



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____

June 25, 2003

Contact: Andy Nielsen
515/281-5515

Auditor of State David A. Vaudt today released an audit report on the City of Gilbert, Iowa.

The City's receipts totaled \$544,541 for the year ended June 30, 2002. The receipts included \$156,601 in property tax, \$89,604 from the state, \$189,289 for charges for service, and \$12,220 in interest on investments.

Disbursements for the year totaled \$417,608, and included \$67,091 for community protection, \$52,054 for human development, \$233,054 for home and community environment and \$65,409 for policy and administration.

The report contains recommendations to the City Council and other City officials. For example, the City should segregate accounting duties to the extent possible with the existing personnel, and procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The City has responded to each item in the report and stated that corrective action is being taken.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

###

CITY OF GILBERT
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions - All Funds	A	8
Comparison of Receipts, Disbursements and Changes in		
Balances - Actual to Budget	B	9
Statement of Indebtedness	C	10-11
Notes to Financial Statements		12-15
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	18-20
Special Revenue Fund	2	21
Enterprise Funds	3	22-25
Independent Auditor's Report on Compliance and on		
Internal Control over Financial Reporting		27-28
Schedule of Findings		29-35
Staff		36

City of Gilbert

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Bob Jaquis	Mayor	Jan 2004
Lynn Henn	Council Member	Jan 2002
Fred Vogtlin	Council Member	Jan 2002
Chris Benda	Council Member	Jan 2004
Helen Gunderson	Council Member	Jan 2004
Pegge Uthe	Council Member	Jan 2004
(After January 2002)		
Bob Jaquis	Mayor	Jan 2004
Chris Benda	Council Member	Jan 2004
Helen Gunderson	Council Member	(Resigned)
Jon Popp (Appointed)	Council Member	Jan 2004
Pegge Uthe	Council Member	Jan 2004
Lynn Henn	Mayor Pro tem	Jan 2006
Craig Allen	Council Member	Jan 2006
Dianna Schmidt	Clerk/Treasurer	Indefinite
Franklin J. Feilmeyer	Attorney	Indefinite

City of Gilbert



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Gilbert, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of City of Gilbert's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Gilbert as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued a our report dated March 24, 2003 on our consideration of the City of Gilbert's internal control over financing reporting and our tests if its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2001, as discussed in the third preceding paragraph, is fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 24, 2003

City of Gilbert

Financial Statements

Exhibit A

City of Gilbert
 Combined Statement of Cash Transactions
 All Funds
 Year ended June 30, 2002

	Governmental Fund Types		Proprietary	Total (Memorandum Only)
	General	Special Revenue	Fund Type Enterprise	
Receipts:				
Property tax	\$ 156,601	-	-	156,601
Other city tax	88,283	-	-	88,283
Licenses and permits	3,783	-	-	3,783
Use of money and property	4,888	-	7,332	12,220
Intergovernmental	10,548	79,056	-	89,604
Charges for service	1,440	-	187,849	189,289
Special assessments	590	-	-	590
Miscellaneous	1,487	-	2,684	4,171
Total receipts	267,620	79,056	197,865	544,541
Disbursements:				
Community Protection Program	50,819	16,272	-	67,091
Human Development Program	52,054	-	-	52,054
Home and Community Environment Program	13,243	53,731	166,080	233,054
Policy and Administration Program	65,409	-	-	65,409
Total disbursements	181,525	70,003	166,080	417,608
Excess of receipts over disbursements	86,095	9,053	31,785	126,933
Other financing sources (uses):				
Operating transfers in	25,765	-	18,323	44,088
Operating transfers out	(1,500)	(25,695)	(16,893)	(44,088)
Total other financing sources (uses)	24,265	(25,695)	1,430	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	110,360	(16,642)	33,215	126,933
Balance beginning of year	159,404	71,991	345,934	577,329
Balance end of year	\$ 269,764	55,349	379,149	704,262

See notes to financial statements.

