and Waste Disposal Systems for Rural Communities	10.760	FY14	<u>\$ 510,205</u>

See note to the Schedule of Expenditures of Federal Awards.

City of Mystic

Water and Waste Disposal Systems for Rural Communities Program

City of Mystic

Water and Waste Disposal Systems for Rural Communities Program

Note to Schedule of Expenditures of Federal Awards

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Mystic is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1889 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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

The Schedule of Expenditures of Federal Awards includes only the program disbursements of the City's Water and Waste Disposal Systems for Rural Communities program.

B. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal award activity of the City under the Water and Waste Disposal Systems for Rural Communities program of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City of Mystic, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Mystic.

C. Basis of Accounting

Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by OMB Circular A-133**



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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by OMB Circular A-133

To the Honorable Mayor and Members of the City Council:

Report on Compliance for the Water and Waste Disposal Systems for Rural Communities Program

We have audited the City of Mystic, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Water and Waste Disposal Systems for Rural Communities program for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's Water and Waste Disposal Systems for Rural Communities program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Water and Waste Disposal Systems for Rural Communities program occurred. An audit includes examining, on a test basis, evidence about the City's Water and Waste Disposal Systems for Rural Communities program compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the City's Water and Waste Disposal Systems for Rural Communities program. However, our audit does not provide a legal determination of the Water and Waste Disposal Systems for Rural Communities program compliance.

Opinion on Compliance for the City's Water and Waste Disposal Systems for Rural Communities Program

In our opinion, the City of Mystic complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Water and Waste Disposal Systems for Rural Communities program for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of non-compliance which is required to be reported in accordance with OMB Circular A-133 and is described in item 2014-001 in the accompanying Schedule of Findings and Questioned Costs. Our opinion on the major federal program is not modified with respect to this matter.

The City of Mystic's response to the non-compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City of Mystic's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

The management of the City of Mystic is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Mystic's internal control over compliance with the types of requirements that could have a direct and material effect on its Water and Waste Disposal Systems for Rural Communities program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Mystic's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 and 2014-003 that we consider to be material weaknesses.

The City of Mystic's response to the internal control over compliance findings identified in our audit are reported in the accompanying Schedule of Findings and Questioned Costs. The City of Mystic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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 Mystic and other parties to whom the City of Mystic may report, including federal awarding agencies, and 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 Mystic 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.


MARY MOSIMAN, CPA
Auditor of State

October 30, 2017

City of Mystic

Water and Waste Disposal Systems for Rural Communities Program

City of Mystic

Water and Waste Disposal Systems for Rural Communities

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Part I: Summary of the Independent Auditor's Results:

- (a) An unmodified opinion was issued on the Schedule of Expenditures of Federal Awards, which was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over the Water and Waste Disposal Systems for Rural Communities program were disclosed by the audit of the Schedule of Expenditures of Federal Awards.
- (c) The audit did not disclose any non-compliance which is material to the Schedule of Expenditures of Federal Awards.
- (d) An unmodified opinion was issued on compliance with requirements applicable to the Water and Waste Disposal Systems for Rural Communities program.
- (e) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (f) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.

City of Mystic

Water and Waste Disposal Systems for Rural Communities

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Part II: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities
Federal Award Year: 2014
U.S. Department of Agriculture

2014-001 Annual Report Submittal

Criteria – Section VI, Conditions Required After Loan Closing, Part 38, of the sewer application with United States Department of Agriculture (USDA) required an annual report to be submitted at the end of each fiscal year.

Condition – An annual report was not submitted to the United States Department of Agriculture for fiscal year 2014.

Cause – Procedures have not been designed and implemented to ensure required reports are prepared.

Effect – The City is not in compliance with the agreement with the USDA pertaining to annual reporting.

Recommendation – The City should submit an annual report to the United States Department of Agriculture each year.

Response – Reports are now being done as required by the USDA. We were unaware that we were to do the report.

Conclusion – Response accepted.

City of Mystic

Water and Waste Disposal Systems for Rural Communities

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

INTERNAL CONTROL DEFICIENCIES:

**CFDA Number 10.760: Water and Waste Disposal Systems for Rural Communities
Federal Award Year: 2014
U.S. Department of Agriculture**

2014-002 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – One individual in the City has control over collecting, depositing, posting and disbursing, including those related to federal programs.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

City of Mystic

Water and Waste Disposal Systems for Rural Communities

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

2014-003 Federal Claim Approval

Criteria – An effective internal control system provides for internal controls related to approval of disbursements at the City Council level before submission to the City Clerk for payment.

Condition – The City does not have procedures in place to ensure evidence of City Council approval of claims to be paid.

Cause – Policies and procedures have not been implemented to ensure evidence of City Council approval for claims to be paid.

Effect – Because there is no evidence of City Council approval, claims may be paid which were not properly authorized or approved to be purchased.

Recommendation – Individual claims should include evidence of approval by the City Council.

Response – All expenditures are now approved by the City Council.

Conclusion – Response accepted.

City of Mystic

Staff

This audit was performed by:

Katherine L. Rupp, CPA, Manager
Jesse J. Probasco, CPA, Senior Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State