



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE _____

June 20, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Ocheyedan, 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 control procedures to obtain the maximum internal control possible. The City should also establish procedures to ensure bank and utility reconciliations are independently reviewed, the monthly City Clerk's report is prepared and reviewed timely by the City Council and the annual financial report is prepared accurately. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements exceed the amounts budgeted.

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/1322-0670-BL0F.pdf>.

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

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City of Ocheyedan

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Arlyn Pedley	Mayor	Jan 2016
Gene Turner	Mayor Pro Tem, City Council	Jan 2016
Brett Kleve	City Council	Jan 2014
Joe McElroy	City Council	Jan 2014
Mark Kruger	City Council	Jan 2016
Mike Schuck	City Council	Jan 2016
Chrissi Wiersma	City Clerk	Indefinite
Barb Hoekstra	City Treasurer	Indefinite
Mike Thole	City 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 Ocheyedan 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 Ocheyedan 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 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 Ocheyedon, 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 Ocheyedon, 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 Ocheyedon and other parties to whom the City of Ocheyedon 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 Ocheyedon 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

March 5, 2014

Detailed Recommendations

City of Ocheyedan

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) Long-term debt – maintaining bonds and other long-term debt records, handling and recording cash.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing and signing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing, posting and reconciling.
- (8) Financial reporting – preparing and reconciling.
- (9) 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 documented by the signature or initials of the reviewer and the date of the review.

(B) Payroll – Timesheets were not prepared for all employees and there was no indication the timesheets which were prepared had been reviewed and approved. Also, in addition to her City Clerk duties, the City Clerk provides janitorial services to the City and is paid an hourly rate for these services. She does not prepare timesheets to track her hours for the janitorial services provided. In addition, vacation and compensatory time earned and used is not formally tracked.

Recommendation – The City should review and update payroll policies to ensure all employees submit detailed timesheets for work performed and timesheets are reviewed and approved. Also, vacation and compensatory time earned and used should be formally tracked and reviewed for all employees.

(C) City Street, Water and Sewer Superintendent – The City Street, Water and Sewer Superintendent is paid for 100 hours per two week pay period (80 hours at his approved hourly rate and 20 hours at time and a half) A portion of the 20 hours paid at time and a half may include vacation hours. There is no written employee contract or agreement which states he is required to work 100 hours per pay period.

City of Ocheyedan

Detailed Recommendations

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

Recommendation – The City should enter into a written employee contract or agreement with the Street, Water and Sewer Superintendent to document the required hours of work per pay period and the compensation to be paid for the work performed.

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

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

- (E) Bank Reconciliations – The City maintains two checking accounts. Although monthly bank reconciliations were prepared for the main checking account, a bank reconciliation was not prepared for the Internet Grant checking account which had a balance of \$537.16 at June 30, 2013. In addition, there is no evidence of independent review of the monthly bank reconciliations.

Recommendation – To provide better control over financial transactions and overall accountability, the reconciliations should be compared with the City’s general ledger fund and account balances for all bank accounts. Variances should be investigated and resolved monthly. Reconciliations should be reviewed by an independent person and the independent reviewer should sign or initial the bank reconciliations to document the review.

- (F) 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. Three of the four meetings tested were not properly published within fifteen days of the meeting.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. The City should ensure the minutes of all City Council proceedings are published within fifteen days of the meeting.

- (G) Monthly Treasurer’s Reports – Monthly Treasurer’s reports were not prepared throughout the year.

Recommendation – The City should establish procedures to ensure a Treasurer’s report is prepared each month. The City Council should review the monthly Treasurer’s report for accuracy and completeness each month.

- (H) Questionable Disbursement – A disbursement 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 was noted. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Echter Greenhouse	Flowers sent to a City Council member’s father’s funeral	\$ 44

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.

City of Ocheyedan

Detailed Recommendations

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

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.

- (I) Annual Financial Report – The receipts reported in the City’s 2013 Annual Financial Report (AFR) do not agree with the amounts recorded in the City’s records, as follows:
- Total governmental fund receipts from other financing sources were understated by \$10,000.
 - Total proprietary fund receipts from other financing sources were overstated by \$10,000.
 - Total governmental fund receipts were understated by \$16,214.99.

In addition, the budgeted amounts used in the AFR are for the year ending June 30, 2014 instead of the year ended June 30, 2013.

Recommendation – The City should ensure financial activity, including budget amounts, included in future Annual Financial Reports is supported by the amounts recorded in the City’s records.

- (J) Investments – An accounting record/register is not maintained for each investment.

Recommendation – The City should create and maintain an accounting record/register for each investment and include the cost, description, date purchased, interest rate, maturity date and identifying number.

- (K) Long-Term Debt – The following internal control weakness and statutory noncompliance related to long-term debt were determined:

- Detailed records of long-term debt are not maintained and periodically reconciled to the general ledger.
- On October 26, 2012, the City entered into a bank loan for \$60,000 for a fire truck. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the public meeting to consider the intended action.

Recommendation – The City should ensure detailed records of long-term debt are maintained and periodically reconciled to the general ledger controls. Also, the City should comply with the Code of Iowa requirements before entering into future loan agreements. In addition, the City should consult legal counsel to determine the disposition of this matter.

City of Ocheyedan

Detailed Recommendations

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

- (L) Timely Deposit of Receipts – One of 34 receipts from the State of Iowa was not deposited in a timely manner.

Recommendation – To safeguard cash and increase funds available for investment, receipts should be deposited intact in a timely manner.

- (M) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year. However, there is no evidence an independent review is performed. In addition, the utility reconciliation tested for the month of March 2013 understated current billings by \$202.62.

Recommendation – A listing of delinquent accounts should be reviewed monthly. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. Reviews of the reconciliations should be documented by the signature or initials of the reviewer and the date of review. In addition, the City should ensure correct amounts are used during the reconciliation process and variances are investigated and resolved timely.

- (N) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the public safety function before the budget was amended on February 11, 2013. In addition, disbursements exceeded the amount budgeted in the public works function at the end of the year. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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.

- (O) Financial Condition – At June 30, 2013, the City had deficit balances of \$26,717.05 and \$20,000.93 in the General Fund and the Special Revenue, Road Use Tax Fund, respectively.

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

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

Recommendation – Journal entries should be approved by an independent person and evidence of the approval should be documented.

- (Q) Transfers – One transfer between the Enterprise, Water Fund and the General Fund was not approved by the City Council or included in the approved budget.

Recommendation – All interfund transfers should be evidenced by approval in the City Council minutes or budget, as applicable.

City of Ocheyedan

Staff

This examination was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Kaylynn D. Short, Staff Auditor
Jeremy L. Krajicek, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State