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STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE _____ March 22, 2006

Auditor of State David A. Vaudt today released a reaudit report on the City of Centerville for the period July 1, 2003 through June 30, 2004. The reaudit also covered certain items to determine practices applicable to the year ended June 30, 2003 and the year ended June 30, 2005. The reaudit was performed as a result of a petition filed with the Office of Auditor of State by a group of residents of the City of Centerville and by request of the Mayor.

Vaudt recommended the City investigate alternatives to eliminate deficits in the General Fund and Employee Health Fund. Vaudt also recommended the City establish a loan repayment plan for the loan to the Employee Health Fund from the Tax Increment Financing Fund. The City responded favorably to the recommendations contained in the reaudit report.

A copy of the reaudit 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/reports.htm>.

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CITY OF CENTERVILLE
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2003 THROUGH JUNE 30, 2004

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City of Centerville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2004)		
John C. Williams	Mayor	Jan 2004
Jan Spurgeon	Council Member	Jan 2004
Robert Greene	Council Member	Jan 2004
Louise Kennis	Council Member	Jan 2004
Glenn Moritz	Council Member	Jan 2006
Bill Milani	Council Member	Jan 2006
(After January, 2004)		
John C. Williams	Mayor	Jan 2006
Glenn Moritz	Council Member	Jan 2006
Bill Milani	Council Member	Jan 2006
Mike Shanahan	Council Member	Jan 2008
Robert Greene	Council Member	Jan 2008
Louise Kennis	Council Member	Jan 2008
Cynthia L. Cortesio	Clerk /Administrator/Treasurer	Indefinite
Debra George	Attorney	Indefinite

City of Centerville



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Auditor of State's Report on Reaudit

To the Honorable Mayor and
Members of the City Council:

We received requests to perform a reaudit of the City of Centerville under Chapter 11.6(4) of the Code of Iowa. The requests for reaudit came from a petition filed with the Office of Auditor of State by a group of residents of the City of Centerville and by request of the Mayor. As a result, we reviewed the audit report and workpapers of the City's independent auditing firm for the fiscal year ended June 30, 2004. We determined a partial reaudit was necessary 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, 2003 through June 30, 2004. We also inquired and performed procedures for certain items to determine practices applicable to the year ended June 30, 2003 and the year ended June 30, 2005, as noted.

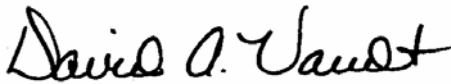
The procedures we performed are summarized as follows:

1. We reviewed selected funds for financial condition and tested selected transfers and/or loans between funds for fiscal 2003, fiscal 2004 and fiscal 2005.
2. We reviewed receipts and tested selected disbursements and transfers for tax increment financing (TIF) activity during fiscal 2004 and fiscal 2005.
3. We reviewed the financial status and activity pertaining to the City's self-insurance (employee health) fund for fiscal 2004 and fiscal 2005, including compliance with Chapter 509A of the Code of Iowa.
4. We reviewed selected real estate transactions for fiscal 2004 and fiscal 2005, including compliance with Chapter 364.7 of the Code of Iowa.
5. We inquired and reviewed selected payments for fiscal 2004 and fiscal 2005 for possible related party transactions and compliance with Chapters 362.5 and 384.103 of the Code of Iowa.
6. We reviewed and tested selected timesheets for time allocation for street department employees.
7. We inquired whether the City had a policy for personal use of City-owned property and equipment, including cellular phones.
8. We inquired whether the City had taken action to use local option sales tax funds for swimming pool fundraising and/or use road use tax funds for constructing a fence on private property.

Based on the performance of the procedures described above, we have various recommendations for the City. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, items of non-compliance were not 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. A copy of this report has been filed with the Department of Commerce, Insurance Division for review and information.

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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 29, 2005

Detailed Findings

City of Centerville

Detailed Findings

July 1, 2003 through June 30, 2004

(A) Financial Condition – The City had balances in the following funds, as noted:

<u>Fund</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
General	\$ (72,256)	\$(36,505)	\$ (172,967)
Internal Service:			
Employee Health	\$ (16,480)	\$(85,270)	\$ 34,730

The General Fund deficit increased from fiscal 2004 to fiscal 2005 due, in part, to corrective transfers from the General Fund to establish a separate Special Revenue, Tax Increment Financing (TIF) Fund.

The fiscal 2005 balance of \$34,730 of the Internal Service, Employee Health Fund, the fund in which the City accounts for its self insurance plan, includes \$120,000 from an outstanding loan from the Special Revenue, Tax Increment Financing Fund. Although the City increased its contributions to the Employee Health Fund during fiscal 2005, the deficit in this fund would have been \$(85,270) at June 30, 2005 without the loan proceeds.

