



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE _____ October 4, 2005 _____

Auditor of State David A. Vaudt today released a reaudit report on the City of Silver City for the period July 1, 2002 through June 30, 2003. The reaudit also covered certain items to determine practices applicable to the year ended June 30, 2002 and the year ended June 30, 2004. The reaudit was performed at the request of City officials and citizens of the City.

Vaudt recommended the City maintain minutes documentation to demonstrate compliance with Chapters 21 and 372 of the Code of Iowa, ensure compliance with Chapter 384 regarding budgeting requirements and consider improvements to the financial information provided by the City Clerk to the Mayor and City Council Members for the monthly City Council meetings. The City responded favorably to the recommendations contained in the reaudit report.

A copy of the reaudit report is available for review in the Office of Auditor of State and in the City Clerk's office. The report is also available on the Auditor of State's web site at: www.state.ia.us/government/auditor/reports.

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CITY OF SILVER CITY
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2002 THROUGH JUNE 30, 2003

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City of Silver City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jo Carper	Mayor	Jan 2004
Betty Millard	Council Member	Jan 2004
Rose Schoening	Council Member	Jan 2004
Gene Schoening	Council Member	Jan 2004
Lohn Roenfeld	Council Member	Appointed Aug 2002
Nancy Prien	Council Member	Jan 2004
Terrell Ramsey	Council Member	Resigned Mar 2003
Carl Winslow	Council Member	Resigned Jun 2003
Kate McNutt	City Clerk	(Resigned Jul 2002)
Korrena Stevens	City Clerk	(Appointed Aug 2002)
Dorothy Techau	Treasurer	Indefinite
Joseph Thornton	Attorney	Indefinite

City of Silver City



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Independent Auditor's Report on Reaudit

To the Honorable Mayor and
Members of the City Council:

We received a request to perform a reaudit of the City of Silver City under Chapter 11.6(4) of the Code of Iowa. As a result, we reviewed the audit report and workpapers of the City's independent auditing firm for the fiscal year ended June 30, 2003. We determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit or through our preliminary review. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Silver City for the period July 1, 2002 through June 30, 2003. We also reviewed selected transactions and information for the year ended June 30, 2002 and the year ended June 30, 2004. The procedures we performed are summarized as follows:

1. We reviewed the minutes records for compliance with certain requirements of Chapters 21 and 380 of the Code of Iowa.
2. We reviewed the minutes records for the period July 1, 2002 through June 30, 2004 for resolutions, authorizations and approvals, and/or discussions related to proper accounting for the City's fund balances or changes to fund balances.
3. We reviewed minutes records for the period July 1, 2002 through June 30, 2004 related to financial information provided to the City Council Members, including monthly reports, in order to determine whether the City Council had been receiving sufficient information for budgeting, financial reporting and decision-making (e.g. budget to actual comparison data and fund cash balances).
4. We reviewed minutes records for discussion, authorization and approval for the conversion and implementation of specific accounting software for the City's records.
5. We obtained and reviewed the June 30, 2003 and 2004 fund account balances for propriety and for adjustments made to the amounts carried forward from fiscal 2003 to fiscal 2004.
6. We reviewed transfers made between funds to determine transfers were proper and met compliance requirements, as applicable.
7. We inquired about the sewer fund budget to actual comparison reports regarding financial and/or compliance issues.
8. We reviewed property tax receipts from the County to determine whether amounts were properly applied toward debt service.

9. We reviewed the City's fire department account for adjustments, if any, relating to receipts and disbursements previously reported and approved during City Council meetings during fiscal 2003.
10. We reviewed applicable City records to determine whether the Mayor was compensated for performing duties as City Clerk and for compliance with Chapter 372.13(8) of the Code of Iowa.

Based on the performance of the procedures described above, we have various recommendations for the City. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, no other items of non-compliance were noted during the performance of the specific procedures listed above.

The procedures described above are substantially less in scope than an audit of financial statements made in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures or had we performed an audit of the City of Silver City, additional matters might have come to our attention that would have been reported to you.

We would like to acknowledge the assistance extended to us by personnel of the City of Silver City. 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

April 7, 2005

Detailed Findings

City of Silver City

Detailed Findings

July 1, 2002 through June 30, 2003

(A) Minutes –

Votes and Minutes Record Retention – Chapter 21.3 of the Code of Iowa states in part: “Each governmental body shall keep minutes of all its meetings showing the date, time and place, the members present, and the action taken at each meeting. The minutes shall show the results of each vote taken and information sufficient to indicate the vote of each member present. The vote of each member present shall be made public at the open session. The minutes shall be public records open to public inspection.”