City of Gilbert

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	Actual	Amended Budget	Variance Favorable (Unfavorable)	Actual as % of Amended Budget
Receipts:				
Property tax	\$ 156,601	156,674	(73)	100%
Other city tax	88,283	84,029	4,254	105%
Licenses and permits	3,783	4,900	(1,117)	77%
Use of money and property	12,220	21,000	(8,780)	58%
Intergovernmental	89,604	69,500	20,104	129%
Charges for service	189,289	183,000	6,289	103%
Special assessments	590	-	590	
Miscellaneous	4,171	7,400	(3,229)	56%
Total receipts	<u>544,541</u>	<u>526,503</u>	<u>18,038</u>	<u>103%</u>
Disbursements:				
Community Protection Program	67,091	67,996	905	99%
Human Development Program	52,054	61,093	9,039	85%
Home and Community Environment Program	233,054	342,205	109,151	68%
Policy and Administration Program	65,409	71,324	5,915	92%
Total disbursements	<u>417,608</u>	<u>542,618</u>	<u>125,010</u>	<u>77%</u>
Excess (deficiency) of receipts over (under) disbursements	126,933	(16,115)		
Balance beginning of year	<u>577,329</u>	<u>486,404</u>		
Balance end of year	<u>\$ 704,262</u>	<u>470,289</u>		

See notes to financial statements.

City of Gilbert
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds: Water	Mar 14, 1972	5.00%	\$ 270,000

See notes to financial statements.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
123,000	9,000	114,000	6,150

City of Gilbert

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Gilbert is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1904 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Gilbert has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Gilbert has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Story County Assessor's Conference Board, Story County Emergency Management Commission, Story County Joint E911 Service Board and the Westory Fire Agency.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designed purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in

this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid through other funds.

Special Revenue Fund - The Special Revenue Fund is utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Proprietary Fund

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The City of Gilbert maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total Column

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Deposits and Investments

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements or Governmental Accounting Standards Board Statement No. 3.

(3) Bonds Payable

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Principal	Interest
2003	\$ 10,000	5,700
2004	11,000	5,200
2005	12,000	4,650
2006	12,000	4,050
2007	12,000	3,450
2008	13,000	2,850
2009	14,000	2,200
2010	15,000	1,500
2011	15,000	750
Total	<u>\$ 114,000</u>	<u>30,350</u>

The resolution providing for the issuance of the revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of \$134 shall be made to a water revenue reserve account until \$16,200 has been accumulated. This account is restricted for making extraordinary repairs, maintaining, extending or improving the systems or to prevent any default in the revenue bond sinking account.
- (d) The City shall pay \$9,000 annually for the use and service provided by the municipal waterworks system.

During the year ended June 30, 2002, the City paid only \$1,500 of the \$9,000 required by the bond resolution for the use and service provided by the municipal waterworks system.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$5,002, equal to the required contribution for that year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time termination payments payable to employees at June 30, 2002, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 3,100
Compensatory time	<u>1,400</u>
Total	<u>\$ 4,500</u>

This liability has been computed based on rates of pay in effect at June 30, 2002.

(6) Risk Management

The City of Gilbert is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Industrial Development Revenue Bonds

The City has issued a total of \$3,100,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(8) Resource Recovery Plant

The City has contracted with the City of Ames for the use and support of the Ames Solid Waste Reclamation, Recycling and Disposal System (Ames System). Under the contract terms, the City of Gilbert is responsible for a proportionate share, based on the City of Gilbert's population to the total population of all participating jurisdictions, of the Ames System's annual operating and debt service costs until June 30, 2014.

Payments under the contract are due on July 15th and December 15th of each year in equal amounts. During the year ended June 30, 2002, the City paid the Ames System \$8,358.

(9) Pending Litigation

The City is a defendant in two lawsuits seeking unspecified amounts of damages. The probability and amount of loss, if any, is indeterminable.