The loan was approved by the Council on December 20, 2004 for a term of one year with interest at 3.5% per annum. As of September 2005, the loan had not been repaid, and the City represented it does not expect to be able to repay the \$120,000 loan on or before its due date of December 31, 2005. Accordingly, the City expects to extend the loan for another year.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition. In addition, the City should consult with the Department of Commerce, Insurance Division regarding the Employee Health Fund to determine the propriety and feasibility of self-insurance vs. purchased insurance options.

Response – In regards to the General Fund deficit, the City has recently prepared an analysis of assessed values and related tax levies of the City from 1999 through 2005. We then applied the apparent growth trends from the analysis, along with such other factors such as our debt service schedule, TIF funding requirements, and known union labor increases to project our financial position for the next five years. This is the first time such an analysis and projection has been performed and it has provided us a greater understanding of the current and future financial position of the City.

We are currently reviewing alternatives to reduce the General Fund deficit. However, we, like many other cities, are currently at the statutory tax limit, have realized virtually no assessed value growth and have incurred increased costs. We have several alternatives ranging from drastically cutting services to increasing our tax basis through internal and external growth, promoting industry and others. We realize all of these take time and are not an overnight solution. Therefore, as an immediate solution we are discussing and considering borrowing money through a general obligation loan to correct the deficit. Our debt service projections reflect a significant decrease in our annual debt service levy from \$371,753 in 2006/2007 to \$243,173 in 2007-2008 and even more decreases in subsequent years. We realize such a loan is a short-term solution to a long-term problem and are evaluating its impact on taxpayers and overall effectiveness before making such a decision. While we can't give you a definitive response regarding a solution, we do realize the severity of the situation.

In regards to the deficit in the Employee Health Fund, we have begun evaluating solutions to this problem as well. We currently are obtaining quotes from several private insurance providers as a first step. Additionally we plan to review current coverage, employee co-pays, stop loss insurance limits and other factors to determine the financial impact that such modifications would have on our existing fund. While purchased insurance could be an alternative, or the ultimate solution, we would like to ensure the Health Fund repays the \$120,000 loan to the Tax Increment Financing (TIF) Fund prior to any change. We realize the importance of the LMI (TIF) Funds in providing services to that sector of the City as well as promoting growth in the City.

Conclusion – Response acknowledged. The City should establish a loan repayment plan for the \$120,000 loan and consult with the Department of Commerce, as recommended.

- (B) Sale of Real Estate – During fiscal 2004 and fiscal 2005, the City sold certain plots of land in conjunction with its tax increment financing (TIF) activity. Payments totaling \$42,350 received by the City were recorded in the General Fund rather than in the Special Revenue, Tax Increment Financing Fund.

Recommendation – The City should consult legal counsel regarding the disposition of this matter, including the corrective transfer of \$42,350 through fiscal 2005 from the General Fund to the Special Revenue Tax Increment Financing Fund. The corrective transfer will increase the General Fund deficit to \$(215,317).

Response – The City certainly understands your position in that TIF money was used to improve the property in the Bella Vista subdivision and thereby sales proceeds should be recorded in the TIF Fund. However, we offer the following as an explanation with hopes that it will have an impact on your final recommendation.

The City adopted the 1st and 2nd TIF agreements in 1997 and 1999 respectively. The City then purchased real property for \$80,000 in July of 1999 with the intention of creating a residential development to attract an influx of industrial growth to the community. In September of 2001 the City received \$1,400,000 of bonded funds to begin the construction of the infrastructure of this development. Currently the infrastructure is complete and four homes are either completed or under construction.

At the time the lots were sold and recorded in the General Fund, the existing City Council felt they were in a small way making steps to achieve their ultimate goal of improving assessed values and thereby strengthening the General Fund. From the inception of the TIF agreement until the time you made the above recommendation, the City Council believed whole heartedly that recording the proceeds from the sales of these lots in the General Fund was the correct thing to do. Again, the existing Council understands your position but also offers the following.

