



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ March 24, 2016 \_\_\_\_\_

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Ely, Iowa for the period July 1, 2014 through June 30, 2015. 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 independently review the reconciliation of utility billings, collections and delinquent accounts for each billing period. The City also should comply with Code of Iowa requirements for publishing City Council meeting 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/1521-0543-BL0F.pdf>.

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**CITY OF ELY**

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

**FOR THE PERIOD  
JULY 1, 2014 THROUGH JUNE 30, 2015**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	B 8
City Council Meeting Minutes	C 8
Certified Budget	D 9
Tax Increment Financing Debt Certification	E 9
Tax Increment Financing Refunded Debt	F 9
Tax Increment Financing Transfer to Debt Service Fund	G 9
Computer System	H 10
Investments	I 10
Accounting Policies and Procedures Manual	J 10
Financial Condition	K 10
Bank Reconciliations	L 10
Staff	11

**City of Ely**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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, 2014 through June 30, 2015. 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 2015 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.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. 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

February 4, 2016



## **Detailed Recommendations**

City of Ely

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

(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 Meeting 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 two meetings tested were not published within fifteen days. Additionally, the publication for one of four meetings tested could not be located.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. The official minutes record for all meetings should be retained and be available for review upon request.

City of Ely

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (D) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the debt service and culture and recreation 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.

- (E) 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 certified indebtedness is paid.

Based on 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 2011B general obligation capital loan notes and the Series 2014 general obligation corporate purpose bonds excluded the interest portion of these obligations. In addition, for the Series 2011 general obligation capital loan and refunding notes, \$10,000 of principal and related interest was excluded from the certification.

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

- (F) Tax Increment Financing Refunded Debt – The City refunded a Tax Increment Financing (TIF) general obligation bond with proceeds from the issuance of the Series 2011 general obligation capital loan and refunding notes. The City did not properly decertify the refunded principal and interest previously certified. Additionally, the City is not properly decertifying the amount of interest earned and credited to the TIF Fund.

Recommendation – The City should decertify the principal and interest 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. In addition, the City should decertify the amount of interest credited to the TIF Fund.

- (G) Tax Increment Financing Transfer to Debt Service Fund – A portion of the City’s general obligation principal and interest are payable from incremental property tax received in the Special Revenue, Tax Increment Financing Fund. During fiscal year 2015, the City excluded \$23,007 of the tax increment financing portion of principal and interest on the 2014 general obligation bonds from the transfer from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund to reimburse this fund for the portion of debt paid from incremental property tax.

Recommendation – The City should ensure the transfer to the Debt Service Fund from the Special Revenue, Tax Increment Financing Fund is sufficient to cover the principal and interest paid on all TIF obligations. The City should transfer \$23,007 from the Special Revenue, Tax Increment Financing fund to the Debt Service Fund to reimburse this fund for the fiscal year 2015 transfer shortage.

City of Ely

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (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.

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

Recommendation – The City should maintain a record of transactions for investments.

- (J) 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.

- (K) Financial Condition – At June 30, 2015, the City had deficit balances of \$1,462 and \$120,479 in the Special Revenue, Road Use Tax and Debt Service Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (L) Bank Reconciliations – Although bank reconciliations were prepared throughout the year, there was no evidence a bank reconciliation was performed for June 2015.

Recommendation – The City should establish procedures to ensure cash and investment account balances are reconciled to the general ledger balances monthly. Variances, if any, should be reviewed and resolved timely.

City of Ely

Staff

This agreed-upon procedures engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
David A. Cook, CPA, Staff Auditor  
Robert E. Fisher, Staff Auditor

  
Marlys K. Gaston, CPA  
Director