City of Gilbert

Supplemental Information

Schedule 1

City of Gilbert
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

Receipts:	
Property tax	<u>\$ 156,601</u>
Other city tax:	
Local option tax	82,977
Utility tax replacement excise tax	3,991
Utility franchise tax	1,315
	<u>88,283</u>
Licenses and permits:	
Building	<u>3,783</u>
Use of money and property:	
Interest on investments	<u>4,888</u>
Intergovernmental:	
State allocation	<u>10,548</u>
Charges for service	<u>1,440</u>
Special assessments	<u>590</u>
Miscellaneous	1,487
Total receipts	<u>267,620</u>
Disbursements:	
Community Protection Program:	
Police:	
Contractual services	29,452
Fire:	
Contractual services	14,400
Building inspections:	
Contractual services	2,060
Weather siren:	
Contractual services	144
Miscellaneous	4,763
	<u>50,819</u>

City of Gilbert
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

Disbursements (continued)	
Human Development Program:	
Animal control:	
Contractual services	231
Library:	
Contractual services	32,441
Park:	
Contractual services/commodities	9,840
Other recreation and culture:	
Commodities	770
Social services:	
Commodities	3,985
Miscellaneous	4,787
	<u>52,054</u>
Home and Community Environment Program:	
Solid waste:	
Contractual services	8,358
Cemetery:	
Contractual services	400
Street maintenance:	
Personal services	2,979
Contractual services	1,506
	<u>4,485</u>
	<u>13,243</u>
Policy and Administration Program:	
Mayor and Council Members:	
Personal services	3,694
Clerk/Treasurer:	
Personal services	32,034

Schedule 1

City of Gilbert
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

Disbursements (continued):	
Policy and Administration Program:	
Planning:	
Contractual services	<u>6,000</u>
City Hall:	
Contractual services	5,309
Capital outlay	366
	<u>5,675</u>
Elections:	
Contractual services	<u>859</u>
Legal and professional:	
Contractual services	<u>6,170</u>
Tort liability:	
Contractual services	<u>2,929</u>
Other administrative expense	<u>8,048</u>
	<u>65,409</u>
Total disbursements	<u>181,525</u>
Excess of receipts over disbursements	<u>86,095</u>
Other financing sources (uses):	
Operating transfers in (out):	
Special Revenue:	
Road Use Tax	25,695
Enterprise:	
Water Revenue	(1,500)
Utility Deposit	70
	<u>24,265</u>
Total other financing sources (uses)	<u>24,265</u>
Excess of receipts and other financing sources over disbursements and other financing uses	110,360
Balance beginning of year	<u>159,404</u>
Balance end of year	<u><u>\$ 269,764</u></u>

See accompanying independent auditor's report.

City of Gilbert
 Schedule of Cash Transactions
 Special Revenue Fund
 Year ended June 30, 2002

	Road Use Tax
Receipts:	
Intergovernmental:	
Road use tax allocation	\$ 79,056
Disbursements:	
Community Protection Program :	
Contractual services	16,272
Home and Community Environment Program :	
Personal services	22,085
Contractual services	18,302
Commodities	4,149
Capital outlay	9,195
	53,731
Total disbursements	70,003
Excess of receipts over disbursements	9,053
Other financing uses:	
Operating transfers out:	
General	(25,695)
Deficiency of receipts under disbursements and other financing uses	(16,642)
Balance beginning of year	71,991
Balance end of year	\$ 55,349

See accompanying independent auditor's report.

