



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____

June 23, 2008

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an agreed upon procedures report on the City of Danbury, Iowa for the period July 1, 2006 through February 29, 2008. The agreed upon procedures were performed at the request of the City Council.

Vaudt recommended the City establish segregation of duties over cash, investments, receipts, disbursements, utilities and payroll. Vaudt also recommended the City establish procedures to reconcile utility billings, collections and delinquencies, issue receipts for all collections, cancel all paid invoices, ensure all invoices to be paid are included on the approved list of bills, establish a Special Revenue Fund to account for the local option sales tax collections used for infrastructure, retain proof of publications for City budgets and amend the amounts certified for tax increment financing indebtedness. The City's responses are included in the report.

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

###

CITY OF DANBURY
INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2006 THROUGH FEBRUARY 29, 2008

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Receipts	B 8
Disbursements	C 8-9
Local Option Sales Tax	D 9
Reconciliation of Utility Billings, Collections and Delinquencies	E 9
Budget	F 9
Tax Increment Financing Certifications	G 10
Staff	11

City of Danbury

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Robert Mohrhauser	Mayor	Jan 2008
Stan Sexton	Council Member	Jan 2008
Mike Buth	Council Member	Jan 2008
Jan Petrositch	Council Member	Jan 2008
Mike Barry	Council Member	Jan 2010
Dave Colbert	Council Member	Jan 2010
(After January 2008)		
Tom McBride	Mayor	Jan 2012
Mike Barry	Council Member	Jan 2010
Dave Colbert	Council Member	Jan 2010
Mike Buth	Council Member	Jan 2012
Jan Petrositch	Council Member	Jan 2012
Mel Frahm	Council Member	Jan 2012
Sonya Sherill	Clerk	Indefinite
Teresa Jacoby	Treasurer	Indefinite
Joe Heidenrich	Attorney	Indefinite

City of Danbury



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 Accountant's Report on Applying Agreed Upon Procedures

To the Honorable Mayor and
Members of the City Council:

We have performed the following procedures, which were agreed to by the City of Danbury, solely to assist you in evaluating the operations of the City for the period July 1, 2006 through February 29, 2008. The City of Danbury's management is responsible for the operating practices and procedures followed by the City. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed were as follows:

1. We obtained an understanding of the City's internal controls over cash, investments, receipts, disbursements and payroll.
2. We tested certain receipts to determine if receipts were properly recorded, accounted for and deposited timely.
3. We examined utility records to determine if the City was reconciling utility billings, collections and delinquencies.
4. We tested certain disbursements to determine if disbursements were properly approved, recorded and accounted for.
5. We tested certain payroll records to determine if timesheets existed, payroll forms were completed and filed and payroll issued was approved.
6. We tested the Annual Financial Report to determine if the amounts reported were supported by the City's accounting records.
7. We examined bank reconciliations to determine if the balances reconciled to the City's accounting records.

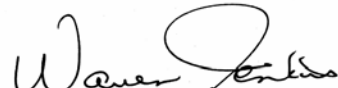
Based on the performance of the procedures described above, we noted instances of non-compliance with the Code of Iowa. Also, we identified various recommendations for the City. Our recommendations and the instances of non-compliance are described in the Detailed Recommendations section of this report. 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 examination of the operations of the City of Danbury, the objective of which would be the expression of an opinion on the financial statements of the City of Danbury. Accordingly, we do not express such an opinion. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Danbury, other matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Danbury and other parties to whom the City of Danbury 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 assistance extended to us by personnel of the City of Danbury. 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 12, 2008

Detailed Recommendations

City of Danbury

Detailed Recommendations

July 1, 2006 through February 29, 2008

(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. Generally, one or two individuals have control over each of the following areas with no compensating controls:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Investments – recordkeeping and investing.
- (4) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (5) Disbursements – check writing, signing, posting and reconciling.
- (6) Utilities – billing, collection and posting.
- (7) Payroll – preparation, check approval, signing and maintaining payroll records.

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

Response – The City Treasurer has resigned and the City Clerk will be assuming both positions once again effective July 1st. The City Council will act as the review board on a monthly basis and the Mayor will cover day-to-day activities and approve weekly payroll before checks can be issued.

