



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ January 29, 2015 _____

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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Derby, Iowa for the period August 1, 2013 through July 31, 2014. The agreed-upon procedures engagement 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 comply with Code of Iowa requirements related to public improvements and other identified matters.

A copy of the agreed-upon procedures 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/1422-0564-EP0P.pdf>.

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CITY OF DERBY

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
AUGUST 1, 2013 THROUGH JULY 31, 2014**

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City of Derby

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Vicki Connor	Mayor	Jan 2014
Stephanie Bear	Council Member	Jan 2014
Joel Danner	Council Member	Jan 2014
Miles Latham	Council Member	Jan 2014
Donnie Moots	Council Member	Jan 2014
Norma Rush	Council Member	Jan 2014
Carla Mongar	City Clerk/Treasurer	Indefinite
(After January 2014)		
Vicki Connor	Mayor	Jan 2016
Stephanie Bear	Council Member	Jan 2016
Miles Latham	Council Member	Jan 2016
Donnie Moots	Council Member	Jan 2016
Norma Rush	Council Member	Jan 2016
Kelly Storm	Council Member	Jan 2016
Carla Mongar	City Clerk/Treasurer	Indefinite

City of Derby



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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 Derby for the period August 1, 2013 through July 31, 2014. The City of Derby'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 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.

8. 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.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Derby, 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 Derby, 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 Derby and other parties to whom the City of Derby 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 Derby during the course of our agreed-upon procedures engagement. 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

August 27, 2014

Detailed Recommendations

City of Derby

Detailed Recommendations

For the period August 1, 2013 through July 31, 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) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash - handling, reconciling and recording.
 - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (5) Debt – recordkeeping, compliance and debt payment processing.
 - (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (7) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
 - (8) Financial reporting – preparing 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.

- (B) Chart of Accounts – The City has not implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002. In addition, the City does not maintain a general ledger to track balances and transactions occurring during the year.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed. In addition, a general ledger should be prepared and maintained to ensure accurate financial information is recorded and reported throughout the year.

- (C) Bank Reconciliations – Bank balances were not reconciled to book balances on a monthly basis for the General and Sewer accounts. In addition, the monthly bank reconciliations which were completed were not reviewed by an independent person.

Recommendation – To improve financial accountability and control, monthly bank and investment balances should be reconciled to book balances and variances between bank and book balances should be investigated and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

City of Derby

Detailed Recommendations

For the period August 1, 2013 through July 31, 2014

- (D) Charge Account – The City has a retail charge account for use by employees for City business. The City has not adopted a formal policy to regulate the use of the retail charge account and has not established procedures for the proper accounting of retail charge account purchases.

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

- (E) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for thirteen disbursements tested could not be located. In addition, the approval of payments and the mathematical check of footings, extensions and/or discounts are not documented by the signature or initials of the reviewer and the date of review on the supporting documentation. Also, the supporting documentation for claims is not cancelled to prevent reuse.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Payment approval and mathematical checks of footings, extensions and/or discounts should be documented by the signature or initials of the reviewer and the date of review on the supporting documentation. In addition, supporting documentation for claims should be cancelled to prevent reuse.

- (F) Questionable Disbursements – During the year ended July 31, 2014, \$190 was disbursed for the purchase of plaques for fire volunteers. We believe 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 benefits to be derived have 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 by this type of disbursements 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) Payroll Approval - The hiring salary and subsequent wage increases for the City Clerk were not documented in the City Council minutes. In addition, the amounts to be received by the Mayor and City Council members for attendance at each monthly meeting has not been approved in the minutes.

Recommendation – Salaries of employees, the Mayor and City Council members should be documented in the City Council minutes.

City of Derby

Detailed Recommendations

For the period August 1, 2013 through July 31, 2014

- (H) Payroll – City Council members are paid annually for the monthly meetings attended during the year. Two City Council members were paid \$10 more than the amount earned for attending the monthly City Council meetings.

Recommendation – The City should implement procedures to ensure City Council members are accurately paid for the number of monthly meetings attended during the year.

- (I) Mayor/City Council Compensation and Payroll – The Mayor and City Council member compensation was not reduced by the required Federal Insurance Contributions Act (FICA) tax and Iowa Public Employees’ Retirement System (IPERS) contribution. In addition, the City did not remit the required amount of FICA and IPERS.

Recommendation – The City should contact the Internal Revenue Service (IRS) and IPERS to determine the disposition of these matters.

- (J) 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.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) to contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The receipts and disbursements included in the City’s Annual Financial Report do not agree with the amounts in the City’s records.

Recommendation – The City should ensure the receipts and disbursements included in future Annual Financial Reports agree to the City’s records. An independent person should review the report for accuracy, and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (L) Monthly City Clerk’s Report – Monthly City Clerk’s Reports showing receipts, disbursements, transfers and balances for each fund and in total are not prepared and presented to the City Council for review and approval.

Recommendation – Monthly City Clerk’s Reports should be prepared and maintained which include receipts, disbursements, transfers and balances for each fund and should be presented to the City Council for review and approval.

City of Derby

Detailed Recommendations

For the period August 1, 2013 through July 31, 2014

- (M) Debt Service – The general obligation public safety note payment was recorded in the General Fund rather than the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Recommendation – General obligation note payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

- (N) Revenue Bonds – The City has not established a sewer revenue bond sinking account and has not made the required monthly transfers to the account.

Recommendation – The City should establish a sewer revenue bond debt sinking account and ensure monthly transfers are made to the sewer revenue bond sinking account as required.

- (O) 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 City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (P) City Council Meeting Minutes Publication – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council meeting minutes include “a list of all claims allowed and a summary of all receipts.”

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

- (Q) Certified Budget – The City Council minutes did not include a resolution adopting the fiscal year 2014 budget. Per Chapter 384.16(5) of the Code of Iowa, “After the hearing, the council shall adopt by resolution a budget for at least the next fiscal year, and the clerk shall certify the necessary tax levy for the next fiscal year to the county auditor and the county board of supervisors. The tax levy certified may be less than but not more than the amount estimated in the proposed budget submitted at the final hearing, unless an additional tax levy is approved at a city election. Two copies each of the detailed budget as adopted and of the tax certificate must be transmitted to the county auditor, who shall complete the certificates and transmit a copy of each to the department of management.” In addition, disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, community and economic development and general government 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.”

Recommendation – The City should enact a resolution for the adoption of the budget as required by Chapter 386.16(5) of the Code of Iowa. In addition, the budget should have been amended as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Derby

Detailed Recommendations

For the period August 1, 2013 through July 31, 2014

- (R) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year. One City Council Member had a delinquent bill of \$172 at June 30, 2014.

Recommendation – Procedures should be established to have an independent person 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 review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (S) Tax Increment Financing – The City had a cash balance of \$5,448 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF fund) at June 30, 2014. However, the City had no outstanding TIF obligation at June 30, 2014. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should consult legal counsel to determine the disposition of the excess monies in the Special Revenue, Urban Renewal Tax Increment Fund. If the City has no further tax increment financing debt, the \$5,448 should be remitted to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

- (T) Annual Urban Renewal Report – The City did not submit the Annual Urban Renewal Report to the Department of Management by December 1 as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The City should submit its Annual Urban Renewal Report to the Department of Management before December 1 as required by the Code of Iowa.

City of Derby

Staff

This agreed-upon procedures engagement was performed by:

Tim Houlette, CPA, Manager
Jeremy Krajicek, Assistant Auditor
Tyler Moran, Auditor Intern

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