



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE _____ April 2, 2015 _____

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Ely, Iowa for the period July 1, 2013 through June 30, 2014. The agreed-upon procedures engagement 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, including procedures to reconcile utility billings, collections and delinquent accounts for each billing period. The City also should comply with Code of Iowa requirements for publishing City Council minutes, adopting budget amendments and administering tax increment financing.

A copy of the agreed-upon procedures 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/1421-0543-BL0F.pdf>.

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CITY OF ELY

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

**FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014**

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City of Ely

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Jim Doyle	Mayor	Jan 2016
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
Robert Hatala	Attorney	Indefinite
(After January 2014)		
Jim Doyle	Mayor	Jan 2016
Robert Ballantyne	Council Member	Jan 2016
Bill Grove	Council Member	Jan 2016
Dave Rasmussen	Council Member	Jan 2016
Kay Hale	Council Member	Jan 2018
Stephanie Mehmen	Council Member	Jan 2018
Aaron Anderson	City Clerk/Administrator	Indefinite
Robert Hatala	Attorney	Indefinite

City of Ely



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. 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, 2013 through June 30, 2014. The City of Ely's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the 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 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 2014 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 agreed-upon procedures engagement. 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

January 7, 2015

Detailed Recommendations

City of Ely

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

(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) 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.

(C) 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 four 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 of the meeting, as required.

(D) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works, community and economic development and debt service functions. 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.

City of Ely

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (E) Tax Increment Financing – 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 earned on the balance of the Special Revenue, TIF Fund to that 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.

- (F) 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 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 excluded the interest portion of these obligations. In addition, for the Series 2011 general obligation capital loan notes, \$10,000 of the principal portion was excluded.

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

- (G) Tax Increment Financing Refunded Debt – The City refunded a Tax Increment Financing (TIF) general obligation bond with a portion of the issuance of the Series 2011 general obligation capital loan and refunding notes. The City did not properly decertify the refunded principal and interest portion previously certified.

Recommendation – The City should decertify the principal and interest portion of the refunded debt on Form 3 and certify the additional TIF debt incurred from the Series 2011 general obligation capital loan and refunding notes.

- (H) 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, 2013 through June 30, 2014

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

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

- (J) Petty Cash and Change Fund – The petty cash and change fund are not maintained at an authorized amount. The petty cash drawer included additional funds from bulk water sales. The receipts from bulk water sales were not deposited and recorded in the accounting system.

Recommendation – The City Council should approve an authorized amount to be maintained in the petty cash and change fund. Procedures should be established to ensure all receipts, including bulk water sales, are deposited intact and recorded in the accounting system.

- (K) Disbursements – One of 30 disbursements tested was not approved and other disbursements were not approved by the City Council prior to disbursement. The City does not have a written disbursement approval policy in accordance with Chapter 372.13(6) of the Code of Iowa allowing certain items to be paid prior to City Council approval.

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

- (L) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (M) Payroll – One of 5 approved employee timesheets tested documented 40 hours of sick leave. However, payroll records did not indicate sick leave hours were used by this employee and recorded these hours as regular pay.

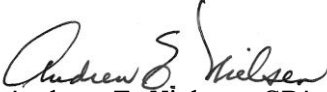
Recommendation – The City should ensure compensated absence balances, such as sick leave hours, are reviewed by an independent person and properly recorded. The City should also ensure the sick leave records for the above employee are corrected accordingly.

City of Ely

Staff

This agreed-upon procedures engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Zackary D. Kubik, CPA, Staff Auditor
Melissa E. Janssen, Staff Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State