



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ September 9, 2016

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Beaman, Iowa for the period January 1, 2015 through December 31, 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 establish procedures to ensure detailed listings of claims approved are retained. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budgeted amounts and establish procedures to properly account for local option sales tax (LOST) receipts, disbursements and balances in accordance with the LOST ballot provisions.

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/1522-0353-EPOP>.

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CITY OF BEAMAN

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

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City of Beaman

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ann Smith	Mayor	Jan 2018
Brenda Heitmeyer	Council Member	Jan 2016
Dave Moorman	Council Member	Jan 2016
Brian DeSilva	Council Member	(Resigned Sep 2015)
Debbie Ashton	Council Member	Jan 2018
Barry Brockman (Appointed and elected)	Council Member	Jan 2018
Jason Scafferi	Council Member	Jan 2018
LaVonne Sternhagen	City Clerk/Treasurer	Indefinite
Erika Allen	Attorney	Indefinite

City of Beaman



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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 Beaman for the period January 1, 2015 through December 31, 2015. The City of Beaman'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 Beaman, 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 Beaman and other parties to whom the City of Beaman 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 Beaman 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

March 31, 2016

Detailed Recommendations

City of Beaman

Detailed Recommendations

For the period January 1, 2015 through December 31, 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 - 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) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (6) Long-term debt – recordkeeping, compliance and debt payment processing.
 - (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
 - (9) Computer system – performing all general accounting functions and controlling all data input and output.
 - (10) Financial reporting – preparing and reconciling.

For the Beaman Volunteer Fire Department account, 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 and the 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.

City of Beaman

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (B) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” Fund balances reported in the City’s 2015 Annual Financial Report do not agree with the City’s records. Also, outstanding debt at June 30, 2015 was incorrectly reported as \$9,000 rather than \$129,000.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

- (C) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual accounts, they were not always reviewed by an independent person. Also, a complete reconciliation including investments was not prepared.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

- (D) Investments – The City has adopted a written investment policy. However, the policy refers to an outdated Chapter of the Code of Iowa rather than to Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should modify the written investment policy to reference current Code of Iowa provisions.

- (E) Payment of General Obligation Notes – 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 taxes, must be deposited in the debt service fund.” During the period reviewed, the City paid interest of \$637 on a general obligation capital loan note from the General Fund.

Recommendation – The City should transfer future funding contributions from the General Fund to the Debt Service Fund. Payments on the general obligation capital loan notes should be made from the Debt Service Fund, as required.

- (F) Journal Entries – Journal entries are not reviewed and approved by an independent individual.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (G) Disbursements – Evidence of City Council approval for certain disbursements tested could not be located.

Recommendation – All disbursements should be approved by the City Council. The City should establish procedures to ensure a detailed listing of claims approved is retained.

City of Beaman

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (H) Payroll – Timesheets did not include evidence of supervisory review. Additionally, the wage rate for four of the six employees tested was not approved by the City Council.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, the City Council should approve pay rates for all City employees at the time of hiring and when raises occur. The approved rates should be documented in the City Council meeting minutes.

- (I) Certified Budget – Disbursements for the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and general government 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.

- (J) 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.

- (K) Utility Rates – We reviewed the December 2015 utility billings for all elected officials. One City Council Member tested was billed an incorrect sewer rate resulting in a \$6 under billing for the month. According to the City Clerk, the incorrect billing rate resulted from the Council Member’s account classification changing from commercial to residential a few years ago, but the rate was never updated in the system. The City’s sewer ordinance does not allow for a different rate for commercial and residential customers. Accordingly, charging different rates is in violation of the City’s ordinance and Chapter 384.84 of the Code of Iowa.

Recommendation - The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement of the under billed amounts for the current and prior years. An independent person should periodically review and test utility billings to ensure they are properly calculated and the correct rates are billed. Also, the City should ensure all utility rates are established by ordinance as required by Chapter 384.84 of the Code of Iowa.

- (L) Separately Maintained Records – The Fire Department maintains separate accounting records for certain operations. The transactions and the resulting balances were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports. Also, invoices and other supporting documentation were not always available to support disbursements from this account.

City of Beaman

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

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. Also, all disbursements should be supported by invoices or other supporting documentation.

- (M) Questionable Disbursements – Certain Fire Department 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:

Paid to	Purpose	Amount
Walmart	Water, Gatorade, pop	\$ 97
Grundy County Fire Association	Dues	80
Something to Share	Flowers	59
Casey’s General Store	Donuts, ice	40

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.

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 documentation.

- (N) Local Option Sales Tax – The City’s Local Option Sales Tax (LOST) ballot requires LOST receipts be used 100% for community betterment. 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.

- (O) Bank Loan Agreement – On December 17, 2015, the City entered into a bank loan for \$12,000 for a City truck and plow. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

City of Beaman

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (P) Investment Summary Report – One certificate of deposit (CD) balance on the June 30, 2015 investment summary report was reflected as a negative \$5,822 while the actual CD balance was \$5,835. Also, the total adjusted CD balance on the investment summary report was \$195,359 while the actual total CD balance was \$196,629, a variance of \$1,270. Also, there is no evidence of independent review of the investment summary report.

Recommendation – The City should establish procedures to ensure the investment summary report is accurate. An independent person should review the investment summary report and document the review by signing or initialing and dating the investment summary report.

- (Q) City Council Vacancy – In accordance with Chapter 372.13(2) of the Code of Iowa, when a vacancy occurs on the City Council, the vacancy should be filled one of two ways, the City Council should 1) appoint a member within 60 days after the vacancy or 2) call a special election. If the City Council fails to make an appointment within sixty days, the City Clerk shall give notice of the vacancy to the County Commissioner and the County Commissioner shall call a special election to fill the vacancy at the earliest practicable date.

On September 9, 2015 Brian DeSilva resigned from the City Council and the City Council appointed a replacement on December 9, 2015, ninety-one days after the resignation date. Since the appointment was not within sixty days of the vacancy, the City should have notified the County Commissioner and a special election should have been held to fill the position.

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

City of Beaman

Staff

This agreed-upon procedures engagement was performed by:

Ernest H. Ruben Jr., CPA, Manager
Nicole L. Roethlisberger, Staff Auditor
Alex W. Case, Assistant Auditor


Marlys K. Gaston, CPA
Director