



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____ December 26, 2013 _____ Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Sully, Iowa for the period July 1, 2012 through June 30, 2013. The examination was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review control procedures to obtain the maximum internal control possible, develop procedures to ensure all investments are recorded and to ensure utility billings, collections and delinquent accounts are reconciled.

A copy of the examination report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1321-0473-BLOF.pdf>.

###

CITY OF SULLY
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Examination Report	4-5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Unrecorded Investments	B 7
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C 7
Transfers	D 7
Certified Budget	E 8
Business Transactions	F 8
Revenue Bonds	G 8
Payment of General Obligation Notes	H 8
Questionable Disbursements	I 9
Financial Condition	J 9
Annual Urban Renewal Report	K 9
Electronic Check Retention	L 9
Computer System	M 10
Accounting Policies and Procedures Manual	N 10
Staff	11

City of Sully

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gordon Yarrington	Mayor	Jan 2014
Brent Vander Molen	Council Member	Jan 2014
Wesley Van Wyk	Council Member	Jan 2014
Lori Zylstra	Council Member	Jan 2014
Chad Fikse	Council Member	Jan 2016
RJ Van Dyke	Council Member	Jan 2016
Barbara Maasdam	Clerk/Treasurer	Indefinite
Caldwell & Brierly, PLLC	Attorneys	Indefinite



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Sully pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Sully for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2012 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.

10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Sully, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Sully, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sully and other parties to whom the City of Sully 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 Sully during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 28, 2013

Detailed Recommendations

City of Sully

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Debt – recordkeeping, compliance and debt payment processing.
- (6) Journal entries – preparing and journalizing.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – recordkeeping, preparation and distribution.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.

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 staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Unrecorded Investments – The City holds a certificate of deposit valued at \$140,000 which is not recorded in the City's accounting records or balances.

Recommendation – The City should develop procedures to ensure all investments, including certificates of deposit, are properly reflected in the accounting records.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council should review the reconciliations and monitor delinquent accounts.

(D) Transfers – Transfers between funds were not approved by the City Council.

Recommendation – The City Council should approve all interfund transfers prior to the actual transfer and document approval and amounts as part of the minutes record.

City of Sully

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (E) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the community and economic development function prior to the budget amendment.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

Name, Title and Business Connection	Transaction Description	Amount
Wesley Van Wyk, Council Member, Owner of Earth Works	Water line, culvert and lagoon repairs and hydrant replacement	\$ 23,782

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (G) Revenue Bonds – The City’s water revenue bond resolution requires the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers to produce net operating receipts equal to at least 110% of the principal and interest coming due in each fiscal year. The City’s fiscal year 2013 net water receipts of \$40,008 were less than 110% of the \$37,110 of water revenue bond principal and interest due during fiscal year 2013.

In addition, although a sewer reserve account has been established, the balance in the account has not reached the minimum required by the sewer revenue bond resolution and the City did not make the required monthly transfers to the reserve account during fiscal year 2013.

Recommendation – The City should review its water rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments due in the fiscal year. In addition, the City should make the required monthly transfers to the sewer reserve account until the account balance reaches the minimum required by the sewer revenue bond resolution.

- (H) Payment of General Obligation Notes – Principal and interest on the City’s 2010 general obligation note were paid from the Special Revenue, Tax Increment Financing Fund. Principal and interest on the City’s 2012 general obligation sewer improvement note were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “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 from the Special Revenue, Tax Increment Financing and the Enterprise, Sewer Funds to the Debt Service Fund for future funding contributions. Payments on the notes should then be made from the Debt Service Fund as required.

City of Sully

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (I) Questionable Disbursements – During the year, \$88 was disbursed for funeral plants and flowers and \$214 was disbursed for pizza for a City Council meeting. These disbursements may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Although the City has adopted a policy allowing the use of public funds for employee flowers or plants, sustenance supplies (coffee, coffee supplies, paper products, etc. deemed necessary by the City Clerk or Department Head) and meals for City budget work sessions, the policy does not document the public purpose served by these disbursements (i.e., how the public benefits from the use of public funds for these purposes).

Recommendation – The City should amend its policy allowing disbursements of public funds for flowers, plants, sustenance supplies and meals to include documentation of the public purpose served by the disbursements.

- (J) Financial Condition – At June 30, 2013, the City had a deficit balance of \$6,191 in the Special Revenue, Tax Increment Financing Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

- (K) Annual Urban Renewal Report (AURR) – The City understated the amount reported as TIF debt outstanding at July 1, 2011 on the AURR Levy Authority Summary by \$50,000.

Recommendation – The City should ensure amounts reported on the AURR Levy Authority Summary agree with the City’s records.

- (L) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

City of Sully

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(M) Computer System – The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords and/or preventing the reuse of the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City's control over its computer system.

(N) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

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

City of Sully

Staff

This examination was performed by:

Marlys K. Gaston, CPA, Manager
Jenny M. Podrebarac, Senior Auditor
James P. Moriarty, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State