City of Gilbert
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water Revenue	Water Sinking	Water Loan Reserve	Water Reserve
Receipts:				
Use of money and property:				
Interest on investments	\$ 3,788	-	-	-
Charges for service:				
Sale of water	114,994	-	-	-
Sewer fees	-	-	-	-
Bulk water sales	262	-	-	-
Connection fees	1,000	-	-	-
Storm sewer charges	-	-	-	-
	116,256	-	-	-
Miscellaneous:				
Customer deposits	-	-	-	-
Merchandise sales	665	-	-	-
Miscellaneous	90	-	-	-
	755	-	-	-
Total receipts	120,799	-	-	-
Disbursements:				
Home and Community Environment Program:				
Water:				
Personal services	21,795	-	-	-
Contractual services	86,121	-	-	-
Commodities	9,812	-	-	-
Capital outlay	3,898	-	-	-
	121,626	-	-	-
Sewer:				
Personal services	-	-	-	-
Contractual services	-	-	-	-
Commodities	-	-	-	-
	-	-	-	-
Debt service:				
Principal redemption	-	9,000	-	-
Interest payments	-	6,150	-	-
	-	15,150	-	-
Customer deposits	-	-	-	-
Total disbursements	121,626	15,150	-	-

Sewer Revenue	Sewer Reserve	Storm Sewer Revenue	Storm Sewer Reserve	Utility Deposits	Total
3,544	-	-	-	-	7,332
-	-	-	-	-	114,994
60,718	-	-	-	-	60,718
-	-	-	-	-	262
1,500	-	-	-	-	2,500
-	-	9,375	-	-	9,375
62,218	-	9,375	-	-	187,849
-	-	-	-	1,929	1,929
-	-	-	-	-	665
-	-	-	-	-	90
-	-	-	-	1,929	2,684
65,762	-	9,375	-	1,929	197,865
-	-	-	-	-	21,795
-	-	-	-	-	86,121
-	-	-	-	-	9,812
-	-	-	-	-	3,898
-	-	-	-	-	121,626
21,795	-	-	-	-	21,795
5,041	-	-	-	-	5,041
1,291	-	-	-	-	1,291
28,127	-	-	-	-	28,127
-	-	-	-	-	9,000
-	-	-	-	-	6,150
-	-	-	-	-	15,150
-	-	-	-	1,177	1,177
28,127	-	-	-	1,177	166,080

City of Gilbert
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water Revenue	Water Sinking	Water Loan Reserve	Water Reserve
Excess (deficiency) of receipts over (under) disbursements	(827)	(15,150)	-	-
Other financing sources (uses):				
Operating transfers in (out):				
General	1,500	-	-	-
Enterprise:				
Water Revenue	-	16,520	-	-
Water Sinking	(16,520)	-	-	-
Sewer Revenue	-	-	-	-
Storm Sewer Revenue	-	-	-	-
Utility Deposits	166	-	-	-
Total other financing source (uses)	(14,854)	16,520	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(15,681)	1,370	-	-
Balance beginning of year	48,795	7,800	16,200	58,615
Balance end of year	\$ 33,114	9,170	16,200	58,615

See accompanying independent auditor's report.

Sewer Revenue	Sewer Reserve	Storm Sewer Revenue	Storm Sewer Reserve	Utility Deposits	Total
37,635	-	9,375	-	752	31,785
-	-	-	-	(70)	1,430
-	-	-	-	(166)	16,354
-	-	-	-	-	(16,520)
-	-	-	-	(117)	(117)
-	-	-	-	(20)	(20)
117	-	20	-	-	303
117	-	20	-	(373)	1,430
37,752	-	9,395	-	379	33,215
68,665	90,541	17,870	34,717	2,731	345,934
106,417	90,541	27,265	34,717	3,110	379,149

City of Gilbert



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Gilbert, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 24, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Gilbert's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved except for item (7).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gilbert's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Gilbert's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses. Prior audit reportable conditions have been resolved except for item (A).

