



**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 \_\_\_\_\_ February 12, 2015 \_\_\_\_\_

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Brayton, Iowa for the period September 1, 2013 through August 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 control procedures to obtain the maximum internal control possible. Also, the City should establish procedures to ensure bank and utility reconciliations are performed monthly and the Annual Financial Report is prepared accurately.

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/1422-0028-EPOP.pdf>.

###



**CITY OF BRAYTON**

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

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

## Table of Contents

		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Bank Reconciliations	B	8
Accounting Records and Financial Information	C	8-9
Annual Financial Report	D	9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	E	9
Utility Receipts	F	9
Prenumbered Receipts	G	9
Disbursements	H	9-10
Payroll	I	10
Journal Entries	J	10
Utility Rates	K	10
City Council Minutes Publication	L	10
Official Depositories	M	10
Revenue Bonds	N	10
Financial Condition	O	11
Petty Cash	P	11
Electronic Check Retention	Q	11
Unclaimed Property	R	11
Employee Benefits Levy	S	11
Staff		12

**City of Brayton**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
Kevin Christensen	Mayor	Jan 2014
Jebediah Marshal	Council Member	(Resigned Sep 2013)
Tanya Marshall (Appointed Sep 2013)	Council Member	Dec 2013
Cally Christensen	Council Member	Jan 2014
Mavis Kygar	Council Member	Jan 2014
Steve Fister	Council Member	Jan 2016
Steve Sykes	Council Member	Jan 2016
Margaret Hansen	City Clerk	Indefinite
Joe Rassmussen	Attorney	Indefinite
<b>(After January 2014)</b>		
Cally Christensen	Mayor	Jan 2016
Steve Fister	Council Member	Jan 2016
Steve Sykes	Council Member	Jan 2016
Greg Gust	Council Member	Jan 2018
Tanya Marshall	Council Member	Jan 2018
Tim Schroeter	Council Member	Jan 2018
Margaret Hansen	City Clerk	Indefinite
Joe Rassmussen	Attorney	Indefinite

**City of Brayton**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA  
Auditor of State

## 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 Brayton for the period September 1, 2013 through August 31, 2014. The City of Brayton'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 the 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 2013 Annual Financial Report (AFR) 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 transfers between funds for propriety, proper authorization and accurate accounting.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

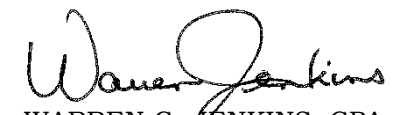
Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Brayton, 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 Brayton, 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 Brayton and other parties to whom the City of Brayton 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 Brayton 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

November 25, 2014



## **Detailed Recommendations**

City of Brayton

Detailed Recommendations

For the period September 1, 2013 through August 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) Cash – handling, reconciling bank accounts and recording.
  - (2) Long-term debt – recording and reconciling.
  - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - (4) Disbursements – purchasing, check writing and signing, mailing, reconciling and recording.
  - (5) Payroll – preparing, signing, distributing, entering payroll rates and adding or removing employees from the system.
  - (6) Utilities – billing, collecting, depositing, posting and maintaining accounts receivable records.
  - (7) Financial reporting – preparing and reconciling.
  - (8) Journal entries – preparing and recording.
  - (9) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.

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, journal entries and other transactions or reports should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Cash balances in the City’s accounting records were not reconciled to the bank balances throughout the year. Listings of outstanding checks were not prepared and retained monthly. The bank statements for the Brayton Grant Fund do not cut off at month end.

Recommendation – The City should establish procedures to ensure bank balances are reconciled to the general ledger balances monthly and the reconciliations are subsequently reviewed by an independent person. The reviews should be documented by the signature or initials of the reviewer and the date of the review. Variances, if any, should be investigated and resolved timely. Monthly listings of outstanding checks should be prepared and retained and bank statements should cut off at month end to facilitate month end balancing.

- (C) Accounting Records and Financial Information – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. Disbursements are not classified by function and the City Clerk’s financial reports to the City Council do not include comparisons to the certified budget by function. In addition, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate the preparation of and support for the Annual Financial Report (AFR).

City of Brayton

Detailed Recommendations

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

Recommendation – To provide better financial information and control over budgeted disbursements, the COA, or its equivalent, should be followed, including proper classification of disbursements by function. Year-to-date totals of receipts by fund and source and of disbursements by fund and function should be maintained to facilitate the preparation of and support for the AFR. Monthly financial reports provided to the City Council should include comparisons of disbursements to budgeted disbursements by function.

- (D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” Receipts and ending fund balances reported on the Annual Financial Report (AFR) did not agree with the City’s financial records. We were unable to determine the accuracy of disbursements reported on the AFR as the City’s financial records do not classify disbursements by function and information supporting the amounts reported was not retained.

