



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____ June 26, 2006 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on applying agreed-upon procedures to the City of Springbrook's compliance with certain sewer revenue bond provisions. The report covers the period July 1, 2004 through June 30, 2005.

Vaudt recommended the City establish the appropriate funds and make transfers as required by the sewer revenue bond provisions, review control procedures to obtain the maximum internal control possible, provide monthly reports to the Council for review and collect sales tax on sewer services provided to commercial operations. The City responded favorably to the recommendations contained in the report.

Copies of the report are 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/reports.htm>.

#

CITY OF SPRINGBROOK

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2004 THROUGH JUNE 30, 2005**

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant’s Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Sewer Revenue Bonds	A 8
Sewer Utility Rates	B 8
Sewer Service Sales Tax	C 8
Segregation of Duties	D 9
Receipts	E 9
Disbursements	F 10
Management Financial Information	G 10
Staff	11

City of Springbrook

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Portz	Mayor	Jan 2008
Daniel Ziemet	Mayor Pro tem Council Member	Jan 2008 Jan 2010
Carolyn Bies	Council Member	Jan 2008
Mike Griffin	Council Member	Jan 2008
Merle Burken	Council Member	Jan 2010
Betty Pitts	Council Member	Jan 2010
Sandy Pitts	Clerk/Treasurer	Indefinite
Mark R. Lawson	City Attorney	Indefinite

City of Springbrook



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Honorable Mayor and
Members of the City Council:

We have performed the following procedures, which were agreed to by the City of Springbrook, solely to assist the City in evaluating its compliance with sewer revenue bond provisions. Management is responsible for the City's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this 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 obtained an understanding of the City's internal controls over the City's wastewater treatment facility, including controls over receipts, disbursements, long-term debt, and financial reporting.
2. We obtained and reviewed copies of the City's sewer revenue bond provisions in effect during the fiscal year ended June 30, 2005 and tested compliance with certain provisions.
3. We reviewed and/or tested selected transactions for billings, collections, receipts, disbursements and balances pertaining to the City's wastewater treatment facility.
4. We reviewed and/or tested selected receipt and disbursement transactions pertaining to wastewater treatment facility improvements funded with Iowa Department of Natural Resources (IDNR) State Revolving Fund loan funds.
5. We reviewed minutes for discussions pertaining to the City's wastewater treatment facility.

We identified exceptions to the City's sewer revenue bond provisions as a result of performing the procedures described above, which are described as findings (A) and (B) in the Detailed Recommendations section of this report. We also identified other recommendations for the City, which are described in the Detailed Recommendations section of this report.

We were not engaged to conduct an examination, the objective of which is the expression of an opinion on the City's compliance with sewer revenue bond provisions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other 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 Springbrook and other parties to whom the City of Springbrook may report. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State

April 11, 2006



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

Detailed Recommendations

City of Springbrook

Detailed Recommendations

July 1, 2004 through June 30, 2005

- (A) Sewer Revenue Bonds – Sections 8 and 9 of the sewer revenue bond resolutions require the City to establish a Sewer Revenue Bond Sinking Fund and set aside each month a minimum amount to be used for the purpose of paying principal and interest on the bonds. The City has not established the Enterprise, Sewer Revenue Bond Sinking Fund.

Recommendation – The City should review the sewer revenue bond resolutions, establish an Enterprise, Sewer Revenue Bond Sinking Fund and begin making the necessary transfers for payment of bond principal and interest as required by the bond resolutions.

Response – We acknowledge your recommendation. We will take steps to implement your recommendation with the assistance of personnel from East Central Intergovernmental Association (ECIA).

Conclusion – Response accepted.

- (B) Sewer Utility Rates – The sewer revenue bond resolutions include a provision requiring the City to provide for the collection of rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net revenues equal to at least 110% of the principal and interest due on the bonds each fiscal year. Sewer utility rates have been established by a City ordinance approved February 6, 2006. The sewer revenue bond principal and interest due on June 1, 2005 were paid from the City's sewer operating account.

Recommendation – The City should periodically review the sewer utility rates to ensure established rates will result in sufficient funds to meet future obligations and the revenue bond resolutions.

Response – We acknowledge your recommendation. We will take steps to implement your recommendation with the assistance of personnel from ECIA.

Conclusion – Response accepted.

- (C) Sewer Service Sales Tax – The City collects sales tax from commercial businesses on water and solid waste collection and disposal services. However, sales tax was not collected on the sewer service portion of the utility billings to non-residential commercial operations as required by the Iowa Department of Revenue.

Recommendation – The City should uniformly assess sales tax on sewer services provided to non-residential commercial operations in accordance with sections 701-26.71 and 701-26.72 of the Iowa Department of Revenue Administrative Rules. The City should consult with legal counsel and the Iowa Department of Revenue to resolve this matter.

Response – We acknowledge your recommendation. We will take steps to implement your recommendation.

Conclusion – Response accepted.

City of Springbrook

Detailed Recommendations

July 1, 2004 through June 30, 2005

(D) 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. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions and custody of assets.
- (2) Long-term debt – recording and reconciling.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collection, depositing, posting and reconciling.
- (5) Disbursements – purchasing, check signing, recording and reconciling.
- (6) Financial reporting – preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – We acknowledge your recommendation. We will take steps to implement your recommendation. I will be contacting personnel from ECIA to discuss a computer program they offer for cities.

Conclusion – Response accepted.

(E) Receipts – Prenumbered receipts were not issued for City collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the collection and recording of all City money. The receipts should be recorded and reconciled with timely deposits and the reconciliation should be reviewed periodically by an independent person. For utility collections, a daily log should be maintained, with one receipt issued for a day's collections and reconciled with timely deposits.

Response – We acknowledge your recommendation. We will take steps to implement your recommendation. Personnel from ECIA will be helping with this.

Conclusion – Response accepted.

City of Springbrook

Detailed Recommendations

July 1, 2004 through June 30, 2005

- (F) Disbursements – City disbursement checks only require the Clerk’s signature.

Recommendation – To strengthen internal control, each check should be prepared and signed by one person and then the supporting documentation should be made available along with the check to the second or independent person for review and countersignature.

Response – We acknowledge your recommendation. After discussion with the Council, they feel confident that I am honest and dependable. But we will take steps to implement your recommendation.

Conclusion – Response accepted.

- (G) Management Financial Information – Monthly financial reports which include fund/account activity were not prepared for Council review and approval. Also, monthly reconciliations of the Clerk’s fund balances to the bank account balances were not prepared for Council comparison to the monthly financial report.

Recommendation – To improve financial accountability and control, a monthly report should be prepared for Council review and approval. Also, the monthly report should provide a reconciliation of fund balances to the bank balances.

Response – We acknowledge your recommendation. We will take steps to implement your recommendation with the assistance of personnel from ECIA.

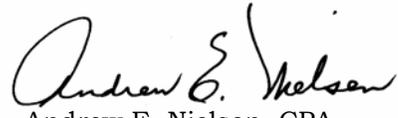
Conclusion – Response accepted.

City of Springbrook

Staff

This agreed-upon procedures engagement was performed by:

Ronald D. Swanson, CPA, Manager
John G. Vanis, CGFM, Senior Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State