- The minutes record did not reflect the vote of each member present as required by Chapter 21.3 of the Code of Iowa.
- No minutes record or publication was available for the February 17, 2004 special meeting. Minutes of the December 30, 2003 meeting were not approved at any of the following meetings and no record of the publication was available. Minutes records were not available for the February 3, 2004, March 2, 2004 and April 6, 2004 meetings. However, copies of the published minutes had been retained.

Signatures, Publications and Purchase Approval – Chapter 380.7 of the Code of Iowa requires the City Clerk to “promptly record each measure and authenticate all measures except motions with the Clerk’s signature and certification as to the time and manner of publication, if any”.

- The minutes records were not always properly retained or signed to authenticate the record as required by Chapter 380.7(3) of the Code of Iowa.
- The minutes record for the August 6, 2002, July 14, 2003, August 5, 2003, November 10, 2003, December 30, 2003 and June 1, 2004 meetings did not include the Clerk’s signature. The minutes record for the January 20, 2004 special meeting, February 3, 2004, March 2, 2004, April 6, 2004 and May 4, 2004 meetings when a City Clerk was not available did not include the Mayor’s signature.
- The minutes of the Council proceedings published did not include a listing of approved bills, the purpose of each approved bill, total disbursements from each fund or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978.
- The minutes indicated the Council authorized the purchase of a computer on August 6, 2002 through the approval of a purchase order to Circuit City for \$2,121.90. Also, the listing of approved bills from the January 6, 2004 Council meeting included a reimbursement to the City Clerk for the purchase of Quick Books software. However, the minutes record does not include discussion of or prior City Council authorization to convert the City’s accounting software prior to the presentation of the claim for reimbursement for the software purchase at the January 6, 2004 Council meeting.

Meeting Quorum - Chapter 21.2 of the Code of Iowa defines a meeting as “a gathering in person or by electronic means, formal or informal, of a majority of the members of a governmental body where there is deliberation or action upon any matter within the scope of the governmental body’s policy-making duties.” Chapter 372.13 (1) requires a majority of all council members for a quorum of all council members.

- The special Council meeting held September 20, 2003 did not have a quorum of Council Members in attendance, as indicated in the minutes record, and, per the minutes record, the “Mayor stated no voting due to not having a quorum.” However, official business was conducted, which included the signatures of two Council Members on a resolution “to accept the Official Street Report pending third Council signature vote”. There was no documentation this report was later approved during an official Council meeting.

Recommendation – The minutes record should reflect the results of each vote taken and information sufficient to indicate the vote of each Council Member present in accordance with the requirements of Chapter 21.3 of the Code of Iowa. The minutes record should be retained as required by Chapter 372.13(5) of the Code of Iowa.

All minutes should include the signature of the City Clerk to authenticate each measure as required by Chapter 380.7 of the Code of Iowa. Although not required by statute, the minutes record should also include the signature of the Mayor to authenticate the record. The City should comply with Chapter 372.13(6) of the Code of Iowa. The City should ensure the minutes, including a summary of receipts and disbursements by fund, are published as required. The minutes record should also document discussion and approval for significant City transactions or purchases.

The City Council should conduct official City business only when a quorum of all Council Members is present for the Council meeting in accordance with Chapter 21.2 of the Code of Iowa. We are unable to determine the propriety of the September 20, 2003 meeting and the related action taken.

Response –

- The current administration does follow the correct procedure recording the votes of each member present and will continue to do so.
- The minutes for February 17, 2004, February 3, 2004, March 2, 2004 and April 6, 2004 meetings were prepared by a Council Member due to the fact that the former City Clerk resigned without notice on February 8, 2004. The minutes of the December 30, 2003 were on the agenda several times and did not receive a motion or a second for approval because of the content of the minutes. It will be noted in the August 9, 2005 meeting minutes that the December 30, 2003 meeting minutes were not approved.
- It is the policy of the current administration for both the City Clerk and the Mayor to sign all meeting minutes. The minutes prepared by the Council Member were not presented to the Mayor for a signature.
- The minutes published during the time of the vacancy in the position of City Clerk did not contain the record of the approved bills. They were

subsequently published on May 4, 2004 and it is our practice to publish approved bills monthly.

