



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE _____ November 13, 2002 _____ Contact: Andy Nielsen
515/281-5515

Auditor of State Richard D. Johnson today released a reaudit report on the City of Centerville, Iowa for the period July 1, 2000 through June 30, 2001. Also, selected transactions and information for the period July 1, 2001 through June 30, 2002 were reviewed, as noted. The reaudit was performed as a result of a petition filed with the Auditor of State by a group of citizens of the City of Centerville.

Johnson recommended that payroll costs of street department employees working on non-street related projects should be allocated to the appropriate funds and programs of the City. Johnson also recommended that the City formally approve the amount, repayment terms and interest rate charged for loans from the Sewer Utility Fund to the General Fund and that the City comply with its revenue bond resolutions for transfers from the Sewer Utility Fund to the Sewer Revenue Bond Sinking, Reserve and Improvement Funds.

Other items in the reaudit report included recommendations that employees should not be allowed to carry over balances of unused vacation and compensatory time in excess of City personnel policies and union agreements and the Friends of Oakland Cemetery Foundation financial activity should be included in the City's financial statements. Also, policies and procedures should be established for the approval of street repair and equipment purchases. The City responded favorably to these recommendations.

Copies of the report are 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.

###

CITY OF CENTERVILLE
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2000 THROUGH JUNE 30, 2001

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report on Reaudit	5-6
Detailed Findings:	<u>Finding</u>
Road Use Tax Fund	A 8
Interfund Loan	B 8
Revenue Bond Resolutions	C 9
Mayor Compensation	D 9
Vacation and Compensatory Time	E 10
Separately Maintained Records	F 10
Cemetery Perpetual Care Fund	G 10
Park Shelter House and Townscape Projects	H 10-11
Purchases	I 11
Workers' Compensation Payments	J 11-12
Staff	13

City of Centerville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John C. Williams	Mayor	Jan 2004
Robert Greene	Council Member	Jan 2004
Louise Kennis	Council Member	Jan 2004
Janet Spurgeon	Council Member	Jan 2004
William Milani	Council Member	Jan 2006
Glenn Moritz	Council Member	Jan 2006
Cynthia L. Cortesio	Clerk	Indefinite
James E. Underwood	Attorney	Indefinite

City of Centerville



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

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

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 Centerville 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, 2001. Based on that review and other information provided to and obtained by us, we determined that a partial reaudit was necessary in order 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 Centerville for the period July 1, 2000 through June 30, 2001. We also reviewed selected transactions and information for the period July 1, 2001 through August 31, 2002, as noted. The procedures we performed are summarized as follows:

1. We reviewed transactions in the Road Use Tax Fund to determine compliance with Chapter 312.6 of the Code of Iowa.
2. We reviewed the propriety of the \$200,000 loan from the Sewer Utility Fund to the General Fund.
3. We reviewed the City's compliance with the provisions of the revenue bond resolutions relating to the required transfers from the Sewer Utility Fund to the Sewer Revenue Bond Sinking, Sewer Revenue Reserve and the Sewer Revenue Improvement Funds.
4. We reviewed the City's payroll procedures for the Mayor and other employees to determine whether vacation and compensated absences were paid or accrued in accordance with the union agreements and the City's policies.
5. We reviewed transactions in the City Cemetery Perpetual Care Fund for propriety.
6. We reviewed City minutes for compliance with Chapter 21 of the Code of Iowa.
7. We reviewed City Council minutes and transactions pertaining to certain capital project activity and equipment acquisitions.
8. We inquired about the status of certain workers' compensation payments pertaining to a former City employee.

Based on the performance of the procedures described above, we have various recommendations for the City. Also, certain instances of non-compliance with the Code of Iowa were noted. 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 Centerville, 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 Centerville. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 9, 2002

Detailed Findings

City of Centerville

Detailed Findings

July 1, 2000 through June 30, 2001

- (A) Road Use Tax Fund – The time sheets for street department employees did not itemize the hours worked on individual projects. As a result, the total payroll costs were charged to the Road Use Tax Fund even though street department employees spent time working on non-street related projects, such as swimming pool repairs, demolition of houses/building and paving/curb/gutter in the City cemetery. The payroll costs for the non-street related projects were recorded in the Road Use Tax Fund instead of the General Fund.

Recommendation – The City should estimate the approximate number of hours spent on non-street related projects during fiscal 2001 and 2002 and corrective transfers should be approved by the Council and recorded by the Clerk. In the future, the employee time sheets should itemize the hours worked on individual projects and the payroll costs should be properly allocated to the appropriate funds and programs of the City.

