



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

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE

February 27, 2003

Contact: Andy Nielsen  
515/281-5515

The Office of Auditor of State today released an audit report on the City of Walford, Iowa.

The City's receipts totaled \$553,997 for the year ended June 30, 2002. The receipts included \$222,679 in property tax, \$93,268 in tax increment financing collections, \$2,697 in local option sales tax, \$123,368 from the state and \$11,970 in interest on investments.

Disbursements for the year totaled \$828,017, and included \$259,268 for community protection, \$72,044 for human development, \$387,881 for home and community environment and \$108,824 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances and reconcile utility billings, collections and delinquent accounts. The City has responded that operating procedures will be reviewed and monthly utility reconciliation reports will be prepared.

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

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City of Walford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2002)</b>		
Randy D. Bauer	Mayor	Jan 2004
Doug Dvorak	Mayor Pro tem	Jan 2004
Rohland Freshour	Council Member	Jan 2002
Stuart Sparling	Council Member	Jan 2002
Jeffery Pottebaum	Council Member	Jan 2004
Neil Schulte	Council Member	Jan 2004
Janet L. Gann	City Clerk/Treasurer	Indefinite
Elizabeth D. Jacobi	City Attorney	Indefinite
<b>(After January 2002)</b>		
Randy D. Bauer	Mayor	Jan 2004
Jeffery Pottebaum	Mayor Pro tem	Jan 2004
Doug Dvorak	Council Member	Jan 2004
Neil Schulte	Council Member	Jan 2004
Jan Johnson	Council Member	Jan 2006
Patrick Mahoney	Council Member	Jan 2006
Janet L. Gann	City Clerk/Treasurer	Indefinite
Elizabeth D. Jacobi	City Attorney	Indefinite

**City of Walford**



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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 Walford, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Walford'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 Walford 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 our report dated December 6, 2002 on our consideration of the City of Walford's internal control over financial reporting and our tests of 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 performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through 4 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, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 6, 2002

**City of Walford**



## **Financial Statements**

City of Walford  
 Combined Statement of Cash Transactions  
 All Fund Types  
 Year ended June 30, 2002

	Governmental Fund	
	General	Special Revenue
<b>Receipts:</b>		
Property tax	\$ 222,679	-
Tax increment financing collections	-	93,268
Other city tax	8,034	-
Licenses and permits	3,180	-
Use of money and property	9,266	-
Intergovernmental	25,328	98,040
Charges for service	13,306	-
Miscellaneous	4,361	-
Total receipts	<u>286,154</u>	<u>191,308</u>
<b>Disbursements:</b>		
Community Protection Program	259,268	-
Human Development Program	72,044	-
Home and Community Environment Program	90,640	116,585
Policy and Administration Program	108,824	-
Total disbursements	<u>530,776</u>	<u>116,585</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(244,622)</u>	<u>74,723</u>
<b>Other financing sources (uses):</b>		
General obligation note proceeds	160,000	-
Operating transfers in	48,056	-
Operating transfers out	-	(48,056)
Total other financing sources (uses)	<u>208,056</u>	<u>(48,056)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(36,566)	26,667
Balance beginning of year	<u>304,562</u>	<u>58,025</u>
Balance end of year	<u>\$ 267,996</u>	<u>84,692</u>

See notes to financial statements.

Proprietary Fund Type Enterprise	Total (Memorandum Only)
-	222,679
-	93,268
-	8,034
-	3,180
4,254	13,520
-	123,368
72,281	85,587
-	4,361
<u>76,535</u>	<u>553,997</u>
-	259,268
-	72,044
180,656	387,881
-	108,824
<u>180,656</u>	<u>828,017</u>
<u>(104,121)</u>	<u>(274,020)</u>
-	160,000
-	48,056
-	(48,056)
<u>-</u>	<u>160,000</u>
(104,121)	(114,020)
<u>196,838</u>	<u>559,425</u>
<u>92,717</u>	<u>445,405</u>

**City of Walford**

City of Walford

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
<b>Receipts:</b>				
Property tax	\$ 222,679	224,641	(1,962)	99%
Tax increment financing collections	93,268	91,970	1,298	101%
Other city tax	8,034	5,303	2,731	151%
Licenses and permits	3,180	4,130	(950)	77%
Use of money and property	13,520	6,270	7,250	216%
Intergovernmental	123,368	89,840	33,528	137%
Charges for service	85,587	70,000	15,587	122%
Miscellaneous	4,361	4,183	178	104%
Total receipts	<u>553,997</u>	<u>496,337</u>	<u>57,660</u>	<u>112%</u>
<b>Disbursements:</b>				
Community Protection Program	259,268	263,196	3,928	99%
Human Development Program	72,044	86,943	14,899	83%
Home and Community Environment Program	387,881	466,389	78,508	83%
Policy and Administration Program	108,824	127,121	18,297	86%
Total disbursements	<u>828,017</u>	<u>943,649</u>	<u>115,632</u>	<u>88%</u>
Deficiency of receipts under disbursements	(274,020)	(447,312)		
Other financing sources, net	<u>160,000</u>	<u>160,000</u>		
Deficiency of receipts and other financing sources under disbursements and other financing uses	(114,020)	(287,312)		
Balance beginning of year	<u>559,425</u>	<u>559,425</u>		
Balance end of year	<u>\$ 445,405</u>	<u>272,113</u>		

See notes to financial statements.

