



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 _____ September 24, 2015 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Martensdale, 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 and establish procedures to ensure bank and utility reconciliations are performed monthly and the Annual Financial Report is prepared accurately. The City should comply with the budget amendment requirements of Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget and should publish City Council meeting minutes as required by the Code of Iowa. In addition, the City should charge all utility customers for utility usage as required by Chapter 388.6 of the Code of Iowa.

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/1422-0875-EP0P.pdf>.

###

CITY OF MARTENSDALE

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

Table of Contents

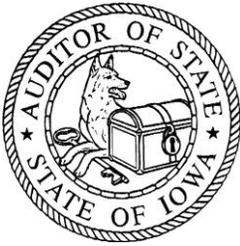
	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Bank Reconciliations	B 8
Management Financial Information	C 9
Chart of Accounts	D 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	E 9
Utility Rates	F 9
Separately Maintained Records	G 10
City Council Meeting Minutes	H 10
Payroll	I 10
Supporting Documentation	J 10
Disbursement Approval	K 11
Questionable Disbursements	L 11
Certified Budget	M 11
Change Fund	N 11
Credit Cards	O 11
Fire Department Debit Cards	P 12
Deposits and Investments	Q 12
City Utility Rate Ordinance	R 12
Accounting Policies and Procedures Manual	S 12
Staff	13

City of Martensdale

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott Marrow	Mayor	Jan 2016
John Carroll	Council Member	Jan 2016
Doug Reynolds	Council Member	Jan 2016
Ryan Baker	Council Member	Jan 2018
Scott Henson	Council Member	Jan 2018
Nathan Wheeldon	Council Member	Jan 2018
Donna Bahun	City Clerk/Treasurer	Indefinite
Robert Stuyvesant	Attorney	Indefinite

City of Martensdale



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

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 Martensdale for the period November 1, 2013 through October 31, 2014. The City of Martensdale'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 2013 and 2014 Annual Financial Reports to determine whether they were completed and accurately reflect 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 Martensdale, 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 Martensdale, 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 Martensdale and other parties to whom the City of Martensdale 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 Martensdale 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 Martensdale

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) Investments – investing and recording.
 - (3) Long-term debt – recording and reconciling.
 - (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (5) Disbursements – purchasing, check writing, signing and mailing, reconciling and recording.
 - (6) Payroll – preparing, distributing, entering payroll rates and adding or removing employees from the system.
 - (7) Utilities – billing, collecting, depositing, posting and reconciling.
 - (8) Financial reporting – preparing and reconciling.
 - (9) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
 - (10) Computer systems – performing all general accounting functions and controlling all data input and output.

For the Martensdale Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Martensdale Volunteer Fire Department should review their 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 cash and investment balances in the City’s and the Fire Department’s general ledgers were not reconciled to the bank and investment account balances throughout the year. Outstanding check lists were not prepared and retained.

Recommendation – The City and the Fire Department should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. The bank reconciliations should be reviewed by an independent person and 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 outstanding check lists should be prepared and retained.

City of Martensdale

Detailed Recommendations

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

- (C) Management Financial Information – Although monthly City Clerk’s reports are prepared, the reports do not agree with the general ledger or bank balances. The total fund balance of \$469,339 reported in the June 30, 2014 monthly City Clerk’s report cannot be supported and was \$272,371 more than the City’s bank balance of \$196,968 at June 30, 2014.

In addition, receipts, disbursements and ending fund balances reported in the Annual Financial Report (AFR) did not agree with the City’s financial records. The total fund balance of \$424,562 reported in the fiscal year 2014 AFR was \$44,777 less than the monthly City Clerk’s report balance of \$469,339 and \$227,594 more than the City’s bank balance of \$196,968.

The City Clerk’s financial reports to the City Council include a summary of beginning balance, receipts, disbursements and ending balance by fund, but do not include comparisons to the certified budget by function.

Recommendation – The City should establish procedures to ensure the monthly City Clerk’s reports and the Annual Financial Report reconcile to the general ledger and bank balances. To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function.

- (D) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (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 with the signature or initials of the reviewer and the date of the review and monitor delinquent accounts.

