



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ February 10, 2014 _____ Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an examination report on the City of Rhodes, 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 its internal controls to obtain the maximum internal control possible and establish procedures to ensure proper documentation of disbursements. The City should also comply with Code of Iowa requirements related to public improvements and other identified matters.

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/1322-0613-BLOF>.

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

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City of Rhodes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
LaVern Karsjen	Mayor	Jan 2016
Mike Gerhart	Council Member	Jan 2014
Jerry Klosterman	Council Member	Jan 2014
Wendy Eldridge	Council Member	Jan 2016
Robert Hooper	Council Member	Jan 2016
Julie Trowbridge	Council Member	Jan 2016
Gale Klosterman	City Clerk/Treasurer	Indefinite
Roger Schoell	Attorney	Indefinite



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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Rhodes 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 Rhodes 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 surety 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 2013 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 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 receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 City of Rhodes, the objective of which is the expression of opinions on the City's 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 Rhodes, 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 Rhodes and other parties to whom the City of Rhodes 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 Rhodes 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

January 23, 2014

Detailed Recommendations

City of Rhodes

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) Long-term debt – maintaining debt records and performing cash functions.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (6) Utilities – collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (7) Financial reporting – preparing and reconciling.
- (8) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of 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) Financial Reports – We noted certain errors in the financial reports. The Budget Report does not properly report balances in the correct disbursement function based on the account coding in the detailed Income Statement. The Balance Sheet totals for the Water Fund did not agree to the Treasurer’s Report. In addition, totals for receipts and disbursements per the detailed Income Statement did not agree to the totals on the Budget Report.

Recommendation - The Clerk should investigate and resolve the variances between the various reports. The City should enlist the help of the software vendor if necessary.

(C) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, no independent review of the bank reconciliations was performed. In addition, the outstanding check list did not contain the check number, payee and date written.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. The outstanding check list should detail the check number, payee and date written in addition to the amount outstanding.

City of Rhodes

Detailed Recommendations

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

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year. We performed a utility reconciliation for June 2013. The amount calculated to be in arrears differed by \$81.35 from the amount in arrears reported by the City. We attempted to recalculate delinquent accounts for one month and certain balances did not recalculate properly. One Council Member had a delinquent bill of \$80 at June 30, 2013. Utility bills are not periodically reviewed and tested to ensure calculations are correct.

Recommendation - The City should ensure information reported in the delinquent accounts listing is accurate. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. Any variances should be investigated and resolved in a timely manner. The City Council or other independent person designated by the City Council should review the reconciliations, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts. An independent individual should periodically review and test utility billings to ensure they are properly calculated.

- (E) Monthly Clerk's Report - The Monthly Clerk's Report presented to the City Council for approval does not contain beginning and ending fund balances for each fund.

Recommendation - The beginning and ending fund balances should be included in the monthly reports presented to the City Council for approval.

- (F) Journal Entries - Journal entries are not reviewed and approved by an independent individual.

Recommendation - An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (G) Disbursements - One disbursement tested was not properly supported by an invoice. Two credit card transactions tested were not supported by original receipts.

Recommendation - The City should retain original invoices for all disbursements. Purchases made with credit cards should be supported by original receipts and the original receipts should be reconciled to the statement monthly.

- (H) Payroll - Hours worked are not reviewed and approved for the City's part-time employee. Written approval is not required for payroll deductions. There is no independent review of wages and withholding rates entered into the system. An independent person does not test wages and withholdings to ensure proper payroll calculations. We could not locate City Council approval of the wage rate for one employee tested.

Recommendation - Hours worked by City employees should be reviewed and approved by a supervisor. Written approval should be retained for all payroll deductions. An independent person should periodically review and test wage and withholding rates entered in the system for proper calculations. Evidence of testing should be retained. The City Council should approve pay rates for City employees at the time of hiring and when raises occur.

City of Rhodes

Detailed Recommendations

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

- (I) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (J) Questionable Disbursements – Certain disbursements we believe 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Gale Klosterman	Reimbursement for food purchased at Wal-Mart for volunteers at cleanup day	\$ 55
Gale Klosterman	Reimbursement for flowers purchased	28

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.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (K) Separately Maintained Records – The City of Rhodes Fire Department and First Responders maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (L) Annual Financial Report – The 2013 Annual Financial Report reported certain receipts in an incorrect fund and certain receipts could not be traced to the City’s financial records. The beginning and ending fund balances agreed in total to the City’s financial records but were allocated incorrectly between governmental and business-type activities.

Recommendation – The errors in the Annual Financial Report should be corrected and the report should be re-filed.

City of Rhodes

Detailed Recommendations

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

- (M) Public Improvements – For road improvements completed during the fiscal year, the City did not comply with the public hearing and bidding requirements in Chapters 26.3 through 26.13 of the Code of Iowa.

Recommendation – The City should comply with the public hearing and bidding requirements in the Code of Iowa.

- (N) 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.

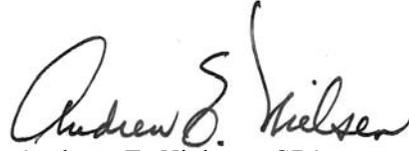
Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

City of Rhodes

Staff

This examination was performed by:

Brian R. Brustkern, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Ashley J. Moser, 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