Conclusion – Response accepted.

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

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

Response – Receipt books have been purchased and are now being used on a daily basis and balanced against actual bank deposits.

Conclusion – Response accepted.

City of Danbury

Detailed Recommendations

July 1, 2006 through February 29, 2008

- (C) Disbursements – Certain invoices were not properly marked paid to prevent duplicate payment and certain paid invoices were not on the list of bills approved by the Council or on the paid check listing publication.

The City does not receive copies of the back of electronically retained checks from the bank as required by Chapter 554D.114(5) of the Code of Iowa.

Recommendation – All paid invoices should be marked or stamped paid with the date of payment to aid in preventing duplicate payment of invoices. Also, all invoices or other supporting documentation should reflect the Council's authorization by being included on a listing approved and signed by the Council which is then published.

The City should obtain copies of the backs of electronic checks from the bank as required by Chapter 554D.114(5) of the Code of Iowa.

Response – A stamper and red ink have been purchased and are being used to properly mark invoices as paid with date and check number. The City will receive copies of the back of the checks.

Conclusion – Response accepted.

- (D) Local Option Sales Tax – The City's local option sales tax referendum provides for 40% of the collections to be allocated for infrastructure and 60% to be used for property tax relief. During the period under review, the collections required to be used for infrastructure were credited to the General Fund. The City considered the funds were used for the fire department and roads and sidewalks, but the City was unable to provide documentation of the use of these funds at the invoice level.

Recommendation – The City should credit the infrastructure portion of the local option sales tax collections to a Special Revenue Fund to allow for proper tracking of the use of the tax in accordance with the referendum.

Response – Recommendation will be implemented effective July 1.

Conclusion – Response accepted.

- (E) Reconciliation of Utility Billings, Collections and Delinquencies – A reconciliation of utility billings, collections and delinquencies was not prepared.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month, and someone independent of billing customers and handling and recording collections should review the reconciliations and document the review performed by initialing and dating the reconciliation.

Response – Recommendation will be implemented effective July 1.

Conclusion – Response accepted.

City of Danbury

Detailed Recommendations

July 1, 2006 through February 29, 2008

- (F) Budget – Proof of publications of the City’s budgets for the fiscal years ending June 30, 2007 and June 30, 2008 were not available at the City.

Recommendation – The City should retain a copy of the proof of publication of the budget for the City’s records.

Response – The City is doing its absolute best to obtain the proper proof of publications from the local newspaper. However, the newspaper is not prompt on supplying these despite the City’s prompting. As a result, the City keeps copies of every newspaper published to have a physical copy on hand and will continue to work with the newspaper to improve this issue.

Conclusion – Response accepted.

- (G) Tax Increment Financing Certifications – For the certification dated December 1, 2006, the amount certified (\$6,000) for the debt identified as “previously certified 2005” was not certified for the projected balance of the debt at June 30, 2007. The prior balance of the debt was not reduced for the TIF collections to be received during the year ended June 30, 2007 and, as a result, the amount certified was overstated by \$3,948, the actual TIF collections for fiscal 2007.

For the certification dated December 1, 2007, the amount certified by the City for the loan approved January 9, 2007 included only the principal portion of the loan (\$50,000) and did not include the interest to be paid on the debt.

Recommendation – The City should file amended forms with the County to correct the amounts certified. The City should de-certify \$3,948 to correct the amount certified on the December 1, 2006 certification. The City should increase the certification for the loan dated January 9, 2007 to include the interest portion of the loan.

Response – The City had just begun certifying TIF for the first year stated and was unsure of the proper filing of forms. The second year the forms were changed and the City was advised that we were filling the form out correctly by the County. This issue will be resolved and proper amounts will be used in the future.

Conclusion – Response accepted.

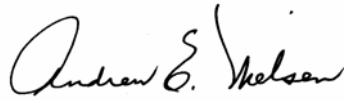
City of Danbury

Staff

This agreed upon procedures engagement was performed by:

Donna F. Kruger, CPA, Manager

Nancy F. Curtis, CPA, Senior Auditor II



Andrew E. Nielsen, CPA
Deputy Auditor of State