Response – In fiscal year 2001 and 2002 the City of Centerville took all of its Street Department wages and benefits out of Road Use Funds and all of its expenditures for traffic lights and street lights out of the General Fund. In fiscal years 2001 and 2002 traffic and street light expenditures totaled 30% of the total expenditures for wages and benefits. Since the traffic and streetlights could have been taken out of Road Use Funds, but weren't, and by estimation the Street Department didn't spend greater than 30% of its time on other than Street Department activities, we are not going to adjust those expenditures. This represents less being withdrawn from the Road Use Fund than was permissible for the City to do. Furthermore, books have been closed for those budget years and the audit completed for fiscal year 2001, so budgets and audits would be affected if those expenditures were adjusted.

After the State Reaudit Report is approved by the Council, the City will begin using a mechanism to record and allocate those hours, wages, and benefits spent by the Street Department on other than Street Department activities.

Conclusion – Response accepted. However, corrective transfers may still be made following the audit of completed fiscal years when determined to be appropriate and necessary.

- (B) Interfund Loan – During the year ended June 30, 2000 the City loaned \$200,000 from the Sewer Utility Fund to the General Fund. The City Council minutes from August 2, 1999 included the following statement:

“Following a discussion regarding low cash flow in the General Fund until tax monies are received. Motion was made by Moritz, second by Spurgeon to deposit monies of the Sewer Utility Fund into a money market account and draw from it as necessary.”

The loan from the Sewer Utility Fund to the General Fund was not formally approved with a dollar amount, repayment terms, or interest rate, if any, charged on the unpaid balance. The City charged the General Fund interest of 5% per annum and the unpaid balance was \$174,830 as of June 30, 2002. In addition, the loan may be in violation of the revenue bond covenants, as noted in Comment C.

Recommendation – The City should consult with bond legal counsel and, if appropriate, the Council should formally approve the loan amount, repayment terms and interest rate charged.

Response – The City has a plan in place to repay the Waste Water Fund from the General Fund before the end of the current fiscal year. The City will also consult with Bond Legal Counsel for additional appropriate action.

Conclusion – Response accepted.

- (C) **Revenue Bond Resolutions** – The City has two revenue bond resolutions that require funding transfers from the Sewer Utility Fund to the Sewer Revenue Bond Sinking, Sewer Revenue Reserve and the Sewer Revenue Improvement Funds. At least partially due to the loan from the Sewer Utility Fund to the General Fund, as noted in Comment B, the City has not been able to make the required revenue bond resolution transfers from the Sewer Utility Fund to the Sewer Revenue Bond Sinking, Sewer Revenue Reserve and the Sewer Revenue Improvement Funds as follows:

Fund Name	Required Fund Balance at June 30, 2001	Actual Fund Balance at June 30, 2001	Shortage of Required Fund Balance at June 30, 2001
Sewer Revenue Bond Sinking	\$ 14,677	9,500	5,177
Sewer Revenue Reserve	157,148	117,148	40,000
Sewer Revenue Improvement	460,000	220,000	240,000
Total	\$ 631,825	346,648	285,177

Recommendation – Transfers required by the revenue bond resolutions should be made from the Sewer Utility Fund to the Sewer Revenue Bond Sinking, Sewer Revenue Reserve and the Sewer Revenue Improvement Funds. Also, the City should consult bond legal counsel regarding compliance with the bond provisions and investigate alternatives to adequately fund the Sewer Utility Fund, including the accounts required by the bond resolutions.

Response – The City estimates that before the end of the current fiscal year it will be in compliance with the Revenue Bond Resolutions. The City will also consult with Bond Legal Counsel for additional appropriate action.

Conclusion – Response accepted.

- (D) **Mayor Compensation** – City ordinance number 1221 states, “The Mayor shall be required to devote a minimum of 40 hours per week to the performance of the duties related to the office, subject to the right to vacations as set forth by Section 2.16.040.”

The City's payroll records for the Mayor show compensatory time and sick leave hours earned, used and a balance of unused hours, which is not provided for in the City ordinance. However, the payroll records do not include a record of the vacation hours earned, used and the unused balance, which is provided for in the City ordinance. The Mayor qualifies for the executive/administrative exemption from the Fair Labor Standards Act and, therefore, is not eligible to receive compensatory time.

Recommendation – The City should keep records for vacation hours for the Mayor as required by City ordinance and the Fair Labor Standards Act and should not maintain records for compensatory time and sick leave hours.

Response – The City will comply with the recommendations.

Conclusion – Response accepted.

- (E) Vacation and Compensatory Time – The City of Centerville's two union agreements and City personnel policies allow employees to earn vacation time and compensatory time.

The agreements state that all vacation earned in one calendar year must be taken by the employee during the next calendar year. Also, one of the union agreements states that employees may retain a compensatory time balance of up to 48 hours.

Certain employees have vacation and compensatory time balances in excess of the maximums allowed by the union agreements and the City personnel policies.

Recommendation – The City should not permit employees to carry over balances for unused vacation and compensatory time in excess of the union agreements and City personnel policies. The City should consult legal counsel regarding appropriate and allowable corrective action to comply with the union agreements and City policy.

Response – The City will consult legal counsel regarding appropriate action regarding this issue.