- The January 6, 2004 meeting was the first meeting with the newly elected Mayor and Council. The bills were presented by the former City Clerk and approved by the Council. There is a notation made by the former City Clerk on the bill that the former Mayor approved it for payment. The check was written December 16, 2003. The two current Council Members that served on the previous administration recall the discussion regarding Quick Books. We acknowledge your concerns and will be more aware in the future.
- While preparing the 2004 Street Finance report a discrepancy was discovered in the 2003 report. In doing research for this it came to the attention of the current administration that there was indeed not a quorum at the September 20, 2003 meeting to approve said report. After phone conversations with the Iowa Department of Transportation it was determined that we needed to approve the 2003 Street Finance report. This was done by resolution #04-11-02 passed on November 9, 2004.

Conclusion – Response accepted.

- (B) Closed Meetings – Chapter 21.5 of the Code of Iowa provides the specific purposes for which a governmental body may hold a closed session. The Council went into closed session on July 23, 2002 and February 3, 2004. However, the minutes record did not document the specific information regarding the purpose of the closed sessions as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law. The minutes records of February 3, 2004 indicate a closed session was held after the adjournment of the City Council meeting.

Recommendation – The City should identify and document the specific statutory authority allowing the closed session, including documentation of the request to close the session or hold an open session, when applicable. In addition, the City Council should conduct official City business only during a scheduled public meeting. Action taken, if any, must be conducted during open session pursuant to Chapter 21.5(3) of the Code of Iowa.

Response – We were in error on July 23, 2002 and February 3, 2004. We should identify and document the specific statutory authority.

Conclusion – Response accepted.

- (C) Management Financial Information – The Clerk’s financial reports to the City Council consisted of a cash report for the month which included beginning and end of month balances and total receipts and disbursements for the month by individual fund. Also included were profit and loss statements which provided a summary of the categories of receipts and disbursements for each fund for the month. The Clerk’s financial reports to the Council did not include summary totals of receipts and disbursements for the year, nor comparisons to the certified budget by disbursement function.

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

Response – The current administration has a newly created budget report. It was presented at the August 9, 2005 Council meeting and will be a regular monthly agenda item. This should prove to be very helpful to the Council.

Conclusion – Response accepted.

- (D) Corrective Transfers – General, Debt Service and Water Operation and Maintenance Funds – The independent auditors for the City’s fiscal 2002 audit determined and adjusted the City’s financial statements for corrective transfers totaling \$2,650 to the General Fund, \$14,175 from the Debt Service Fund and \$11,525 to the Water Operation and Maintenance Fund to correct general obligation debt service payments made from the wrong funds.

For the City’s fiscal 2003 audit, the independent auditors determined and adjusted the City’s financial statements for additional corrective transfers totaling \$1,708 to correct property tax receipts to the Debt Service Fund incorrectly recorded in the General Fund and \$2,420 from the Debt Service Fund to the General Fund to correct a general obligation debt service payment made from the wrong fund. The City’s records did not show these corrective transfers had been made as of June 30, 2004, and there was no evidence these transfers had been reviewed and/or approved by the Council.

There were other corrections made for two monthly Treasurer’s Reports which revised certain account balances previously reported and approved at City Council meetings, as follows:

- A \$5,555.83 change from the balances reported on the July 2002 report to the August 2002 report corrected a general obligation water improvement bond principal and interest payment that had been reported as a Debt Service Fund disbursement rather than a disbursement of the Water Operation and Maintenance Fund.
- A \$6,208.55 change from the balances reported on the April 2003 report to the May 2003 report corrected addition errors that had been reported as Debt Service Fund receipts rather than General Fund receipts in the April 2003 Treasurer’s Report.

Although these corrections appear to be appropriate, there was no documentation they had been discussed and approved by the Council or recorded by the City Clerk and/or City Treasurer in the City’s financial statements. This resulted in variances between the City’s financial statements and the audited financial statements.

During the year ended June 30, 2002 the City made \$5,555.83 and \$4,430.78 payments on the water revenue bonds and general obligation water improvement bonds, respectively. According to the fiscal 2002 audit report, the \$5,555.83 payment was incorrectly recorded in the Debt Service Fund rather than the Water Operation and Maintenance Fund, and vice versa for the \$4,430.78 payment. This resulted in \$1,125.05 more than should have been reported in the Debt Service Fund and less than should have been reported in the Water Operations and Maintenance Fund.