Currently the TIF fund has a balance of approximately \$437,000. Prior to the fiscal year ending June 30, 2006, the City Council has certified the entire debt balance, verses the current year debt service, when computing the City's TIF tax asking. As a result, \$290,210, \$274,364 and \$391,046 of TIF taxes were received in the fiscal years ended June 30 of 2003, 2004 and 2005. Debt service for those years was \$58,070, \$143,195 and \$145,180 respectively. When preparing the 2006 budget, the previous Council realized they had sufficient funds in TIF and thus asked for no TIF taxes for that year. However, in November of 2005, they again certified the entire debt for the 2006/2007 asking, which would have resulted in the collection of approximately \$541,000 more in TIF taxes. The current Council realized that adding \$541,000 more to a current TIF fund of \$437,000 was totally unnecessary. Therefore, in early January of 2006, we made arrangements with the County and affected school district to again reduce the tax asking to zero and thus allow all entities to better meet their financial needs. The current TIF balance of \$437,000, plus projected earned interest is sufficient to pay the debt service for the remainder of the current year as well as the next two years. The existing Council is now monitoring closely the future needs of the TIF fund and will be certifying future annual TIF askings on a more consistent basis.

We ask in making your final recommendation regarding the disposition of the \$42,350 of real estate proceeds that you take into account the current strength of our TIF Fund and current deficit in our General Fund. We ask that you reconsider your recommendation to transfer these 2004 funds. We assure you that the proceeds from any future real property sales in the Bella Vista area will be properly recorded in the TIF fund. We understand and respect any recommendation you make.

Conclusion – Response acknowledged. We are very aware of the City’s financial condition as described in item A, but our recommendation regarding corrective transfer remains. However, as recommended, the City should consult legal counsel to determine if there may be a legal basis to record the TIF funds in the General Fund.

- (C) Street Department Timesheets – City timesheets are designed to require street department employees to allocate time spent on cemetery, park, pool, housing demolition and/or “other street” duties. According to the City, all time allocated to these duties by street employees and the related salary should be charged to the General Fund and the time remaining, if any, should be charged to the Special Revenue, Road Use Tax Fund. However, for two of four timesheets tested, the entire amount was charged to the Road Use Tax Fund rather than the General Fund, even though time had been allocated by the street employees to “other street” duties.

Chapter 312.6 of the Code of Iowa states, “Funds received by municipal corporations from the road use tax fund shall be used for any purpose relating to the construction, maintenance, and supervision of the public streets.”

Recommendation – The City should review and revise its procedures regarding payroll allocation to insure compliance with Chapter 312.6 of the Code of Iowa and to ensure salaries are correctly and consistently charged to the appropriate fund in accordance with City policy.

Response – The City understands the importance of the proper recording of cash disbursements against the appropriate fund. It was with this in mind that the timesheets were created in a manner providing the correct allocation of employee time. We believe your reference that 2 out of 4 timesheets tested resulted in an inaccurate allocation of employee time among the appropriate funds, is by no means indicative of the accuracy of the entire population. We further believe that should these 2 errors be the only errors for the entire year that this level of accuracy is still unacceptable.

As you recommended, we will review and revise the payroll procedures to ensure a more accurate accounting among funds. We hope to achieve this by creating an improved level of review utilizing our existing limited accounting staff. Furthermore, should it be necessary, we will have the Mayor, or the Finance Committee of the City Council, review the timesheets on a quarterly basis.

Conclusion – Response accepted.

- (D) Former Clerk/Administrator/Treasurer Final Payment – The final payment made to the former Clerk/Administrator/Treasurer on December 30, 2004 included an additional 60 hours of vacation pay in the gross amount of \$856.88. According to the payroll records, the vacation balance totaled 93.50 hours, but the final timesheet approved by the Mayor included 153.50 hours for vacation. The payroll records are only updated to add earned vacation on the anniversary date. The 60 additional hours represented vacation from the anniversary date to the Clerk’s departure date. City policy states, in part, “When terminated for any reason, an employee will be paid for all earned but unused vacation.” Although the vacation payout to the former Clerk/Administrator/Treasurer appears to be consistent with City policy, the City Council did not specifically approve the final additional payment. The City does not include salaries in its list of bills for Council approval and publication.

Recommendation – Chapter 372.13(6) of the Code of Iowa states, in part, “Within fifteen days following a regular or special meeting of the council, the clerk shall cause the minutes of the proceedings of the council, including the total expenditure from each city fund, to be published in a newspaper of general circulation in the city. The publication shall include a list of all claims allowed and a summary of all receipts and shall show the gross amount of the claim.”

An Attorney General’s Opinion dated April 12, 1978 states, in part, “We do not believe that a municipality must publish each month the salary paid to each employee when the annual salary and changes are otherwise published. A municipality must, however, each month indicate the total amount of expenditure from each fund, which would include the total amount of salaries, and of course amounts paid to occasional, casual temporary employees and others who do not receive an annual salary would have to be listed.”

