



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE August 31, 2016

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Rathbun, Iowa for the period April 1, 2015 through March 31, 2016. 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 records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. In addition, the City should comply with Chapters 12B.10B and 12C.2 of the Code of Iowa by establishing a written investment policy and approving a resolution naming official depositories. The City should also comply with Code of Iowa requirements for posting City Council meeting minutes, maintaining surety bond coverage and amending the budget before disbursements are allowed to exceed the budget.

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 <https://auditor.iowa.gov/reports/1522-0024-EPOP>.

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CITY OF RATHBUN

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

**FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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City of Rathbun

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Barb Milburn	Mayor	Jan 2016
Mike Baker	Council Member	Jan 2016
Richard Glovas	Council Member	Jan 2016
Paul Hill	Council Member	Jan 2016
Ronnie Milburn	Council Member	Jan 2016
Roger Shiltz	Council Member	Jan 2016
Karen Poolman	City Clerk	Indefinite
Mike Craver	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Barb Milburn	Mayor	Jan 2018
Mike Baker	Council Member	Jan 2018
Richard Glovas	Council Member	Jan 2018
Paul Hill	Council Member	Jan 2018
Ronnie Milburn	Council Member	Jan 2018
Roger Shiltz	Council Member	Jan 2018
Karen Poolman	City Clerk	Indefinite
Mike Craver	Attorney	Indefinite

City of Rathbun



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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 Rathbun for the period April 1, 2015 through March 31, 2016. The City of Rathbun'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 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.
8. 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.

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 transfers between funds for propriety, proper authorization and accurate accounting.
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.

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 Rathbun, 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 Rathbun and other parties to whom the City of Rathbun 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 Rathbun 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

April 19, 2016

Detailed Recommendations

City of Rathbun

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

(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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Computer system – performing all general accounting functions and controlling all data input and output.
- (8) Financial reporting – preparing and reconciling.
- (9) Bank reconciliations – independent reviews of bank reconciliations were not documented.

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) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

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

(C) 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.

City of Rathbun

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (D) Outstanding Check Listing – For three of 12 months reviewed, an outstanding check listing detailing the check number, amount and date written for each outstanding check was not prepared.

Recommendation – The City should prepare an outstanding check listing monthly. The listing should include the check number, amount and date written for each check outstanding.

- (E) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings in cities with a population of less than 200 be posted in three public places (established by City ordinance) within fifteen days of the meeting. The postings should include total disbursements from each fund, a listing of all claims allowed, the purpose for each claim and a summary of receipts. Although minutes for the City Council meetings were posted in three public places, as required, the minutes postings did not include total disbursements from each fund, a listing of claims allowed, the purpose of each claim or a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and ensure the posted minutes include total disbursements by fund, a listing of all claims allowed, the purpose for each claim and a summary of receipts.

- (F) Surety Bond Coverage - Surety bond coverage of City officials and employees is not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation - The City should maintain surety bond coverage as required by Chapter 64 of the Code of Iowa.

- (G) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works and community and economic development 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) Computer System – The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Ensuring only software licensed to the City is installed on computers.
- Internet usage.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system.

City of Rathbun

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (I) Receipts – Pre-numbered receipts were not issued for all collections.

In addition, five of 25 receipts tested for liquor license permits, road use tax and local option sales tax were recorded in incorrect funds.

Recommendation – Pre-numbered receipts should be issued at the time of collections to provide additional control over the proper collection and recording of all receipts. Receipts should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented. The City should make corrective transfers to record receipts in the correct funds.

- (J) 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.

- (K) Financial Reporting – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures.” The AFR due December 1, 2015 omitted the Special Revenue, Community Donation Fund activity and fund balance of \$1,392. Also, debt payments of \$3,192 were incorrectly reported as general government disbursements rather than debt service disbursements.

Recommendation – The City should ensure all receipts, disbursements and balances are properly reported in the AFR by reconciling all amounts to the City’s financial records. An independent person should review the AFR for accuracy.

- (L) Debt Service – 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.” Principal and interest on the City’s general obligation promissory note were recorded in the Special Revenue, Local Option Sales Tax Fund rather than the Debt Service Fund. Also, the total amount of general obligation debt outstanding, including principal and interest, is not tracked by the City.

Recommendation - The City should transfer funds to the Debt Service Fund to pay general obligation bonds. Also, the City should track all outstanding debt and reconcile with payments made by the City.

City of Rathbun

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (M) Payroll Returns and Taxes – The employee’s share of payroll taxes was not withheld from certain payroll checks. In addition, wages for the current and prior years have not been reported on IRS Forms W-2 and 941. We were unable to determine how long payroll taxes have not been withheld or wages reported.

Recommendation – The City should contact the IRS to determine the disposition of this matter. The City should establish procedures to ensure the employee share of payroll taxes are withheld and remitted and all payroll tax returns are completed and filed.

- (N) Safeguarding City Records – The City does not have fire prevention devices in City Hall.

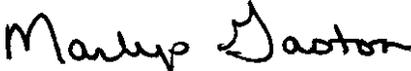
Recommendation – The City should install fire prevention devices to help safeguard City records.

City of Rathbun

Staff

This agreed-upon procedures engagement was performed by:

Deborah J. Moser, CPA, Manager
Kaylynn D. Short, CPA, Senior Auditor


Marlys K. Gaston, CPA
Director