



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ July 29, 2015 _____

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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Dawson, Iowa for the period January 1, 2014 through December 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 proper monthly book to bank reconciliations are prepared.

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/1422-0231-EP0P.pdf>.

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CITY OF DAWSON

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

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City of Dawson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Breanna Morman	Mayor	Jan 2016
Willard Brown	Council Member	Jan 2016
Glenda Hiddleson	Council Member	Jan 2016
Dan Hupp	Council Member	Jan 2016
Clarence Morman	Council Member	Jan 2016
Mike Owens	Council Member	Jan 2016
Renee Van Gundy	City Clerk	Indefinite
DuWayne J. Dalen	City Attorney	Indefinite

City of Dawson



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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 Dawson for the period January 1, 2014 through December 31, 2014. The City of Dawson'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 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 Dawson, 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 Dawson, 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 Dawson and other parties to whom the City of Dawson 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 Dawson 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

January 22, 2015

Detailed Recommendations

City of Dawson

Detailed Recommendations

For the period January 1, 2014 through December 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, 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) Journal entries – preparing and journalizing.
 - (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (7) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
 - (8) Utilities – depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (9) 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) Dawson Fire and Rescue Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, pre-numbered receipts are not issued, paid invoices or other supporting documentation are not properly cancelled and accounting records did not facilitate the proper classification of receipts or disbursements.

Recommendation – The Dawson Fire and Rescue Department should segregate accounting duties to the extent possible. In addition, pre-numbered receipts should be issued for all collections, invoices or other supporting documentation should be cancelled to prevent reuse and receipts and disbursements should be properly classified in the accounting records.

City of Dawson

Detailed Recommendations

For the period January 1, 2014 through December 31, 2014

- (C) Bank Reconciliations – 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” report generated from the City’s financial system includes the City’s main checking account, but excludes the investment accounts.

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

- (D) Financial Reporting – The following were noted:

Although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting, evidenced by liabilities remaining in the fund “Balance Sheet” report at each month end reviewed.

Property tax receipts totaling \$833 were deposited in the City’s bank account on June 14, 2014. However, we were unable to determine where the receipts were posted in the City’s general ledger.

Investments are recorded at market value in the “Bank Cash Report” rather than at cost.

Monthly financial reports, including fund balances and comparison of actual results to budget by function, were not provided to the City Council for review and approval.

Beginning fund balances reported in the Annual Financial Report (AFR) did not agree with the City’s financial records and budget amounts reported in the AFR did not agree with the City’s amended budget.

Recommendation – The City should establish procedures to ensure financial transactions, including property tax receipts, are properly recorded and are reported using the cash basis of accounting. Liability accounts in the “Balance Sheet” report should be zeroed out each month and investments should be recorded at cost, not market value.

To improve financial accountability and control, a monthly report should be submitted to the City Council showing beginning balance, receipts, disbursements, transfers and ending balance for each fund. To provide better control over budgeted disbursements and the opportunity for timely amendment to the budget, the City Clerk’s monthly financial reports to the City Council should include comparisons to the budget by function.

The City should establish procedures to ensure balances reported in the AFR reconcile to the general ledger. In addition, the budget column in the AFR should agree with the City’s amended budget.

City of Dawson

Detailed Recommendations

For the period January 1, 2014 through December 31, 2014

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

- (F) Financial Condition – At December 31, 2014, the City had a deficit balance of \$8,667 in the General Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

- (G) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 33% for property tax relief, 33% for public safety, City parks, community betterment and City quality of life projects and 34% for distribution to the Tri-County Regional Authority for recreational trails. The City’s LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

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

- (H) Journal Entries – Supporting documentation was not maintained for journal entries and journal entries were 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 approver and the date of approval.

- (I) City Clerk’s Wages – The City Clerk’s gross wages for calendar year 2014, paid in two semi-annual payments of \$1,800 each, totaled \$3,600. Documentation of City Council approval of the City Clerk’s wages and the frequency of payment was not available.

Recommendation – The City should establish procedures to ensure City Council approval is documented and available to support all City employee wages.

- (J) Certified Budget – Disbursements during the year ended December 31, 2014 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development and business type activities 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.

City of Dawson

Detailed Recommendations

For the period January 1, 2014 through December 31, 2014

- (K) 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 for its bank account.

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

- (L) Timesheets – Timesheets did not include evidence of supervisory review.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (M) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council minutes include “a list of all claims allowed and a summary of all receipts” and include “total disbursements from each fund”. Four of four monthly meeting minutes reviewed did not include total disbursements from each fund, two of four monthly meeting minutes reviewed did not include a list of all claims allowed and four of four monthly meeting minutes reviewed did not include a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and ensure the minutes publications (postings) include total disbursements by fund, a list of all claims allowed and a summary of receipts, as required.

- (N) Disbursements – Invoices or other supporting documentation were not always available to support disbursements. Supporting documentation for three transactions tested could not be located.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

- (O) Voided Checks – Voided checks were not retained, making it difficult to account for all checks.

Recommendation – Voided checks should be retained to provide accountability and control over all checks.

- (P) Questionable Disbursements – During the period reviewed, \$133 was disbursed for gift sacks for elderly citizens and \$40 was disbursed for gift cards for distribution at community events. These disbursements 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.

City of Dawson

Detailed Recommendations

For the period January 1, 2014 through December 31, 2014

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

- (Q) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Clarence Mormon, City Council Member, wife mows for the City	Mowing services	\$ 4,750

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since the transactions exceed \$2,500 and were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (R) Separately Maintained Records – The Dawson Fire and Rescue Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

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) Official Depositories – A resolution naming official depositories has not been adopted by the City as required by Chapter 12C.2 of the Code of Iowa.

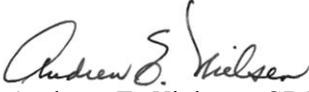
Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

City of Dawson

Staff

This agreed-upon procedures engagement was performed by:

Marlys K. Gaston, CPA, Manager
Jesse J. Probasco, CPA, Staff Auditor
Kelsie K. Boyer, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State