The Council should approve all salaries and adjustments to salaries, including vacation payouts and final payments to employees. The City should review and revise its minutes record and minutes publication to comply with the requirements of Chapter 372.13(6) of the Code of Iowa and the Attorney General’s Opinion dated April 12, 1978.

Response – We appreciate your concern and comments regarding the final payment to the former City Clerk. We do however, believe that as you stated, the final payment was made in compliance with the existing City payroll policy and further was approved by the Mayor prior to payment. There is however, no argument to the fact that a final payment to someone in the position of City Clerk should be highly scrutinized by the Council. Should such a situation occur again, we will be more proactive in reviewing and approving the final payment.

The City Council believes that through our approval of the annual budget and thereby setting of annual salaries, that we have achieved your recommendation to approve salaries. Furthermore, through the creation of the various payroll policies regarding the accrual and payment of employee vacation, sick days, personal time and comp time we believe we have created adequate guidance for our City Clerk to oversee and insure the accuracy of employee payroll. We are not attempting to dispute or downplay the importance of your recommendation or further are not attempting to remove ourselves from the related fiduciary responsibility. However, we believe our prior approval of all adjustments to salary for various items such as vacation, sick pay, comp time, etc. results in the Council micro managing the City and furthermore lessens the duties and responsibilities of the City Clerk. We believe short of collusion, our policies insure accuracy.

However, we do see a need for the Council to monitor the characteristics and related financial implications of the payment, or lack of payment, of accrued vacation and comp time. The Finance Committee will work with the City Clerk to develop a payroll summary schedule to be included in the packet for the regular Council meetings. This schedule will summarize by department the amount of regular, overtime, comp time, vacation time etc. paid in the current pay period and further monitor the accrual of unpaid balances. This should provide an indicator to the Council of any irregularities in current payroll and further allow for a better management of the utilization of employee vacation and comp time.

The City will review and revise its minutes record and publication in regards to publishing employee payroll by the means of including them on a departmental basis in the bills for approval during the regular Council meetings. Additionally, we will include the salary figures on a departmental basis in our monthly publication of expenditures by fund.

Conclusion – Response accepted.

- (E) Transfers – Several transfers between funds were made during fiscal 2004 and fiscal 2005. The purpose of the transfers varied and included corrective transfers, transfers resulting from the independent auditor’s recommendations, budgetary transfers and other transfers between funds. It was not always evident whether the transfers were approved by the City Council.

Recommendation – All transfers between funds should be reviewed for statutory compliance and approved by the City Council through the budgetary process and/or by resolution or other action of the Council. The approval and purpose should be documented to establish the authorization for the transfer, as well as the propriety of the transfer.

Response – During the current budget approval process, the City Clerk has contemplated and the City Council will thereby approve many of the transfers for the coming year. Currently, we have a procedure in place that all transfers are approved by the City Council via resolution. Therefore, the contemplated as well as any other unforeseen transfers will be approved by the City Council.

Conclusion – Response accepted.

- (F) Cellular Phone Policy – The City provides City-owned cellular phones to certain employees for City business. However, the City does not have a specific policy addressing the use of City-owned cellular phones.

Recommendation – The City should establish a policy to address the use of City-owned cellular phones, including restricting use by employees of the City to City-related business.

Response – The City Council will consider your recommendation and review this matter further. City owned cell phones are provided to key City employees as a valuable tool in allowing them to perform their duties. Those employees who are provided a phone are either department heads and or long-term employees who have worked for the City for many years. The majority of the City Council believes these are trustworthy devoted employees and thereby does not believe the cell phones are being abused. Further, we realize that while a 100% restriction for City related business use seems appropriate, we believe it is not practical. We believe if an employee has the need to make or receive a short personal call while on duty, it is not practical for them to search out a landline when they are in possession of a cell phone. We realize the potential for abuse, and rely on our City Clerk for the detection and reporting of such abuse. We will review this matter further and if we believe it is necessary, we will create a policy and implement procedures to prevent abuse.

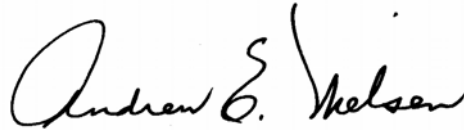
Conclusion – Response acknowledged. A written policy should be established.

City of Centerville

Staff

This reaudit was performed by:

Susan D. Battani, CPA, Director
Paul F. Kearney, CGFM, Senior Auditor
Andrew N. Pulford, 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 a distinct 'E'.

Andrew E. Nielsen, CPA
Deputy Auditor of State