Recommendation – Adjustments or revisions to the financial reports should be presented to the City Council for approval.

If the Council concurs with the adjustments and revisions, the Council should take action to authorize the adjustments and revisions and the Council's authorization should be recorded in the minutes record. Corrective transfers should be made for the General, Debt Service and Water Operation and Maintenance Funds, summarized as follows:

From	To	Amount
For the years ended June 30, 2002 and 2003:		
Debt Service Fund	General Fund	\$ 2,650
Debt Service Fund	Water Operation and Maintenance Fund	11,525

To correct debt service payments made from the wrong funds.

For the year ended June 30, 2003:

General Fund	Debt Service Fund	1,708
Debt Service Fund	General Fund	2,420

To correct certain property tax receipts credited to the wrong fund and to correct a debt service payment made from the wrong fund.

For the year ended June 30, 2002:

Debt Service Fund	Water Operation and Maintenance Fund	1,125
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To correct debt service payments recorded incorrectly.

Response – We have passed resolutions making corrective transfers.

Conclusion – Response accepted.

- (E) Deficit Balances – The City reported \$13,365 and \$14,373 deficit balances for the Debt Service Fund for the years ended June 30, 2002 and 2003, respectively. For the year ended June 30, 2004, the City's financial report shows a deficit balance for the Capital Projects Fund of \$26,911 and, after adjusting for correcting transfers that need to be made as noted previously, the Debt Service Fund would also show a deficit balance of \$15,952.

Recommendation – The City should continue to evaluate the reason for the deficits and investigate alternatives to eliminate the deficits in order to return these funds to a sound financial position. As addressed in the City's fiscal 2002 and fiscal 2003 audit reports, if other resources are not available, the City needs to levy taxes to reduce the debt service deficit and ensure compliance with the general obligation bond provisions.

Response – The Capital Projects Fund no longer shows a deficit. The City was waiting to be reimbursed from SWIPCO. The deficit remains in the Debt Service Fund, which we will continue to monitor and search for means to lessen the deficit.

Conclusion – Response accepted.

- (F) Water Operation and Maintenance Fund and Sewer Fund – As disclosed in the notes to financial statements of the audit report for the City for the year ended June 30, 2003, the bond resolutions for the 1978 and 1992 water revenue bonds require sinking and reserve funds be established for making debt payments. The resolutions also require monthly transfers be made from the Water Operation and Maintenance Fund to the Sinking and Reserve Funds. In addition, the water revenue bond resolutions require an annual audit be made no later than 90 days after the end of each fiscal year by an independent auditor.

The City's independent auditors reported in the fiscal 2003 audit report the City had not funded and made debt payments from the required sinking fund, nor established or funded the required separate reserve fund. In addition, an annual audit had not been obtained within 90 days of the end of the fiscal year by an independent auditor. The City has not yet set up and properly utilized all of these required funds as of February 2005. According to the City's records, the City has been making monthly transfers of \$500 for funding of the Water Sinking and Reserve Fund.

We also inquired about the Sewer Fund budget to actual comparison report and noted construction for the installation of collection and lift stations and a lagoon is in progress. The \$1,300,000 construction project is subject to a grant budget and has been included within the City's fiscal 2005 budget for the Capital Projects Fund. The sewer system is not yet operational.

Recommendation – The City should establish separate Sinking and Reserve Funds for both revenue bond issues and make the necessary transfers and annual debt payments as required by the bond resolutions. The City should review the bond resolutions for compliance with the audit requirements. A Sewer Fund budget to actual comparison should be prepared when the sewer system is operational to provide the Council with timely financial information for decision making.

Response – A resolution establishing a Reserve Fund #05-07-08 was adopted July 12, 2005 and resolution #05-07-09 adopted July 12, 2005 increases the amount deposited to the Sinking Fund to \$1,275.00.

Conclusion – Response accepted.

- (G) Financial Statement Revisions – According to the Mayor, from February 9, 2004 to May 4, 2004, the Mayor performed the duties of the City Clerk until a City Clerk was hired by the Council. During that period of time, the Mayor represented that changes to the financial records were identified but were never authorized or approved by the Council. The City Clerk subsequently made the changes previously identified by the Mayor at the time the City implemented new software. Although there was no apparent authorization or approval documented in the Council minutes, the City Clerk and City Treasurer represented the Council approved the Clerk's revised financial statements.

