



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ December 10, 2014 _____ Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Olin, Iowa for the period July 1, 2013 through June 30, 2014. The agreed-upon procedures engagement 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 performed monthly and the Annual Financial Report is prepared accurately. In addition, the City should investigate alternatives to eliminate deficit fund balances.

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/1422-0497-EP0P.pdf>.

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CITY OF OLIN
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014

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City of Olin

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Greg Gerdes	Mayor	Jan 2016
Bruce McCormick	Mayor Pro Tem	Jan 2016
Tammy Huinker	City Council	Jan 2014
Ron Zimmerman	City Council	Jan 2014
Steve Klatt	City Council	Jan 2016
Joe Schroeder	City Council	Jan 2016
Jean McPherson	City Clerk	Indefinite
Adrian Knuth	Attorney	Indefinite
(After January 2014)		
Greg Gerdes	Mayor	Jan 2016
Bruce McCormick	Mayor Pro Tem	Jan 2016
Steve Klatt	City Council	(Resigned Jan 2014)
Zach Borst (Appointed Jan 2014)	City Council	Nov 2015
Joe Schroeder	City Council	Jan 2016
Tammy Huinker	City Council	(Resigned Mar 2014)
Becky McAtee (Appointed Apr 2014)	City Council	Nov 2017
Ron Zimmerman	City Council	Jan 2018
Jean McPherson	City Clerk	Indefinite
Adrain Knuth	Attorney	Indefinite

City of Olin



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Mary Mosiman, CPA
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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Olin for the period July 1, 2013 through June 30, 2014. The City of Olin's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

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 2014 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 and 12B.10B of the Code of Iowa pertaining to required depository resolutions and investment policy.

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 Olin, 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 Olin, 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 Olin and other parties to whom the City of Olin 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 Olin 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

November 17, 2014

Detailed Recommendations

City of Olin

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

(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 bank accounts and recording.
- (2) Investments – investing, recording and custody.
- (3) Long-term debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Disbursements – purchasing, check writing and signing, mailing, reconciling and recording.
- (6) Payroll – preparing, distributing, entering payroll rates and adding or removing employees from the system.
- (7) Utilities – billing, collecting, depositing, posting and reconciling.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording.
- (10) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
- (11) Computer systems – performing all general accounting functions and controlling all data input and output.

For the Olin Hose Company, Olin Volunteer Ambulance, Olin Library Memorial, Friends of Olin Heritage Center, Olin Horizons and City Park Board accounts, one individual has control over each of the following areas:

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

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.

City of Olin

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (B) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to the bank and investment balances throughout the year. Listings of outstanding checks were not prepared and retained monthly.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled monthly to the general ledger. Variances, if any, should be investigated and resolved timely. The City should prepare and retain monthly outstanding check listings.

- (C) Financial Reporting – The total fund balance of \$22,307 reported on the fiscal year 2014 Annual Financial Report (AFR) was \$558,391 less than the City’s general ledger balance of \$580,698. We were unable to determine the reason for the variance. However, although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting. A portion of the \$558,391 variance represents liabilities remaining in the Fund “Trial Balance” report at June 30, 2014. In addition, monthly reports provided to the City Council do not include individual beginning and ending fund balances.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded and reported using the cash basis of accounting established by the City and the AFR reconciles to the City’s general ledger. Monthly reports provided to the City Council should include individual beginning and ending fund balances.

- (D) Revenue Notes/Bonds – The following were noted:

- 1) The City has not made the required transfers to a revenue note/bond sinking account as required by the note/bond resolutions.
- 2) The City’s sewer revenue note/bond resolutions require the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers that produce net operating receipts equal to at least 110% of the principal and interest coming due each fiscal year. The City’s fiscal year net sewer operating receipts of \$90,427 were less than 110% of the \$129,020 of sewer revenue bond principal and interest due during fiscal year 2014.
- 3) The City’s sewer revenue note/bond resolutions require all principal and interest on the sewer revenue notes/bonds be paid solely and only from net sewer receipts. During the year ended June 30, 2014, the City paid \$150,118 of principal, interest and fees on revenue notes/bonds from the Debt Service Fund. The City subsequently transferred \$127,216 from the Enterprise, Sewer Fund to the Debt Service Fund to reimburse the Debt Service Fund for a portion of these payments. The reimbursement was \$22,902 less than the entire revenue note/bond payments and, accordingly, the City may be in violation of the revenue note/bond covenants. It is unclear why the revenue note/bond principal interest and fees were initially paid from the Debt Service Fund rather than being paid directly from the Enterprise, Sewer Fund via a sinking account, as required.

