



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ June 20, 2006 _____

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Auditor of State David A. Vaudt today released a report on applying agreed-upon procedures to the City of Newhall's compliance with certain water revenue bond/note provisions. The report covers the period July 1, 2004 through June 30, 2005.

Vaudt recommended the City review control procedures to obtain the maximum internal control possible, establish procedures to reconcile utility billings, collections and delinquencies and ensure transfers to the Water Revenue Sinking Fund are sufficient to cover annual debt payments. The City responded favorably to the recommendations contained in the report.

Copies of the report are 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 NEWHALL

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

**FOR THE PERIOD
JULY 1, 2004 THROUGH JUNE 30, 2005**

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 7 |
| Receipts | B 7 |
| Disbursements | C 8 |
| Reconciliation of Utility Billings, Collections and Delinquencies | D 8 |
| Utility Billings | E 8 |
| Water Revenue Bond/Note | F 8 |
| Water Revenue Sinking Fund Transfers | G 9 |
| Water Utility Rates | H 9 |
| Corrective Transfer | I 9 |
| Staff | 10 |

City of Newhall

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------|---------------------------------|----------------------|
| Patrick C. Butz (Resigned) | Mayor | Jun 2005 |
| Michael Hagen (Appointed) | Mayor Mayor Pro tem | Jan 2006 Jun 2005 |
| Jan Mattson (Appointed) | Mayor Pro tem Council Member | Jan 2006 Jun 2005 |
| Ruby Carolan | Council Member | Jan 2006 |
| Curtiss Becker | Council Member | Jan 2006 |
| Patricia Ingalls | Council Member | Jan 2006 |
| Laura Walker (Appointed) | Council Member | Jan 2006 |
| Trish Gleason | Clerk/Treasurer | Jan 2006 |
| Larry D. Schlue | Attorney | Indefinite |

City of Newhall



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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 following procedures, which were agreed to by the City of Newhall, solely to assist the City in evaluating its compliance with water revenue bond/note provisions. Management is responsible for the City's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this 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 obtained an understanding of the City's internal controls over the City's water utility system, including controls over receipts, disbursements and long-term debt.
2. We obtained and reviewed copies of the City's water revenue bond/note provisions in effect during the fiscal year ended June 30, 2005 and tested compliance with certain provisions.
3. We reviewed and/or tested selected transactions for billings, collections, receipts, disbursements, transfers and balances pertaining to the City's water utility system.
4. We reviewed minutes for discussions pertaining to the City's water utility system.

No exceptions to the City's water revenue bond/note provisions were noted as a result of performing the procedures described above. However, we identified various recommendations for the City, which are described in the Detailed Recommendations section of this report.

We were not engaged to conduct an examination, the objective of which is the expression of an opinion on the City's compliance with water revenue bond/note provisions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other 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 Newhall and other parties to whom the City of Newhall may report. This report is not intended to be and should not be used by anyone other than these specified parties.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 25, 2006

Detailed Recommendations

City of Newhall

Detailed Recommendations

July 1, 2004 through June 30, 2005

(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. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:

- (1) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.
- (2) Long-term debt – recording and reconciling.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collection, depositing, posting and reconciling.
- (5) Disbursements – purchasing, check signing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer and the date of the independent review.

Response – A part-time employee has been hired and is being trained in a number of areas. The City will continue to review and segregate duties as much as possible.

Conclusion – Response accepted.

(B) Receipts – Prenumbered receipts were not issued for City collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the collection and recording of all City money. The receipts should be recorded and reconciled with timely deposits and the reconciliation should be reviewed periodically by an independent person. For utility collections, a daily log should be maintained, with one receipt issued for a day's collections and reconciled with timely deposits.

Response – Procedures are in place and being executed.

Conclusion – Response accepted.

- (C) Disbursements – City disbursement checks only require the City Clerk’s signature.

Recommendation – To strengthen internal control, each check should be prepared and signed by one person and then the supporting documentation should be made available along with the check to the second or independent person for their review and countersignature.

Response – Resolution #060327 was passed on March 27, 2006 requiring two signatures on checks \$500.00 or more.

Conclusion – Response accepted.

- (D) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled each month.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month. The City Council should review and approve the reconciliations and monitor delinquencies.

Response – Forms and procedures are designed. They will be implemented as of April 28, 2006.

Conclusion – Response accepted.

- (E) Utility Billings – Utility customers read their own water meters and report readings to the City for billing. The City does not periodically read customer water meters for verification. Section 92.04(1) of the City ordinance book states the Superintendent shall periodically obtain current readings on all water meters.

Recommendation – The City should read customer water meters at least annually to verify the readings are accurate and billings are correct.

Response – The City is getting bids on a new hand held reading system. Installation of this system has begun in 2006 and continues as time and materials allow with completion planned for 2007.

Conclusion – Response accepted.

- (F) Water Revenue Bond/Note – Section 6 of the water revenue bond and note resolutions states, in part, “The City shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the Utility, including the City.....”

Several City facilities/locations (such as City parks, ball diamonds, fire station, library, etc.) have unmetered water usage and are not billed for water consumption/usage as required by the water revenue bond and note resolutions.

Recommendation – The City should meter water consumption/usage at City facilities/locations and pay for the services as required by Section 6 of the water revenue bond and note resolutions.

Response – Meters will be installed at the above locations within the next few weeks and the City will pay water bills for these locations.

Conclusion – Response accepted.

- (G) Water Revenue Sinking Fund Transfers – Although the City made transfers from the Water Fund to the Water Revenue Sinking Fund during the year ended June 30, 2005, the transfers were not sufficient to cover the disbursements for principal and interest on the water revenue bond and note. As a result, the Water Revenue Sinking Fund had a deficit balance of \$12,111 at June 30, 2005.

However, as of March 31, 2006, the City increased the amount transferred to the Water Revenue Sinking Fund and had a positive balance of \$22,407.

Recommendation – The City should ensure monthly transfers from the Water Fund to the Water Revenue Sinking Fund are sufficient to cover annual principal and interest payments.

Response – A new transfer evaluation chart has been created and will be reviewed every six months to guarantee sufficient funds to cover principal and interest payments.

Conclusion – Response accepted.

- (H) Water Utility Rates – Water utility rates have been established and are in accordance with the City ordinance.

Recommendation – Water utility rates should be reviewed annually to ensure rates are adequate to meet the needs of the water operations and payment of principal and interest.

Response – The City will continue to annually review receipts and disbursements from the water utility to assure adequate margin.

Conclusion – Response accepted.

- (I) Corrective Transfer – The City applied for and received a sales tax refund of \$3,358 on the water project. However, the sales tax refund was credited to the General Fund instead of the Water Fund.

Recommendation – The City should approve a corrective transfer from the General Fund to the Water Fund to correct this posting error of \$3,358.

Response – Receipt #5045016, in the amount of \$3,358, transferred funds from the General Fund to the Water Fund to correct this error.

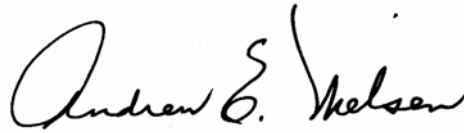
Conclusion – Response accepted.

City of Newhall

Staff

This agreed-upon procedures engagement was performed by:

Cynthia L. Weber, CPA, Manager
John G. Vanis, CGFM, Senior 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'.

Andrew E. Nielsen, CPA
Deputy Auditor of State