



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE _____ July 8, 2014

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an examination report on the City of Ely, Iowa for the period July 1, 2012 through June 30, 2013. The examination 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 and perform independent reviews of utility system reconciliations. The City should also comply with Code of Iowa requirements for the timely publishing of City Council minutes.

A copy of the examination 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 <http://auditor.iowa.gov/reports/1321-0543-BL0F.pdf>.

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CITY OF ELY
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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City of Ely

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|--------------------------|---------------------|
| Jim Doyle | Mayor | Jan 2014 |
| Kay Hale | Council Member | Jan 2014 |
| Dale Stanek | Council Member | Jan 2014 |
| Robert Ballantyne | Council Member | Jan 2016 |
| Bill Grove | Council Member | Jan 2016 |
| Dave Rasmussen | Council Member | Jan 2016 |
| Aaron Anderson | City Clerk/Administrator | Indefinite |
| Bob Hatala | Attorney | Indefinite |



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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Ely pursuant to Chapter 11.6 of the Code of Iowa. 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, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

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 2013 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.

We were not engaged to and did not conduct an audit of the City of Ely, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. 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 examination. 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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 12, 2014

Detailed Recommendations

City of Ely

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(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. Also, there is no evidence of independent review of bank reconciliations.
- (2) Investments – custody and record keeping.
- (3) Receipts – opening mail, collecting, depositing, journalizing, 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 and posting.
- (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) Financial Condition – The Debt Service Fund had a deficit balance of \$54,437 at June 30, 2013.

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

(C) Transfers – The City transferred \$149,000 from the Enterprise, Sewer Fund to the Enterprise, Sewer Debt Service Fund, but the City Council had approved the transfer for \$196,563.

Recommendation – The City should transfer the additional \$47,563 to agree with the approved amount.

(D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation – Procedures should be established to have an independent person or a City Council member review the reconciliation and monitor delinquent accounts each month. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

City of Ely

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (E) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (F) City Council 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. Minutes for three meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required.

- (G) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the debt service function. 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.

- (H) Tax Increment Financing Interest – The City credited interest earned on the balance of the Special Revenue, Tax Increment Financing (TIF) Fund to the General Fund rather than the Special Revenue, TIF Fund as required by Chapter 403.19(10) of the Code of Iowa.

Recommendation – The City should credit interest to the Special Revenue, TIF Fund as required. Amounts credited to the TIF Fund should be decertified by the City to the County Auditor in accordance with Chapter 403.19(6)(b) of the Code of Iowa.

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

Recommendation - The City should maintain a record of investment transactions.

- (J) Computer System – During our review of internal control, the existing control activities in the City’s computer system were evaluated in order 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:

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 in order to improve the City’s internal control over its computer system.

City of Ely

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (K) 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 for 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 amount of certified indebtedness is paid.

Based on a 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 2011 and Series 2011B general obligation capital loan notes included the principal but excluded the interest portion of these obligations.

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

- (L) Annual Urban Renewal Report - The annual urban renewal report was properly approved and certified to the Iowa Department of Management on November 30, 2012, prior to the December 1 deadline for filing. The TIF debt outstanding was overstated by \$911,558 since the City included the Series 2012A general obligation refunding bonds issued after June 30, 2012.


Recommendation - The City should ensure the amounts reported as TIF debt outstanding agree with the City's records.

City of Ely

Staff

This examination was performed by:

Donna F. Kruger, CPA, Manager
Todd E. Pudenz, CPA, Staff Auditor
Zach D. Kubik, Assistant Auditor

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