City of Olin

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

Recommendation – The City should establish a sewer sinking account and make the transfers required by the note/bond resolutions. The City should review sewer rates and consult bond counsel to determine the disposition of the apparent 110% net receipt violation. Future revenue note/bond principal, interest and fees should be paid directly from the sinking account of the Enterprise, Sewer Sinking Fund as required. A corrective transfer from Enterprise, Sewer Fund to the Debt Service Fund should be made to reimburse current and past sewer revenue bond principal, interest and fees incorrectly paid from the Debt Service Fund.

(E) Financial Condition – At June 30, 2014, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
General	\$153,853
Special Revenue:	
Road Use Tax	16,446
Employee Benefits	24,855
Debt Service	230,514

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

(F) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – 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, document their review and monitor delinquent accounts.

(G) Debit Card – On October 13, 2013, the Council approved the use of a debit card with a limit of \$1,000 for certain City purchases.

Recommendation – The City Council should prohibit the use of a debit card for City purchases. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

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

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

City of Olin

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (I) Certified Budget – Disbursements at June 30, 2014 exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions. 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.”

We were unable to determine whether proper notice of the City’s fiscal 2014 budget hearing was given in accordance with Chapter 384.16 of the Code of Iowa since documentation supporting the published notice was not available.

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. Documentation supporting compliance with the requirements of Chapter 384.16 of the Code of Iowa for the notice of budget hearing should be retained.

- (J) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires the minutes of the City Council proceedings be published, including “a summary of all receipts.” The City’s publication of City Council minutes does not include a summary of receipts as required.

Recommendation – The City should publish a summary of all receipts, as required.

- (K) Contract Labor – The City did not file a form 1099 with the Internal Revenue Service for contract labor in excess of \$600 for the calendar year ended December 31, 2013.

Recommendation – The City should establish procedures to ensure all required 1099 forms are properly completed and filed.

- (L) Timely Deposit – One intergovernmental receipt was not deposited timely.

Recommendation – The City should establish procedures to ensure receipts are deposited timely.

- (M) Disbursements – There is no evidence invoices/claims are approved by the City Council prior to payment. Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for three transactions tested could not be located.

Recommendation – All invoices should be approved by the City Council prior to payment. All disbursements should be supported by invoices or other supporting documentation.

- (N) Payroll – Timesheets for Library employees are not reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.

The City has no written policy for how compensatory time should be accrued and accounted for. For one employee tested, compensatory time was banked for hours worked in excess of 15 hours per week.

City of Olin

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

Recommendation – Timesheets 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. A formal, written policy should be established to provide for the proper accrual of and accounting for compensatory time.

(O) Transfers – Transfers were not always approved by the City Council.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and individual transfer amount(s) as part of the budget or minutes record.

(P) Records of Accounts – The Olin Library Memorial, Olin Volunteer Ambulance, Olin Hose Company, Friends of the Olin Heritage Center, Olin Horizons and the City Park Board all maintain accounts separate from the City’s accounting records. The transactions and resulting balances of these accounts were not recorded in the City Clerk’s accounting records and were not reported to the City Council each month.

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 balance of all city accounts should be included in the City’s accounting records, including budget reports, and should be reported to the City Council on a monthly basis.

(Q) Computer Systems - The following weaknesses in the City’s computer systems exist:

The City does not have written policies for:

- Requiring passwords be changed at least every 60-90 days.
- Requiring password length of a minimum of 8 characters, including special characters.
- Requiring a lockout function for incorrectly entered passwords.
- Proper disposal of sensitive media.
- Running an anti-virus program on computers.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer systems.

City of Olin

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (R) 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 personnel
- 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.

- (S) Investment Policy – Although the City has adopted an investment policy, Section 9 of the policy requires the investment policy be reviewed every two years. The investment policy was adopted in 2001 and has not been reviewed as required.

Recommendation – The City should review the investment policy and take appropriate actions to review and update the policy, if necessary.

- (T) Olin Hose Company Bank Reconciliations and Invoice Cancellation – The book and bank balances are not reconciled monthly. Also, prenumbered receipts were not issued for collections and invoices were not properly cancelled to prevent duplicate payment.

Recommendation – To improve financial accountability and control, monthly reconciliations of the book and bank balances should be prepared. The reconciliations should be reviewed monthly by an independent person. Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money collected. Invoices should be properly cancelled to prevent the possibility of duplicate payments.

City of Olin

Detailed Recommendations

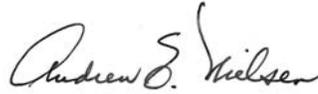
For the period July 1, 2013 through June 30, 2014

City of Olin

Staff

This agreed-upon procedures engagement was performed by:

Marlys Gaston, CPA, Manager
Benjamin P. James, CPA, Staff Auditor
Erin J. Sietstra, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State