



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

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

October 21, 2016

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Ottosen, 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 ensure monthly bank reconciliations are reviewed by an independent person. The City should also comply with Chapter 12C.2 of the Code of Iowa by establishing a resolution naming official depositories and should amend the budget in accordance with Chapter 384.18 of the Code of Iowa 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/1522-0431-EPOP>.

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CITY OF OTTOSEN

**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 Ottosen

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Monte Newton	Mayor	Jan 2016	Jan 2018
Dan Bennet	Council Member	Jan 2016	Jan 2018
Jan Brown	Council Member	Jan 2016	Jan 2018
Jason Fowler	Council Member	Jan 2016	Jan 2018
Veronica Fowler	Council Member	Jan 2016	Jan 2018
Frank Hacker	Council Member	Jan 2016	Jan 2018
Ronna Lounsberry	City Clerk		Indefinite

City of Ottosen



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

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

July 13, 2016

Detailed Recommendations

City of Ottosen

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 and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Long-term debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (5) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – record keeping, preparing, posting and distributing.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.

In addition, the monthly utility reconciliations and billings were not reviewed by an independent person.

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) 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.

(C) Timesheets – Timesheets were not prepared by salaried employees.

Recommendation – Timesheets should be prepared by all City employees to support hours worked and taken as leave time. The timesheets should be reviewed and approved by the employee's supervisor prior to the preparation of payroll. Supervisory review/approval should be documented by the supervisor's initials and the date approved.

City of Ottosen

Detailed Recommendations

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

- (D) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include total disbursements from each fund and a summary of all receipts. In cities with a population less than 200, the publication requirements can be met by posting the minutes in three public places permanently designated by city ordinance. The City Council has not adopted an ordinance to permanently designate three public places at which to post the City Council meeting minutes. The minutes reviewed were posted in only one location and the postings were not within 15 days, as required. In addition, the minutes postings did not include total disbursements by fund or a summary of receipts.

Recommendation – The City Council should adopt an ordinance to permanently designate three public places at which to post meeting minutes, as required. The minutes should be posted within 15 days and the postings should include total disbursements for each fund and a summary of all receipts.

- (E) 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:

Paid to	Purpose	Amount
Bank Iowa – Humboldt	Two \$500 gift cards for Mayor Kinseth’s retirement, including a service fee	\$ 1,003
Ottosen Community Center	Santa Claus day	30

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such disbursements 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 should consult legal counsel to determine the disposition of the gift cards and related service fee purchased for the retiring City Mayor, including seeking reimbursement, if appropriate. The City Council should consider and document the public purpose and propriety of the Santa Claus day disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

- (F) 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 – 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.

- (G) 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.

City of Ottosen

Detailed Recommendations

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

- (H) Monthly City Clerk's Report – The monthly City Clerk's reports do not include a comparison of total disbursements for all funds 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 should establish procedures to ensure monthly City Clerk's reports include a comparison of total disbursements for all funds to the certified budget by function.

- (I) Business Transactions – Business transactions between the City and City officials or employees for fiscal year 2015 are as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dan Bennett, Council Member, Owner of Bennett Recycling and Sanitation, L.L.C.	Garbage and recycling services	\$ 3,876

These transactions may represent a conflict of interest as defined in Chapter 362.5(3)(k) of the Code of Iowa since the total transactions exceeded \$2,500 during the fiscal year and the transactions were not competitively bid.

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

- (J) Employee Benefits – The City accounted for the employee benefits levy in the General Fund rather than a Special Revenue Fund. In accordance with budget forms prescribed by the Iowa Department of Management, the employee benefits levy is a Special Revenue Fund levy.

Recommendation – The City should establish a Special Revenue Fund to account for the employee benefits levy.

- (K) Bank Reconciliations – The cash balances in the City's general ledger were reconciled to bank account balances throughout the year, however, an independent review of the bank reconciliations was not performed.

Recommendation – The bank reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (L) 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.

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 Ottosen

Detailed Recommendations

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

- (M) Loan Agreement – On November 15, 2013, the City entered into a loan agreement with a City resident for \$40,000 at 5% per annum for a building. 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 before entering into a loan agreement, 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.

- (N) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety 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.

- (O) Annual Financial Report – The fiscal year 2015 Annual Financial Report (AFR) beginning balances for governmental and proprietary funds did not agree with the prior year ending balances. Also, debt reported on the AFR was incorrectly reported as other short-term debt rather than other long-term debt.

Recommendation – The City should ensure the Annual Financial Report beginning balances agree with the prior year ending balances and debt is properly reported.

- (P) Change Fund – The City maintains between \$1 and \$5 in cash to make change as necessary or to pay for postage or money orders, as needed. The City Council has not approved a change fund and this change fund is not maintained on an imprest basis.

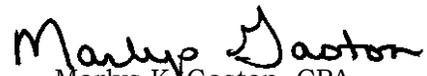
Recommendation – If the City Council determines a change fund is necessary, a specific amount should be approved and established. This change fund should be maintained on an imprest basis to improve the accountability for cash and provide for the reconciliation of receipts and deposits.

City of Ottosen

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Marcus B. Johnson, Staff Auditor


Marlys K. Gaston, CPA
Director