



**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 \_\_\_\_\_

July 7, 2015

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Kelley, Iowa for the period November 1, 2013 through October 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. The City should also ensure bank and investment account balances are reconciled to the general ledger monthly. 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 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/1422-0817-EPOP.pdf>.

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**CITY OF KELLEY**

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

**FOR THE PERIOD**  
**NOVEMBER 1, 2013 THROUGH OCTOBER 31, 2014**

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**City of Kelley**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b><u>(Before January 2014)</u></b>		
Kenneth Kling	Mayor	Jan 2016
Russell Cory	Council Member	(Resigned Mar 2012)
Chad Borsheim (Elected)	Council Member	Jan 2014
Jackie Sapp	Council Member	Jan 2014
Harry Fortney	Council Member	Jan 2016
Kelly Netcott	Council Member	Jan 2016
Rita Thorson	Council Member	Jan 2016
Teresa Peterson-Smith	City Clerk	Indefinite
Dennis Parmenter	Attorney	Indefinite
<b><u>(After January 2014)</u></b>		
Kenneth Kling	Mayor	Jan 2016
Harry Fortney	Council Member	Jan 2016
Kelly Netcott	Council Member	Jan 2016
Rita Thorson	Council Member	Jan 2016
Brenda DeTar	Council Member	Jan 2018
Jane Walter	Council Member	Jan 2018
Teresa Peterson-Smith	City Clerk	Indefinite
Dennis Parmenter	Attorney	Indefinite

**City of Kelley**



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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 Kelley for the period November 1, 2013 through October 31, 2014. The City of Kelley'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, 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 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 Kelley, 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 Kelley, 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 Kelley and other parties to whom the City of Kelley 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 Kelley 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 11, 2014



## **Detailed Recommendations**

City of Kelley

Detailed Recommendations

For the period November 1, 2013 through October 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) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Financial reporting – preparing and reconciling.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.

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) Bank Reconciliations – The balances in the City’s general ledger were not properly reconciled to bank and investment account balances throughout the year. The system generated reconciliation summary was reconciled to the checking account balance. However, the summary was not reconciled to the general ledger balances. Also, there was no independent review of the bank reconciliation.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

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

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

City of Kelley

Detailed Recommendations

For the period November 1, 2013 through October 31, 2014

- (D) 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 and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (E) Credit Card – The City has not adopted a formal policy to regulate the use and control of the City's credit card and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City's credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to support the purchase.

- (F) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety and culture and recreation 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 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) Monthly City Clerk's Report – The Monthly City Clerk's Report presented to the City Council for approval does not include beginning and ending fund balances for each fund.

Recommendation – The beginning and ending fund balances should be included in the Monthly City Clerk's reports presented to the City Council for approval.

- (I) Payment of General Obligation Bonds – Principal and interest on the City's general obligation storm water improvement bond were paid from the Enterprise, Storm Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should transfer from the Enterprise, Storm Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

City of Kelley

Detailed Recommendations

For the period November 1, 2013 through October 31, 2014

- (J) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections and an initial listing of collections was not prepared.

Recommendation – Pre-numbered receipts should be issued for all collections and an initial listing of collections should be prepared. These collections 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.

- (K) Payroll – Timesheets did not include evidence of supervisory review. Wage and withholding rates entered into the payroll system are not reviewed by an independent person. Payroll checks are not kept in a secured location prior to distribution to employees.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. An independent person should review payroll rates entered into the payroll system. In addition, the City should secure payroll checks in a locked cabinet prior to distribution.

- (L) Local Option Sales Tax (LOST) - The City's LOST ballot requires LOST receipts be used 100% for property tax relief. The City's LOST receipts are deposited and recorded in the General Fund. However, these receipts are reported in the Special Revenue column on the Annual Financial Report.

Recommendation - The City should establish procedures to ensure LOST receipts are reported in the Annual Financial Report consistent with the general ledger posting.

- (M) Utility Rates – The utility rates entered into the system are not reviewed by an independent person to ensure proper utility calculations and billings.

Recommendation – An independent person should periodically review the system utility rates to ensure proper utility calculations and billings. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

- (N) Annual Financial Report (AFR) – While the City maintains a record of receipts and disbursements by fund, the City does not maintain balances by fund. Therefore, we were unable to determine if ending balances by fund as reported in the AFR are accurate. Total receipts reported in the AFR were \$435 higher than recorded receipts.

Recommendation – The City should maintain beginning and ending balances by fund and should ensure receipts reported in the AFR are supported by recorded receipts.

- (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 front and back of each cancelled check.

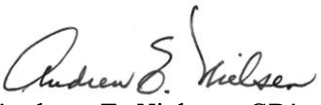
Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

City of Kelley

Staff

This agreed-upon procedures engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Joshua W. Ostrander, Staff Auditor  
Erin J. Sietstra, Assistant Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State