



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ April 18, 2014 _____ Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an examination report on the City of Gilmore City, 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. The City should also ensure proper monthly book to bank reconciliations are prepared and monthly financial reports are accurate. In addition, the City should consult legal counsel regarding the compatibility of the offices of City Council Member and Fire Chief.

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/1322-0704-BLOF.pdf>.

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

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City of Gilmore City

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|----------------|---------------------|
| Richard Jergens | Mayor | Jan 2014 |
| Denny Davis | Council Member | Jan 2014 |
| Lowell Johnson | Council Member | Jan 2014 |
| Tim Smith | Council Member | Jan 2014 |
| Brittany Dickey | Council Member | Jan 2016 |
| Lavonne Hoover | Council Member | Jan 2016 |
| Chris McKee | City Clerk | 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 Gilmore City 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 Gilmore City 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 Gilmore City, 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 Gilmore City, 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 Gilmore City and other parties to whom the City of Gilmore City 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 Gilmore City 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 27, 2014

Detailed Recommendations

City of Gilmore City

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

For the Gilmore City Fire Department account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements - preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

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.

City of Gilmore City

Detailed Recommendations

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

- (B) Bank Reconciliations – Cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The “Bank Statement Reconciliation” reports generated from the City’s financial system includes the City’s main checking account, but excludes the savings and investment accounts. For two months reviewed, November 2012 and June 2013, the “Ending Statement Balance” on the “Bank Statement Reconciliation” varied significantly from the checking account bank statement balance. In addition, the listings of outstanding checks and deposits in transit generated monthly do not properly cut-off at month end and include only checks outstanding from the current calendar year. Checks which may be outstanding from a previous calendar year are dropped from the listing.

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to the bank and investment account balances monthly. Outstanding check and deposit in transit listings should properly cut off at month end and should include all outstanding items through the end of the month. Consultation with the software provider is suggested, if needed, to understand how to generate the proper reconciling reports. Variances, if any, should be reviewed and resolved timely.

- (C) Financial Reporting – We reviewed financial reports for June 2013 and noted the following:

- The “Balance Sheet” report listing all cash and investment accounts at month end totaled \$1,108,437 while the “Trial Balance” report listing each fund and fund balance at month end totaled \$1,064,758, a variance of \$43,679.
- The “Balance Sheet” reported the main checking account balance at \$164,902. This amount varies from the “Bank Statement Reconciliation – Ending Statement Balance” (referred to in (B) above) of \$204,772 by \$39,870.
- The “Trial Balance” report does not total to the \$1,064,758 shown on the report, but instead totals to \$1,044,082, a variance of \$20,676.

Recommendation – The City should establish procedures to ensure all monthly reports reconcile, are accurate and properly total. The City should work with its software provider to determine the cause of the report variances and inaccuracies and take immediate action to resolve the variances.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by the signature or initials of the independent reviewer and the date of review.

City of Gilmore City

Detailed Recommendations

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

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

| Name, Title and Business Connection | Transaction Description | Amount |
|---|----------------------------------|----------|
| Lowell Johnson, Council Member, Fire Chief, Employee at Pro Co-op | Gas purchases and vehicle repair | \$10,746 |

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.

- (F) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the public safety function prior to the budget amendment and disbursements at year end exceeded the amount budgeted in the general government function.

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.

- (G) Financial Condition - The City had deficit balances of \$4,248, \$10,338, \$23,627, \$67,704 and \$73,927 in the Special Revenue, Road Use Tax and Emergency Funds, the Debt Service Fund, the Fire Station Debt Service Fund and the Enterprise, Sanitary Sewer Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

- (H) Urban Renewal Annual Report (URAR) – The URAR report was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1. The report was certified on February 5, 2013.

In addition, the amount reported as TIF debt outstanding on the Levy Authority Summary was understated by \$13,050.

Recommendation – The City should approve and file the URAR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City's records.

City of Gilmore City

Detailed Recommendations

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

- (I) Tax Increment Financing (TIF) Indebtedness Certification – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF increment property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In December 2013, the City certified two internal loans for \$30,364 and \$100,114, respectively, which were previously certified in December 2008.

Recommendation – The City should certify a reduction of \$130,478 of TIF indebtedness for the internal loans certified in 2008 and again in 2013.

- (J) Questionable Disbursement – During the year, \$95 was disbursed from the Gilmore City Fire Department account for beer. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefit to be derived has 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.

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

- (K) Transfers - One of four transfers between funds selected for testing was not approved by the City Council and interfund transfers are not balanced monthly.

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. Interfund transfers should be balanced monthly.

- (L) Timesheets - Timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be evidenced by the supervisor's initials and the date of approval.

- (M) Petty Cash – Petty cash funds on hand at City Hall and the Library were not maintained on an imprest basis and included receipts from copies, faxes, stamps and other fees not separately accounted for.

Recommendation - Cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Also, receipts for copies, faxes, stamps and other fees should be accounted for separately to facilitate the depositing of these collections intact.

City of Gilmore City

Detailed Recommendations

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

- (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.

- (O) Investment Policy - The City has not adopted a written investment policy as required by Chapter 12B.10B 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.

- (P) Official Depositories – 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 – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council, as required.

- (Q) 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 Gilmore City Fire Department retains electronic images of the front of cancelled checks, but not the back of cancelled checks.

Recommendation – The City should retain an image of both the front and back of each cancelled check as required.

- (R) Separately Maintained Records – The Gilmore City Fire Department maintains a bank account for activity separate from the City Clerk's accounting records. The transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget, monthly financial reports or Annual Financial Reports. Also, invoices and other supporting documentation were not always available to support disbursements from this account.


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. Also, all disbursements should be supported by invoices or other supporting documentation.

City of Gilmore City

Staff

This examination was performed by:

Marlys K. Gaston, CPA, Manager
Kirstie R. Hill, Staff Auditor
Ramona E. Daly, 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 a long, sweeping underline.

Andrew E. Nielsen, CPA
Deputy Auditor of State