Conclusion – Response accepted.

- (F) Separately Maintained Records – The Friends of Oakland Cemetery Foundation maintains accounting records for its operations. The transactions and resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states, in part, that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, receive, or expended for any city purpose."

Recommendation – To improve accountability, financial and budgetary control, all City financial activity and balances should be recorded in the Clerk's records.

Response – All City financial activity will be recorded on the City's books and reported in its financial records.

Conclusion – Response accepted.

- (G) Cemetery Perpetual Care Fund – In accordance with City Resolution No. 97-1986, 80% of the selling price of each grave space or lot is allocated to the General Fund for the maintenance of the cemetery and the remaining 20% is allocated to the Cemetery Perpetual Care Fund. The income derived from the investment of the Cemetery Perpetual Care Fund shall be transferred to the General Fund.

The City disbursed certain Cemetery Perpetual Care Fund principal for engineering services at the City cemetery.

Recommendation – The City should consult legal counsel to determine under what circumstances, if any, it is appropriate to disburse principal from the Cemetery Perpetual Care Fund.

Response – The City will consult with legal counsel concerning this issue.

Conclusion – Response accepted.

- (H) Park Shelter House and Townscape Projects – According to the June 3, 2002 Council minutes, the Council approved the Street Department to remove the old shelter house from the City Park and to accept the Park Board recommendation for a new shelter house with City crews pouring the floors.

Subsequent to this meeting, the City received an estimate for construction labor only of \$4,500 to construct a shelter house with dimensions of 24 by 40 feet. According to the estimate, the City was to furnish all building materials and prepare the building site for construction. The estimate did not include concrete or concrete labor. However, construction did proceed and, at some point, based upon invoices submitted to the City, roof trusses were special ordered in the wrong size and then the correct size was purchased from another vender and a safety fence was constructed around the construction site without apparent Council approval for these changes and/or cost. The minutes did not include evidence of Council approval of the bid for construction or authorization to proceed with construction and change orders, if any, were not approved by the Council or documented in the minutes.

The City paid an additional \$25,000 to reinstall bricks which needed to be removed and replaced for the Townscape project. A formal change order was not prepared and/or approved by the Council prior to the work being performed.

Recommendation – The Park Shelter House construction project should have been approved by the Council and clearly documented in the Council minutes. Change orders, if any, should be prepared and approved by the Council and documented in the Council minutes.

Response – The City will prepare change orders when appropriate in the future and have Counsel approval and documentation in the minutes.

Conclusion – Response accepted.

- (I) Purchases – According to the June 30, 2000 Council minutes, the Council acted to “allow the (Street Commissioner) to approve and complete any street repair projects under \$10,000 in materials, keeping the Mayor informed of any significant issues regarding this.” This policy does not include the cost of labor, equipment and other costs which are components of street repair estimates.

Also, in August 2002, the Street Commissioner purchased an auger for approximately \$187 for the Park Shelter House project. The Council did not approve this equipment purchase and it is unclear whether City employees are authorized to purchase equipment such as this without prior Council authorization.

In addition, the list of bills provided to the Council for approval identified the transactions as \$194 for “repairs to tractor”. The claims actually consisted of an auger for \$187 and approximately \$7 for paint for the tractor.

Recommendation – The Council should establish policies and procedures for the Street Commissioner to prepare estimates of street repair projects for the Council's approval. The estimates should include the total cost of the project, which would include materials, labor, equipment and other costs. The Council should establish an appropriate maximum dollar amount for total project costs to be completed without the Council's approval.

Also, the Council should establish policies and procedures to identify personnel authorized to make equipment purchases and the maximum dollar amount of those purchases without the Council's approval.

In addition, the list of bills should clearly indicate the purpose or description of the items listed for approval.

Response – The City will establish a procedure for estimates of street repair projects. It will also establish an appropriate maximum dollar amount which could be completed without Council approval.

Also, the City will establish a purchasing policy.

In addition, the City will, to the extent of limitations by computer software, provide clear indications of purpose/description of expenditures made by the City.

Conclusion – Response accepted.

- (J) Workers' Compensation Payments – From November 1999 through March 2001, a City employee was paid workers' compensation due to the employee's inability to work. It is unclear whether the City paid the employee salary and/or sick leave during the same period since the employee worked sporadically during this period. The individual is no longer employed by the City. However, the individual would not be entitled to compensation from the City and workers' compensation for the same period.

Recommendation – The City should consult legal counsel to investigate and determine the proper disposition of this matter.

Response – The City will consult legal counsel to determine appropriate actions in this matter.

Conclusion – Response accepted.

City of Centerville

Staff

This reaudit was performed by:

**K. David Voy, CPA, Manager
Donna F. Kruger, CPA, Senior Auditor II
Scott D. Bantz, Assistant Auditor**

**Andrew E. Nielsen, CPA
Deputy Auditor of State**