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Municipal Building	Nov 21, 1994	6.00%	\$ 100,000
Fire Station	Jun 15, 2002	5.00	160,000
Total			
Revenue bond:			
Sewer	Jul 26, 1978	5.00%	\$ 162,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
70,208	-	6,058	64,150	4,147
-	160,000	-	160,000	-
<u>\$ 70,208</u>	<u>160,000</u>	<u>6,058</u>	<u>224,150</u>	<u>4,147</u>
<u>105,320</u>	<u>-</u>	<u>105,320</u>	<u>-</u>	<u>2,467</u>

City of Walford

Notes to Financial Statements

June 30, 2002

**(1) Summary of Significant Accounting Policies**

The City of Walford is a political subdivision of the State of Iowa located in Linn and Benton Counties. It was first incorporated in 1954 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 Walford 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.

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: Linn and Benton County Assessor's Conference Boards, Linn and Benton County Emergency Management Commissions, and Linn and Benton County Joint E911 Service Boards.

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 designated 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 Funds - The Special Revenue Funds are 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 Funds

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 Walford 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 (Memorandum Only)

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) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or 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.

**(3) Notes Payable**

Annual debt service requirements to maturity for the general obligation notes is as follows:

Year Ending June 30,	Municipal Building		Fire Station		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 6,451	3,754	16,000	7,689	22,451	11,443
2004	6,844	3,361	16,000	7,200	22,844	10,561
2005	7,261	2,944	16,000	6,400	23,261	9,344
2006	7,703	2,502	16,000	5,600	23,703	8,102
2007	8,172	2,033	16,000	4,800	24,172	6,833
2008	8,670	1,535	16,000	4,000	24,670	5,535
2009	9,197	1,007	16,000	3,200	25,197	4,207
2010	9,852	447	16,000	2,400	25,852	2,847
2011	-	-	16,000	1,600	16,000	1,600
2012	-	-	16,000	800	16,000	800
	\$ 64,150	17,583	160,000	43,689	224,150	61,272

**(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 \$1,063, equal to the required contribution for that year.

**(5) Risk Management**

The City of Walford is exposed to various risks related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage for the year ended June 30, 2002.

**(6) Construction Contracts**

The City entered into two construction contracts during the year for road work and a fire station addition to the municipal building totaling \$283,586. During the fiscal year ended June 30, 2002, the City paid \$273,159 on these contracts. The balance remaining at June 30, 2002 of \$10,427 is due to retainage on the addition to the municipal building.

**(7) Commitments**

The City entered into one tax increment financing agreement. The City agreed to assist in a urban renewal project by rebating taxes paid by the participating company with respect to the improvements set forth in the urban renewal plan. The incremental taxes to be received by the City will be rebated for a period of ten years, beginning in 1997, with the total amount to be rebated in any fiscal year limited to fifty percent of the taxes paid on the property. The actual amount rebated during the year ended June 30, 2002 was \$45,212.

**(8) Subsequent Events**

On November 11, 2002, the City accepted a bid of \$20,898 for a new truck. The City will use available local sources to pay the cost.

Also, on November 11, 2002, the City approved entering into a loan and disbursement agreement with the Iowa Department of Natural Resources for a State Revolving Fund (SFR) loan not to exceed \$2,018,000. The loan proceeds will be used to construct and improve the sewer plant and system.

**City of Walford**

## **Supplemental Information**

**City of Walford**

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

Receipts:	
Property tax	\$ 222,679
Other city tax:	
Local option sales tax	2,697
Cable franchise fee	2,099
Utility tax replacement excise tax	3,238
	<u>8,034</u>
Licenses and permits:	
Liquor	980
Cigarette	150
Building	2,050
	<u>3,180</u>
Use of money and property:	
Interest on investments	7,716
Rent	1,550
	<u>9,266</u>
Intergovernmental:	
State allocation	13,294
Bank franchise tax	10,034
Tree grant	2,000
	<u>25,328</u>
Charges for service:	
Street impact fee	11,671
Baseball/park fees	1,635
	<u>13,306</u>
Miscellaneous:	
Fines and fees	211
Donations	2,375
Refunds and reimbursements	173
Miscellaneous	1,602
	<u>4,361</u>
Total receipts	<u>286,154</u>

