



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ April 2, 2015 _____

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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Gilmore City, 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 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.

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/1422-0704-BL0F.pdf>.

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CITY OF GILMORE CITY
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 Gilmore City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Richard Jergens	Mayor	Jan 2014
Denny Davis	Council Member	Jan 2014
Lowell Johnson	Council Member	Jan 2014
Brittany Dickey	Council Member	Jan 2016
Lavonne Hoover	Council Member	Jan 2016
Tim Smith	Council Member	Jan 2016
Chris McKee	City Clerk	Indefinite
(After January 2014)		
Dennis Miller	Mayor	Jan 2016
Brittany Dickey	Council Member	Jan 2016
Lavonne Hoover	Council Member	Jan 2016
Tim Smith	Council Member	Jan 2016
Denny Davis	Council Member	Jan 2018
Lowell Johnson	Council Member	Jan 2018
Chris McKee	City Clerk	Indefinite

City of Gilmore City



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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 Gilmore City for the period July 1, 2013 through June 30, 2014. The City of Gilmore City's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

The 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, 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 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 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 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

December 12, 2014

Detailed Recommendations

City of Gilmore City

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) 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, posting and entering rates into the system.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, 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 and the Gilmore City Ambulance accounts, 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 documented 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, 2013 through June 30, 2014

- (B) Bank Reconciliations – The 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 include the City’s main checking account, but exclude the savings and investment accounts. Also, there is no independent review of the bank reconciliation. The June 30, 2014 bank and book balances did not properly reconcile and the bank balance was \$1,528 higher than the book balance.

For the Gilmore City Fire Department, the Gilmore City Ambulance and the Gilmore City Insurance Plan accounts, cash balances were not reconciled to bank balances throughout the year.

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to the bank and investment account balances monthly. Consultation with the software provider is suggested, if needed, to understand how to generate the proper reconciling reports. Variances, if any, should be investigated and resolved timely. The City should also ensure cash balances of the Fire Department, the Ambulance and the Insurance Plan accounts are reconciled to bank balances monthly.

- (C) Financial Reporting – We reviewed the financial reports for June 2014 and noted the following:

- The beginning fund balance of \$1,112,109 reported by the City did not agree to the prior year ending balance of \$1,064,759 reported in the June 30, 2013 Annual Financial Report, a variance of \$47,350.
- The Annual Financial Report listed a repayment of \$127,928 for a general obligation fire station note in the capital projects function when it should have been recorded in the debt service function.

Recommendation – The City should establish procedures to ensure all monthly reports reconcile and are accurate.

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

Recommendation – An accounting record/register should be maintained for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number.

- (E) Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reviewed by an independent person. Utility bills are not periodically reviewed and tested to ensure calculations are correct.

In addition, the City Clerk prepared and approved a payment agreement with the City on October 21, 2013 establishing a payment plan for her delinquent utilities, which was not approved by the City Council. As of June 30, 2014, the City Clerk had an outstanding delinquent bill of \$240.

City of Gilmore City

Detailed Recommendations

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

Recommendation – Procedures should be established to have an independent person or a City Council member review the reconciliations and monitor delinquent accounts. This review should be documented by the signature or initials of the review and the date of the review. Also, an independent individual should periodically review and test utility billings to ensure they are properly calculated. The City should ensure procedures are in place to properly review and approve City utility payment agreements.

- (F) 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, City Council Member, Employee of Pro Co-op	Gas purchases and vehicle repair	\$ 8,132

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.

- (G) Certified Budget – Disbursements for the year ended June 30, 2014 exceeded the amounts budgeted in the community and economic development, general government, debt service and business-type activities functions.

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.

- (H) Financial Condition – The City had deficit balances of \$107,139, \$23,761, \$22,261 and \$200,069 in the General Fund, 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.

- (I) Annual Urban Renewal Report (AURR) – The AURR 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 12, 2014.

In addition, the amount reported as TIF debt outstanding on the Levy Authority Summary was overstated by \$40,560.

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

City of Gilmore City

Detailed Recommendations

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

- (J) Tax Increment Financing 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 incremental 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 both 2008 and 2013.

- (K) Questionable Disbursement – During the year, \$73 was disbursed from the Gilmore City Fire Department account for beer and pop. 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 beer and pop. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

- (L) Journal Entries – Supporting documentation was not maintained for journal entries. Additionally, journal entries are not reviewed and approved by an independent individual.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. An independent person should review and approve journal entries and the approval should be documented by the signature or initials of the approver and the date of approval.

- (M) 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 documented by the supervisor's signature or initials and the date of approval.

- (N) Petty Cash – Petty cash funds on hand at City Hall and the Library were not maintained on an imprest basis.

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.

City of Gilmore City

Detailed Recommendations

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

- (O) 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.

- (P) Official Depositories – A resolution naming official depositories has been adopted. However, it does not specify the maximum amount to be kept at the selected banks as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution specifying 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 City, the Gilmore City Fire Department and the Gilmore City Ambulance do not receive an image of the back of each cancelled check.

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

- (R) Separately Maintained Records – The Gilmore City Fire Department, the Gilmore City Ambulance and the City of Gilmore Insurance Plan Account maintain bank accounts 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.

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.

- (S) Local Option Sales Tax (LOST) – The City's LOST ballot requires LOST receipts be used 33.3% for day care assistance at Gilmore City/Bradgate Community School District and 66.7% for any other lawful purpose. For the year ended June 30, 2014, the City allocated 41.4% of LOST receipts to Gilmore City/Bradgate Community School District.

Recommendation – The City should establish procedures to properly account for LOST disbursements in accordance with the LOST ballot provisions.

City of Gilmore City

Staff

This agreed-upon procedures engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager
Leslie M. Downing, Staff Auditor
Nick J. Downey, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State