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 Gilbert and other parties to whom the City of Gilbert 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 Gilbert during the course of our audit. 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

March 24, 2003

City of Gilbert
Schedule of Findings
Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over one or more of the following areas:

- (1) Accounting system and computer usage – performing all general accounting functions, overall control of data input and output and custody of assets.
- (2) Cash – preparing bank reconciliations, initiating cash receipt and disbursement functions, handling and recording cash, including petty cash.
- (3) Investments – detailed record keeping and custody of investments.
- (4) Long-term debt – recording, reconciling and performing cash functions.
- (5) Receipts – collecting, depositing, and recording.
- (6) Utility receipts – billing, collecting, depositing and recording.
- (7) Disbursements – purchasing, preparing, recording, reconciling.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its procedures.

Conclusion – Response accepted.

(B) Utility Billings, Collections and Delinquencies – The following comments pertain to the City's utility collection process:

- Utility billings, collections and delinquent accounts were not reconciled throughout the year.
- Penalties are not always assessed in accordance with City ordinance.
- The City's shut-off procedures are not always followed.

City of Gilbert

Schedule of Findings

Year ended June 30, 2002

- Landlords are not assessed unpaid tenant utility bills in accordance with City ordinance.
- Deposits are not always collected in full prior to providing utility service.
- Certain unpaid customer final bills are over two years old.

Recommendation – Procedures should be established to reconcile billings, collections and delinquencies monthly. The City Council or Mayor should review the reconciliation monthly and variances, if any, should be resolved timely. Procedures should be established to ensure the City’s ordinance is followed in assessing penalties, instituting utility shut-offs, assessing landlords for unpaid tenant bills and collecting deposits prior to providing utility services. Procedures should be established to enforce collection of unpaid bills and to write-off bills determined to be uncollectible.

Response – The City will review compliance with its procedures.

Conclusion – Response acknowledged. The City should also establish procedures to reconcile billings, collections, and delinquencies monthly.

(C) Electronic Data Processing Systems – The following weaknesses in the City’s computer-based systems were noted:

- Passwords are not used. The City’s software does not require the user to establish passwords.
- The City has not maintained adequate backups of critical City financial information.

The City does not have written policies for:

- Ensuring that only software licensed to the City is installed on computers.
- Usage of the Internet.
- Personal use of City computer equipment and software.
- Ensuring financial information is backed-up and stored off-site.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems. The City should utilize passwords for critical information systems. The financial information should be backed-up and stored off-site.

Response – The City will correct these issues.

Conclusion – Response accepted.

City of Gilbert

Schedule of Findings

Year ended June 30, 2002

(D) Accounting Policies and Procedures Manual – An office procedures and standardized accounting manual for the City should be developed. This manual should provide the following benefits.

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

Recommendation – An office procedures and standardized accounting manual should be prepared.

Response – The City will develop written procedures.

Conclusion – Response accepted.

(E) Prenumbered Receipts – Although prenumbered receipts are issued for cash collections and upon request, they are not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections at the time of collection to provide control over the proper collection and recording of all money.

Response – The City will issue receipts for all collections.

Conclusion – Response accepted.

(F) Baseball Program Deposits – Baseball program receipts were not deposited timely.

Recommendation – To safeguard cash and increase funds available for investment, all receipts should be deposited intact and timely.

Response – Receipts will be deposited in a timely manner.

Conclusion – Response accepted.

(G) Compensated Absences – Each employee maintains a detailed record of their own compensated absence earnings, usage and balances. These records are not reviewed and approved by an independent person.

Recommendation – Compensated absence records should be reviewed and approved periodically by an independent person for accuracy.

Response – The City will review its procedures.

Conclusion – Response accepted.

City of Gilbert

Schedule of Findings

Year ended June 30, 2002

- (H) Transfers – Transfers were not always approved by the Council prior to the actual transfer and were not balanced monthly to ensure that transfers in equaled transfers out. Also, certain transfers were approved in the subsequent fiscal year and made effective for the prior fiscal year.

Recommendation – The Council should approve all transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record. Transfers should be balanced monthly and accounted for in the year the transfer is approved, not retroactively applied.

Response – The City will review its procedures.

Conclusion – Response accepted.

