



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
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Auditor of State Mary Mosiman today released an examination report on the City of Schaller, 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 review and approval of disbursements is documented and bank reconciliations are independently reviewed.

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/1321-0768-BLOF.pdf>.

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

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City of Schaller

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|----------------------|---------------------|
| Spencer Claussen | Mayor | Jan 2016 |
| Scott Currie | Council Member | Jan 2014 |
| Marcina Hallengren | Council Member | Jan 2014 |
| Brian A Woodke | Council Member | Jan 2014 |
| Loren Blum | Council Member | Jan 2016 |
| Sean Ehrp | Council Member | Jan 2016 |
| Marcia Woodke | City Clerk/Treasurer | Indefinite |
| Sarah Kleber | 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 Schaller 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 Schaller 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 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 transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Schaller, 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 Schaller, 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 Schaller and other parties to whom the City of Schaller 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 Schaller 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 13, 2014

Detailed Recommendations

City of Schaller

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, recording and depositing.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.
- (8) Debt – recordkeeping, compliance and debt payment processing
- (9) Investments – recordkeeping, investing, custody of investments and reconciling earnings

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) 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.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

City of Schaller

Detailed Recommendations

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

- (D) Payroll – 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. Employee timesheets tested were not signed or initialed to evidence approval and one employee tested did not submit a timesheet to support hours worked.

Recommendation – Hours worked by City employees should be reviewed and approved by a supervisor. 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.

- (E) Journal Entries – Journal entries are not reviewed and approved by an independent person.

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

- (F) Disbursements – While the City Council notes approval of claims in the minutes, a list of claims is not prepared and evidence of approval is not indicated on the invoices.

Recommendation – The City should establish procedures to authenticate a detailed listing of claims or document approval on each invoice.

- (G) Credit Cards – The City has bank credit cards and retail charge accounts for use by employees for City business. The City has not adopted a formal policy to regulate the use of bank credit cards or retail charge accounts nor established procedures for the proper accounting of credit card and retail charge account purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City's bank credit cards and retail charge accounts. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and the retail charge accounts and for what purposes, as well as the types of supporting documentation required to substantiate charges.

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

| Name, Title and Business Connection | Transaction Description | Amount |
|--|----------------------------|--------|
| Sean Ehrp, Council Member, Stepfather owns Warren's Service | Police car repair | \$ 328 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with Council Member Ehrp does not appear to represent a conflict of interest since the transaction was less than \$2,500 during the fiscal year.

City of Schaller

Staff

This examination was performed by:

Ernest H. Ruben, Jr., CPA, Manager
April D. Harbst, Assistant Auditor
Amanda L. Burt, 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