**Schedule 1**

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

## Disbursements:

## Community Protection Program:

## Police:

Law enforcement agreement	<u>9,360</u>
---------------------------	--------------

## Fire/Ambulance:

Contractual services	26,146
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Capital outlay	<u>2,602</u>
----------------	--------------

<u>28,748</u>
---------------

## Fire station:

Capital outlay	<u>201,688</u>
----------------	----------------

## Civil defense

<u>157</u>
------------

## Street signs

<u>120</u>
------------

## Street lighting

19,195
--------

<u>259,268</u>
----------------

## Human Development Program:

## Community Center:

## Debt service:

Principal redemption	6,058
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Interest payments	<u>4,147</u>
-------------------	--------------

<u>10,205</u>
---------------

## Parks and recreation:

Contractual service	2,718
---------------------	-------

Commodities	5,474
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Capital outlay	<u>52,791</u>
----------------	---------------

<u>60,983</u>
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## Library:

Contractual services	<u>856</u>
----------------------	------------

<u>72,044</u>
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City of Walford  
 Schedule of Cash Transactions  
 General Fund  
 Year ended June 30, 2002

## Disbursements (continued):

## Home and Community Environment Program:

## Community beautification:

Contractual service	13,256
Capital outlay	2,347
	15,603

## Streets:

Personal services	3,631
Contractual services	31,732
Commodities	683
Capital outlay	26,849
	62,895

## Solid Waste:

Contractual service	10,422
	10,422

## Land use plan

1,720
90,640

## Policy and Administration Program:

## Mayor and Council:

Personal services	3,985
	3,985

## City Clerk:

Personal services	6,837
Contractual services	1,851
	8,688

## Elections

1,390
1,390

## Insurance

9,748
9,748

## Legal services

7,499
7,499

## Engineer

55,962
55,962

**Schedule 1**

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

Disbursements (continued):	
Policy and Administration Program:	
Administrative:	
Contractual services	2,142
Commodities	3,780
Capital outlay	1,424
	<u>7,346</u>
City Hall:	
Contractual services	10,971
Commodities	1,583
Capital outlay	1,652
	<u>14,206</u>
	<u>108,824</u>
Total disbursements	<u>530,776</u>
Deficiency of receipts under disbursements	<u>(244,622)</u>
Other financing sources:	
General obligation note proceeds	160,000
Operating transfers in:	
Special Revenue:	
Urban Renewal Tax Increment	48,056
Total other financing sources	<u>208,056</u>
Deficiency of receipts and other financing sources under disbursements	(36,566)
Balance beginning of year	<u>304,562</u>
Balance end of year	<u>\$ 267,996</u>

See accompanying independent auditor's report.

City of Walford  
Combining Schedule of Cash Transactions  
Special Revenue Funds  
Year ended June 30, 2002

	Road Use Tax	Urban Renewal Tax Increment	Total
Receipts:			
Tax increment financing collections	\$ -	93,268	93,268
Intergovernmental:			
Road use tax allocation	98,040	-	98,040
Total receipts	<u>98,040</u>	<u>93,268</u>	<u>191,308</u>
Disbursements:			
Home and Community Environment Program:			
Street maintenance:			
Contractual services	70,047	45,212	115,259
Commodities	1,326	-	1,326
Total disbursements	<u>71,373</u>	<u>45,212</u>	<u>116,585</u>
Excess of receipts over disbursements	26,667	48,056	74,723
Other financing uses:			
Operating transfers out:			
General	-	(48,056)	(48,056)
Excess of receipts over disbursements and other financing uses	26,667	-	26,667
Balance beginning of year	<u>58,025</u>	-	<u>58,025</u>
Balance end of year	<u>\$ 84,692</u>	-	<u>84,692</u>

See accompanying independent auditor's report.

**Schedule 3**

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City of Walford  
Schedule of Cash Transactions  
Enterprise Fund  
Year ended June 30, 2002

Receipts:	
Use of money and property:	
Interest on investments	<u>\$ 4,254</u>
Charges for service:	
Installations and connections	2,200
Sewer rental fees	68,772
Miscellaneous	<u>1,309</u>
	<u>72,281</u>
Total receipts	<u>76,535</u>
Disbursements:	
Home and Community Environment Program:	
Personal services	7,344
Contractual services	65,041
Commodities	484
Debt service:	
Principal redemption	105,320
Interest payments	<u>2,467</u>
Total disbursements	<u>180,656</u>
Deficiency of receipts under disbursements	(104,121)
Balance beginning of year	<u>196,838</u>
Balance end of year	<u><u>\$ 92,717</u></u>

See accompanying independent auditor's report.

