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STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ March 23, 2016 _____

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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Victor, Iowa for the period July 1, 2014 through June 30, 2015. 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 take steps to reduce, and eventually eliminate, any deficit balances. The City should also ensure financial activity and balances of all City accounts are included in the City's accounting records.

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/1521-0446-BL0F.pdf>.

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CITY OF VICTOR

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

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City of Victor

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Pawlak	Mayor	Jan 2016
Marla Faga	Mayor Pro-Tem	Jan 2016
Dan Cavin	Council Member	Jan 2016
Joan Robinson	Council Member	Jan 2016
Justin Smith	Council Member	Jan 2016
Shawn Sternhagen	Council Member	Jan 2016
Fred Stiefel	City Clerk/Attorney	Indefinite

City of Victor



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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 Victor for the period July 1, 2014 through June 30, 2015. The City of Victor'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 2015 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 transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Victor, 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 Victor and other parties to whom the City of Victor 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 Victor 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 17, 2015

Detailed Recommendations

City of Victor

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

(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 – reconciliation and cash receipts.
- (3) Investments – investing, recording and custody.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, posting and reconciling.
- (6) Disbursements – preparing, mailing, posting and reconciling.
- (7) Payroll – preparation, posting and distribution.

For the Fire Department, 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.

For the QRS First Responders, 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.

For the Library, 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.

City of Victor

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

For the Cemetery and Perpetual Care Cemetery, 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.

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

- (C) 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 be made each time the same, or a similar, situation arises.

- (D) Separately Maintained Records – The Fire Department, Library, QRS First Responders and the Cemetery maintain accounts separate from the City’s accounting records. The transactions and resulting balances of these accounts were not recorded in the City Clerk’s accounting records and they were not included in the City’s annual financial report.

Recommendation – Chapter 384.20 of the Code of Iowa state, 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, including budget reports, and should be reported to the City Council on a monthly basis.

City of Victor

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (E) Payroll – Timesheets were not prepared by salaried employees. Also, there is no personnel policy for vacation, sick leave and compensated absences earned and used.

Recommendation – Timesheets should be prepared by all City employees. The timesheets should be approved and initialed by the employee’s supervisor or by an independent official who is not involved with payroll. Additionally, the City should develop a personnel policy for vacation, sick leave and compensated absences earned and used.

- (F) Monthly City Clerk’s Report – The City Clerk’s financial reports to the City Council did not include comparisons to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting, including total disbursements from each fund and a summary of receipts. Minutes publications for four meetings tested did not include total disbursements from each fund or a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements by fund and a summary of receipts, as required.

- (H) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
D&P Lounge	Alcohol – Fire Department	\$ 1,203
Victor American Legion	Soda and alcohol – QRS fundraiser	229

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses 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 thoroughly consider and document the public purpose and propriety of these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

City of Victor

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (I) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Roger Pawlak, Mayor, Owner of Pawlak Management	Prepares utility billings	\$ 1,860
Fred Stiefel, City Clerk, Owner of Stiefel Insurance	Insurance	38,967
Tom Kurovski, Public Works employee	Cemetery mowing	612

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with the Mayor and Mr. Kurovski do not appear to represent a conflict of interest since total transactions with each were less than \$2,500 during the fiscal year.

The transactions with Stiefel Insurance may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceeded \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – Since Mr. Stiefel is also the City Attorney, the City Council should consult with independent legal counsel.

- (J) Investments – The City owns common stock in Principal Financial Group. Principal Mutual Life converted from a mutual insurance company to a stock company in 2001. At that time, the City’s mutual shares were converted to an equal amount of common stock. Chapter 12B of the Code of Iowa does not permit a City to hold common stock. Additionally, the investment balance is not reported in the City’s Annual Financial Report.

Recommendation – The City should comply with Chapter 12B of the Code of Iowa. In addition, all investment balances should be reported in the City’s Annual Financial Report.

- (K) Financial Condition – The General, Fire and Library (sub-General Funds) and the Enterprise, Sewer Funds had deficit balances at June 30, 2015 of \$68,053, \$2,542 and \$21,666, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

- (L) Employee Benefits – The City accounted for the proceeds of the employee benefits levy in the General Fund rather than establishing a Special Revenue Fund as required by Chapter 384.6 of the Code of Iowa.

Recommendation – The City should establish a Special Revenue Fund to account for the employee benefit levy as required by Chapter 384.6 of the Code of Iowa.

City of Victor

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (M) Payment of General Obligation Notes – Principal and interest on the City’s general obligation sanitary sewer notes were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes, and received from sources other than property taxes, must be deposited in the debt service fund.”

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

- (N) 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.

- (O) Excess Balance – The Special Revenue, Tax Increment Financing (TIF) KUBU Fund has a balance of \$24,068 at June 30, 2015. However, there is no corresponding tax increment debt outstanding at that date. Chapter 24.21 of the Code of Iowa requires when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the excess balance in the City’s TIF fund. If the City has no further tax increment financing debt, the balance should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa.

- (P) 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 accounts.

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 Victor

Staff

This agreed-upon procedures engagement was performed by:

Pamela J. Bormann, CPA, Manager
Brandon J. Vogel, Senior Auditor II
Lucas P. Mullen, Assistant Auditor


Marlys K. Gaston, CPA
Director