Recommendation – Except when otherwise authorized by the Council, such as through the annual certified budget, transfers and other changes, if any, to the City's financial records should not be made unless first authorized and approved by the Council. Since the Council is required by Chapters 384.16 and 372.13(6) of the Code of Iowa, respectively, to approve the budget and related disbursements, any changes to the financial records should also be reviewed and approved by the Council and documented in the Council minutes.

Response – No changes were actually made. The Mayor was working on a project to show the taxpayers of Silver City exactly what each department cost. Things were geared to be changed but everything was left as originally approved.

Conclusion – Response accepted.

- (H) Employee Withholdings and Reporting – As part of our review of whether additional compensation was provided to the Mayor while performing duties as City Clerk, we also reviewed payroll withholding records and reports. Although we did not note any indications of additional compensation, we noted a variance in payroll tax reporting and the City's records. The City's 2003 Annual Withholding Agent VSP Report for the Iowa Department of Revenue reported total Iowa withholding on W-2's/1099-R's of \$659.85 which should have been reported as \$650.85 according to the W-2's filed with the Department. The City also reported \$722.81 of withholding payments were made, which is a \$71.96 variance from the withholdings reported.

Recommendation – The City should investigate the variance in order to determine the accuracy of the Iowa withholding reported and remitted. In addition, the City should contact the Iowa Department of Revenue in order to resolve this matter.

Response – We will be contacting the Iowa Department of Revenue to resolve this matter.

Conclusion – Response accepted.

- (I) Public Hearing and Annual Budget – In accordance with Chapter 384.16 of the Code of Iowa, the budget is required to be certified by March 15 and a public hearing on the City's annual budget is to be held prior to its certification.

The minutes record of March 11, 2003 indicated the City Council voted to adopt by resolution the final budget for fiscal year 2004. However, the records did not document whether a public hearing had been held. There was no documentation available to indicate whether the annual budget had been certified.

The minutes record of March 23, 2004 indicated the City Council voted to adopt by resolution the annual budget for fiscal year 2005. However, the records did not document whether a public hearing had been held. There was no documentation available at the City to indicate whether the annual budget had been certified, even though it would not have been certified by March 15 as required. Through additional procedures, we determined the City had an extension request approved by the Iowa Department of Management as of March 17, 2005 with a new due date of March 22, 2005. The City's 2005 budget was certified to the Mills County Auditor on March 22, 2005.

Recommendation – The City should ensure compliance with the requirements for publishing notice of a public hearing on the budget, holding the public hearing and certifying the budget by March 15 in accordance with Chapter 384.16 of the Code of Iowa. The minutes record should include documentation to demonstrate compliance with these requirements.

Response – The City will have the budget hearing and certification completed by the required deadline of March 15.

Conclusion – Response acknowledged. The minutes record should also include documentation to demonstrate compliance.

- (J) Annual Financial Report – Pursuant to Chapter 384.22 of the Code of Iowa, the City is required to prepare an Annual Financial Report for submission to the State Auditor’s Office. The report should be prepared from the City’s financial records. The City’s Annual Financial Report for the year ended June 30, 2002 contained addition errors in each of the columns reported. These errors affect the amounts carried forward to the next reporting year. The City’s Annual Financial Report for the year ended June 30, 2003 contained addition errors in the current governmental column and the total actual revenues and other sources and total all expenditures did not agree to the City’s financial report.

When preparing a proposed budget for adoption, the City is required to show comparisons between estimated expenditures for each function and the re-estimated current year expenditures and the actual expenditures in each function for the prior year. The fiscal 2004 actual expenditures included in the City’s Notice of Public Hearing Budget Estimate for the budget for fiscal 2006 scheduled for March 8, 2005 contained variances from the amounts reported on the City’s Annual Financial Report for the year ended June 30, 2004.

Recommendation – The City should review all financial reports for accuracy and proper support prior to issuance. The City should ensure all corrective transfers and adjustments, as noted in this reaudit report, are made as of June 30, 2005 prior to completion of the City’s fiscal 2005 Annual Financial Report.

Response – The current administration is aware of the errors in the 2002 and the 2003 financial reports. The City will continue to be diligent to check for accuracy.

Conclusion – Response accepted.

City of Silver City

Staff

This reaudit was performed by:

Susan D. Battani, CPA, Director
Ronald D. Swanson, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State