## City of Walford

## Note Maturities

June 30, 2002

Year Ending June 30,	General Obligation Notes					Total
	Municipal Building		Fire Station			
	Issued Nov 21, 1994		Issued Jun 15, 2002			
	Interest Rates	Amount	Interest Rates	Amount		
2003	6.00%	\$ 6,451	5.00%	\$ 16,000	\$ 22,451	
2004	6.00	6,844	5.00	16,000	22,844	
2005	6.00	7,261	5.00	16,000	23,261	
2006	6.00	7,703	5.00	16,000	23,703	
2007	6.00	8,172	5.00	16,000	24,172	
2008	6.00	8,670	5.00	16,000	24,670	
2009	6.00	9,197	5.00	16,000	25,197	
2010	6.00	9,852	5.00	16,000	25,852	
2011		-	5.00	16,000	16,000	
2012		-	5.00	16,000	16,000	
		<u>\$ 64,150</u>		<u>\$ 160,000</u>	<u>\$ 224,150</u>	

See accompanying independent auditor's report.

**City of Walford**



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 Walford, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002. 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 Walford'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 of Walford'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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Walford'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 Walford's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The 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, we believe that reportable conditions (A) and (B) described above are material weaknesses.

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 Walford and other parties to whom the City of Walford 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 Walford 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.

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 6, 2002



City of Walford  
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 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 had control over each of the following areas for the City:

- (1) Cash - preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
- (2) Investments - detailed record keeping, custody of investments and reconciling earnings.
- (3) Receipts - collecting, depositing, journalizing and posting.
- (4) Utility receipts - billing, collecting, depositing, posting and reconciling.
- (5) Disbursements - purchasing, check signing, recording and reconciling.
- (6) Payroll - preparing and distributing.
- (7) Financial reporting - preparing, posting and reconciling.
- (8) Information system (computer usage) - performing all general accounting functions and controlling all data input and output.

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

Response - The City will review its control procedures to obtain required maximum internal control.

Conclusion - Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies - Monthly utility billings, collections and delinquent accounts were not reconciled throughout the year ended June 30, 2002. In addition, utility collections were not reconciled to deposits.

Recommendation - Procedures should be established to reconcile monthly utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. The City Council or a Council designated independent person should review the reconciliations and monitor delinquencies.

City of Walford

Schedule of Findings

Year ended June 30, 2002

Response - The City will establish procedures to reconcile monthly utility billings by utilizing available software. The Council shall monitor.

Conclusion - Response accepted.

- (C) Receipts - Although prenumbered receipts were issued for all cash received, prenumbered receipts were not issued for City collections other than cash.

Recommendation - Control over City collections would be strengthened if prenumbered receipts were issued for all City collections.

Response - The Clerk will issue prenumbered receipts for all City collections immediately.

Conclusion - Response accepted.

- (D) Information System - The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically or to maintain password privacy.
- storage of back up tapes at an off site facility.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over its information system.

Response - The City will implement the above policies within the year.

Conclusion - Response accepted.

City of Walford

Schedule of Findings

Year ended June 30, 2002

**Other Findings Related to Required Statutory Reporting:**

- (1) Official Depository - 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 in the Human Development, Home and Community Environment and Policy and Administration Programs exceeded the budgeted amounts prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - Although the budget was amended, the budget should have been amended as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budgeted amounts.

Response - The City shall monitor budget amounts closer to prevent exceeding program budgets.

Conclusion - Response accepted.

- (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 - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Brandon Gann, Son of City Clerk	Snow removal, per bid	\$ 34
Adam Schulte, Son of Council Member Neil Schulte	Snow removal, per bid	7

The transactions do not represent a conflict of interest in accordance with Chapter 362.5(10) of the Code of Iowa because the cumulative total during the fiscal year was less than \$2,500.

- (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 - No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Walford

Schedule of Findings

Year ended June 30, 2002

- (8) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Payment of General Obligation Notes - General obligation notes and interest were paid from the General Fund for the year ended June 30, 2002. Chapter 384.4 of the Code of Iowa states in part that "Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the Debt Service Fund."

Recommendation - The City should transfer funds from the General Fund to the Debt Service Fund for future funding contributions. Payments of the note principal and interest should be disbursed from the Debt Service Fund.

Response - The City will establish a Debt Service Fund for the payment of principal and interest.

Conclusion - Response accepted.

- (10) Capital Projects Fund - The City accounted for road resurfacing and a fire station addition to the municipal building in the General Fund.

Recommendation - Separate capital projects funds should be established to account for all project costs and financing sources.

Response - Capital projects funds shall be established.

Conclusion - Response accepted.

- (11) Revenue Bond - During the year ended June 30, 2002, the City redeemed the remaining balance of the sewer revenue bond. Although bond sinking and bond reserve funds were required by the bond covenants, they were not established. Since the bond has been redeemed, bond sinking and bond reserve funds are no longer required for this bond. However, the City should ensure that bond covenants are complied with for any future bond issuances.

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City of Walford

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
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Deputy Auditor of State