



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE _____

March 31, 2014 _____

Contact: Andy Nielsen

515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Walnut, 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 review tax increment financing debt certifications to determine whether current certifications and de-certifications have been appropriate and make any corrections determined to be necessary. The City should also comply with the City Council minutes publication requirements of Chapter 372.13(6) of the Code of Iowa.

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/1321-0742-BLOF.pdf>.

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

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City of Walnut

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gene Larsen	Mayor	Jan 2016
Sue Shepherd	Mayor Pro Tem, City Council	Jan 2014
Marye Bierbaum	City Council	(Resigned Sep 2013)
Cheryl True	City Council	Jan 2014
Trace Frahm	City Council	Jan 2016
Kathy Humann	City Council	Jan 2016
Terri Abel	City Clerk	Indefinite
Shannon Wood	Deputy City Clerk	Indefinite
Dona Grooms	City Treasurer	Indefinite
Richard Schenk	City Attorney	Indefinite
Jim Blum	City Superintendent	Indefinite
Wayne Rush	City Maintenance	Indefinite
Margo Matthies	Head Librarian	Indefinite
Judy Schrecengost	Assistant Librarian	Indefinite
Sherry Jacobsen	Assistant Librarian	Indefinite
Justin Tooley	Fire Chief	Indefinite
Brett Petersen	Assistant Fire Chief	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 Walnut 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 Walnut 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 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.

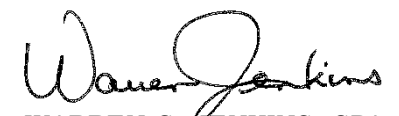
Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the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

We were not engaged to and did not conduct an audit of the City of Walnut, 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 Walnut, 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 Walnut and other parties to whom the City of Walnut 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 Walnut 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

February 7, 2014

Detailed Recommendations

City of Walnut

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) Investments – investing, recording and custody.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing and signing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting and reconciling.
- (7) Financial reporting – preparing and reconciling.
- (8) Journal entries – preparing and journalizing with no independent review.

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 documented by the signature or initials of the reviewer and the date of the review.

(B) Payroll – Although time sheets were maintained for all employees, there was no indication the time sheets had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.

In addition, the annual salary increases for all Library employees were based upon a specific amount per hour. The actual approved total wages were not indicated in the Library Board minutes.

Recommendation – Time sheets should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. Salaries of Library employees should be adequately documented in the minutes.

(C) Initial Receipts Listing – An initial listing of collections was not prepared.

Recommendation – An initial listing of collections should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented.

City of Walnut

Detailed Recommendations

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

- (D) Tax Increment Financing Certification – Although the City appropriately used Form 3 to decertify debt previously certified, the amount decertified was \$92,770 less than the correct amount.

Recommendation – The City should decertify an additional \$92,770 on Form 3.

- (E) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and a list of claims, a summary of receipts, total disbursements by fund, a summary of ordinances or amendments adopted and annual individual gross salaries are published as required. All City Council meeting minutes tested were properly published within fifteen days of the meeting. However, none of the minutes included the total disbursements from each fund.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. The City should ensure the minutes, list of claims, summary of receipts, total disbursements by fund, summary of ordinances or amendments adopted and annual individual gross salaries are published as required.

- (F) Questionable Disbursements – A disbursement for flowers for a Board member's death may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

- (G) Revenue Bonds – The provisions of the water revenue bond resolution require the City pay for its water usage from the General Fund. For the year ended June 30, 2013, the City did not pay for its water usage.

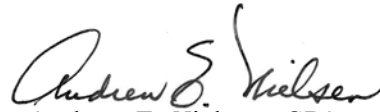
Recommendation – The City should ensure City water usage is paid from the General Fund as required by the bond resolution provisions.

City of Walnut

Staff

This examination was performed by:

Deborah J. Moser, CPA, Manager
Kaylynn D. Short, Staff Auditor
Jeremy L. Krajicek, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State