Recommendation – The City should ensure the receipts and disbursements included in future Annual Financial Reports are supported by the City’s records.

- (E) 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 the review and monitor delinquent accounts.

- (F) Utility Receipts – The City maintains handwritten records which include a monthly “Billing” ledger and a monthly “Income” ledger. Utility collections recorded in the “Billing” ledger did not agree to utility collections recorded in the “Income” ledger for three of the twelve months tested. Receipts per the “Billing” ledger exceeded the “Income” ledger in September 2013, February 2014 and April 2014 by \$80, \$80 and \$320, respectively. These amounts were all included in the appropriate deposit.

Recommendation – Procedures should be established to reconcile receipts recorded in the “Billing” ledger to the “Income” ledger and to deposits each month. Variances, if any, should be investigated and resolved timely. The City Council or other independent person designated by the City Council should review the reconciliations and document the review by signing or initialing and dating the reconciliation.

- (G) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections. The receipts should be compared to the bank deposit and the accounting records by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (H) Disbursements - Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for one transaction tested could not be located. Also, for one item tested, the check amount of \$877 did not match the recorded amount of \$887.

City of Brayton

Detailed Recommendations

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

Recommendation - All disbursements should be supported by invoices or other supporting documentation. Procedures should be established to ensure all disbursements are properly recorded, including a comparison of checks issued to the accounting records by an independent person.

- (I) Payroll – Employees do not prepare and submit timesheets to support hours worked. In addition, vacation and compensatory time usage and balances are not reviewed and approved by supervisory personnel prior to processing payroll.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and the employee’s immediate supervisor prior to submission. The timesheets should support all hours worked and all hours taken as vacation, sick leave and compensatory time.

- (J) Journal Entries – Supporting documentation was not maintained for journal entries and journal entries are not approved.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Journal entries should be approved by an independent person and evidence of the approval should be documented by the signature or initials of the reviewer and the date of approval.

- (K) Utility Rates – Utility rates entered into the system are not reviewed and approved to ensure proper utility calculations and billings.

Recommendation – An independent person should review and approve system utility rates periodically, including when rates change, to ensure accurate utility billings. Evidence of the review and approval should be documented by the signature or initials of the reviewer and the date of approval.

- (L) City Council Minutes Publication – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council minutes include “total expenditures from each fund... and a summary of all receipts.” Total expenditures from each fund and a summary of receipts are not published as required.

Recommendation – The City should publish total expenditures by fund and a summary of all receipts, as required.

- (M) 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.

- (N) Revenue Bonds – The provisions of the sewer revenue bond resolution require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they come due. For the year ended June 30, 2014, net receipts of \$6,105 were less than the \$14,405 required.

Recommendation – The City should consult legal counsel and review the City’s utility rates to ensure the rates are adequate to produce the required net operating receipts.

City of Brayton

Detailed Recommendations

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

- (O) Financial Condition – The City’s General Fund, the Special Revenue, Hall and Park Funds and the Enterprise, Water and Sewer Funds had deficit balances during the period reviewed.

Recommendation – The City should investigate alternatives to eliminate the deficit fund balances in order to return the funds to a sound financial condition.

- (P) Petty Cash – Petty cash on hand at City Hall was not maintained on an imprest basis and included receipts from copies, faxes, stamps and other fees not separately accounted for and deposited.

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.

- (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 City does not receive an image of the back of each cancelled check, as required.

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.

- (R) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City Clerk to report and remit outstanding obligations, including checks, trusts and bonds, held for more than two years to the Office of Treasurer of State annually. The City does not maintain an outstanding check list and, accordingly, has not identified obligations, if any, required to be remitted to the Office of Treasurer of State.

Recommendation – The City should implement procedures to ensure outstanding checks are reviewed annually and amounts over two years old are remitted to the Office of Treasurer of State, as required.

- (S) Employee Benefits Levy – The City levied property tax for employee benefits, as allowed by Chapter 384.6 of the Code of Iowa, but recorded the property tax collections in the General Fund rather than establishing a Special Revenue Fund as required by the Iowa Department of Management’s budget instructions.

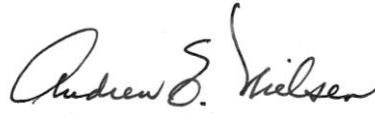
Recommendation – The City should establish a special revenue fund for the employee benefits levy and record the related transactions in this fund.

City of Brayton

Staff

This agreed-upon procedures engagement was performed by:

Marlys Gaston, CPA, Manager  
Todd E. Pudenz, CPA, Staff Auditor  
David Cook, Assistant Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State