- (I) Mileage Reimbursements – Employee claims for mileage reimbursement did not always state the destination or the purpose for the trip.

Recommendation – The City should ensure that adequate supporting documentation is maintained for all mileage reimbursements, including destination and purpose of the trip.

Response – The City will keep more detailed records.

Conclusion – Response accepted.

City of Gilbert
Schedule of Findings
Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2002.
- (2) Certified Budget – Disbursements during the year ended June 30, 2002 did not exceed the amounts budgeted.
- (3) Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (7) Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of the Council proceedings were published, they were not always published within 15 days and did not include total disbursements from each fund and a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, the publications did not include an explanation of the claims in accordance with an Attorney General’s opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 372.12(6) of the Code of Iowa and publish minutes as required, including the purpose of claims, total disbursements by fund and a summary of receipts.

Response –Th City will publish minutes in accordance with the Code of Iowa.

Conclusion – Response accepted.

- (8) Deposits and Investments – The City has adopted a written investment policy. However, the policy has not been updated to reference Iowa Code Chapter 12B.10B.

Recommendation – The City should update its written investment policy to reference Iowa Code Chapter 12B.10B.

Response – The City will update its investment policy to comply with the Code of Iowa.

Conclusion – Response accepted.

City of Gilbert

Schedule of Findings

Year ended June 30, 2002

- (9) Revenue Bonds – Except as noted, no instances of non-compliance with the provisions of the City's revenue bond resolution were noted. The City's bond resolution requires the City to pay \$9,000 annually for the use and service provided by the municipal waterworks system.

During the year ended June 30, 2002, the City paid only \$1,500 for this service.

Recommendation – The City should comply with the revenue bond resolution requirements.

Response – The City will comply with the revenue bond resolution.

Conclusion – Response accepted.

- (10) Local Option Sales Tax – The official ballot for the local option sales tax authorizes the City to collect the tax and to allocate it 80% for property tax relief, 15% for community betterment and 5% for city parks and recreation. The City does not maintain records to document the proper expenditure of local option sales tax for community betterment and city parks and recreation.

Recommendation – The City should establish procedures to require documentation of local option sales tax disbursements to demonstrate compliance with ballot requirements.

Response – The City will establish procedures to document use of the local option sales tax.

Conclusion – Response accepted.

- (11) Fire Protection Contract – The City has an agreement with the Westory Fire Department to provide fire protection services. The contract for fiscal 2002 services could not be located.

Recommendation – The City should ensure files of executed contracts are properly maintained.

Response – The City will ensure that contracts are properly filed and maintained.

Conclusion – Response accepted.

- (12) Internal Revenue Service (IRS) Reporting – The City did not file a Form 1099 with the Internal Revenue Service for nonemployee compensation paid in excess of \$600. Also, the City paid wages to an individual for cleaning City hall and for hours worked in the absence of the City Clerk. These wages were not reported on IRS form W-2.

Recommendation – The City should establish procedures to ensure compliance with Internal Revenue Service reporting requirements.

Response – The City will establish procedures to comply with the IRS reporting requirements.

Conclusion – Response accepted.

City of Gilbert

Schedule of Findings

Year ended June 30, 2002

- (13) Annual Financial Report – The 2002 Annual Financial Report (AFR) submitted to the state included several errors. While activity reported in the “Total Actual” column is materially correct, certain transactions within and between the “General Governmental” and “Proprietary” columns were incorrectly reported. Also, the summary page of the AFR, the published page, does not report the City’s indebtedness at June 30, 2002 and does not reflect an accurate calculation of the City’s general obligation debt limit.

Recommendation – Procedures should be established to ensure that future Annual Financial Reports include accurate information.

Response – The City will establish procedures to ensure that future annual financial reports are accurate.

Conclusion – Response accepted.

City of Gilbert
Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Ernest H. Ruben, Jr., CPA, Senior Auditor II
Pamela L. Brandenburg, Senior Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State