- (F) Utility Rates – Chapter 388.6 of the Code of Iowa states, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies...”. According to the City Clerk, the City Council approved free utility service for the City Clerk and the maintenance worker. The City Clerk does not reside within the City limits and, therefore, did not receive free utility service during the period reviewed. However, the City maintenance employee resides within the City limits and received free utility service in violation of the Code of Iowa.

Recommendation – The City should not provide free utility service to City employees and should charge all utility customers for service as required by Chapter 388.6 of the Code of Iowa. The City should consult legal counsel to determine whether to seek payment from the City maintenance worker for past utility service.

City of Martensdale

Detailed Recommendations

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

- (G) Separately Maintained Records – The Fire Department maintains accounts separate from the City’s accounting records. The transactions and resulting balances of these accounts were not included in the City Clerk’s accounting records or the City’s annual budget and were not reported to the City Council each month.

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 annual budget and should be reported to the City Council monthly.

- (H) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the minutes of the City Council proceedings be published within fifteen days of the meeting, including a list of claims allowed, a summary of receipts and total disbursements by fund. The minutes tested were not published within fifteen days and the publications did not include a list of claims allowed, a summary of receipts or total disbursements by fund, as required. Also, the City did not publish annual gross salaries as required by an Attorney General’s opinion dated April 12, 1978.

Recommendation – The City should publish minutes within fifteen days, including a list of claims allowed, a summary of receipts and total disbursements by fund, as required. The City should also publish annual gross salaries, as required.

- (I) Payroll – The following were noted:

- (1) City employees do not prepare and submit timesheets to support hours worked.
- (2) The City does not have a written policy for how vacation, sick leave and compensatory time should be accrued and accounted for.
- (3) Annual salary increases for City employees were approved based upon a percentage and the actual approved wages and hourly rates were not documented in the City Council meeting minutes.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and reviewed, approved and signed by the employee’s immediate supervisor prior to submission. A formal, written policy should be established to provide for the proper accrual of and accounting for vacation, sick leave and compensatory time. Actual approved wages and hourly rates should be documented in the City Council meeting minutes.

- (J) Supporting Documentation – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for two transactions tested could not be located.

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

City of Martensdale

Detailed Recommendations

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

- (K) Disbursement Approval – While the City Council meeting minutes document approval of claims in total, a list of claims is not prepared for City Council review/approval and evidence of approval is not otherwise indicated on the invoices or claims.

Recommendation – Procedures should be established to ensure the claims or lists of claims are provided to the City Council for review and approval.

- (L) Questionable Disbursements – During the period reviewed, we noted \$99 was disbursed from the Martensdale Fire Department account for alcohol. 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. It is unclear how the purchase of alcohol would serve a public purpose.

Recommendation – The City Council should determine and document the public purpose served by the disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation of public purpose. Disbursements should not be approved if the public purpose is not served.

- (M) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the debt service function. 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.

- (N) Change Fund – The City maintains a change fund for which no authorization could be located.

Recommendation – The change fund should be formally authorized by the City Council.

- (O) Credit Cards – The City has credit cards for use by various employees while on official business. The City has not adopted a formal policy to regulate the use of the credit cards 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 credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to support the purchase.

City of Martensdale

Detailed Recommendations

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

- (P) Fire Department Debit Cards – The Fire Department has debit cards available for use by volunteers while on Department business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the Fire Department. The function of a debit card is to provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (Q) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, 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 – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (R) City Utility Rate Ordinance – Chapter 384.84 of the Code of Iowa requires utility rates be established by ordinance of the City Council. Chapter 372.13 (5) requires City records and documents be retained. The ordinance establishing the City's utility rates could not be located and was unavailable for review during the performance of our procedures.

Recommendation – The City should ensure utility rates are established by ordinance and ensure all ordinances are retained, as required.

- (S) 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:

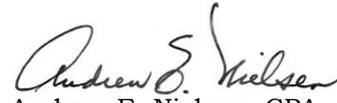
- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to make each time the same, or a similar, situation arises.

City of Martensdale

Staff

This examination was performed by:

Timothy D. Houlette, CPA, Manager
Ramona E. Daly, Staff Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State