



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

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NEWS RELEASE

FOR RELEASE _____ October 27, 2016

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Royal, 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. In addition, the City should adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa and should comply with Chapter 556.11 of the Code of Iowa by remitting checks outstanding for more than two years to the Office of Treasurer of State annually.

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/1522-0179-EP0P>.

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CITY OF ROYAL

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

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

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 |
| Reconciliation of Utility Billings, Collections and Delinquent Accounts | C | 8 |
| Monthly City Clerk’s Report | D | 8 |
| Deposits and Investments | E | 9 |
| Accounting Policies and Procedures Manual | F | 9 |
| City Council Meeting Minutes | G | 9 |
| Questionable Disbursements | H | 9 |
| Payment of General Obligation Bonds | I | 10 |
| Annual Financial Report | J | 10 |
| City Change Fund | K | 10 |
| Receipts | L | 10 |
| Disbursements | M | 10 |
| Unclaimed Property | N | 10 |
| Authorized Signatures | O | 11 |
| Separately Maintained Records | P | 11 |
| Staff | | 12 |

City of Royal

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|------------------|----------------------|-----------------------|-------------------------|
| Florence Ihry | Mayor | Jan 2016 | Jan 2018 |
| Laef Lundbeck | Council Member | Jan 2014 | Jan 2018 |
| Arlene Wimmer | Council Member | Jan 2014 | Jan 2018 |
| Jim Ransom | Council Member | Jan 2016 | Jan 2020 |
| Josh Toft | Council Member | Jan 2016 | Jan 2020 |
| Jeff Van Westen | Council Member | Jan 2016 | Jan 2020 |
| Barbara Fletcher | City Clerk/Treasurer | | Indefinite |
| Barry Sackett | Attorney | | Indefinite |

City of Royal



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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 Royal for the period April 1, 2015 through March 31, 2016. The City of Royal'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 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 Royal, 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 Royal and other parties to whom the City of Royal 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 Royal 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 Royal

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) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing, posting and distributing.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.

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) Bank Reconciliations – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances each month. However, the review by an independent person is not performed timely.

Recommendation – An independent person should review the reconciliations timely and document the review by signing or initialing and dating the monthly reconciliations.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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.

(D) 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 – 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.

City of Royal

Detailed Recommendations

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

- (E) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B 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.

- (F) 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.

- (G) City Council Meeting Minutes – For the four City Council meeting minutes tested, the minutes were only signed by the City Clerk.

Recommendation – City Council meeting minutes should be signed by the City Clerk and someone independent of the meeting minutes preparation.

- (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:

| Paid to | Purpose | Amount |
|------------------|--------------------------|--------|
| Fredericks | Gift card for retirement | \$ 26 |
| Lundbeck Service | Gift card for retirement | 25 |
| Royal Café | Gift card for retirement | 25 |
| Haggy’s | Gift card for retirement | 25 |

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 public purpose documentation.

City of Royal

Detailed Recommendations

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

- (I) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation wastewater bonds were paid from the General Fund. 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.”

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

- (J) Annual Financial Report – The total ending balance reported on the City’s June 30, 2015 Annual Financial Report (AFR) did not agree with the June 30, 2015 City Clerk’s report by \$3,523. The AFR reported rents and royalties of \$2,007 which were not supported by the general ledger cards, \$6,017 of miscellaneous receipts which were incorrectly coded to state grant receipts and Road Use Tax Fund disbursements which did not agree with the general ledger cards. In addition, disbursements recorded in the general ledger cards for the public works department and the Road Use Tax Fund were totaled, divided by three and the result was reported in the AFR as one third Road Use Tax Fund disbursements and two thirds General Fund disbursements, divided equally between the street cleaning and snow removal line items within the public works function. We were unable to determine the accuracy of the disbursements reported on the AFR.

Recommendation – The City should ensure the Annual Financial Report is accurate and agrees with the general ledger cards.

- (K) City Change Fund – The City maintains a change fund to make change as necessary. The City Council has not approved a change fund for the City and this change fund is not included in the monthly City Clerk’s reports.

Recommendation – If the City Council determines a change fund is necessary, a specific amount should be approved and established and the balance should be included in the monthly City Clerk’s reports.

- (L) Receipts – Checks received by the City are not restrictively endorsed upon receipt.

Recommendation – The City should restrictively endorse all checks immediately upon receipt.

- (M) Disbursements – Supporting documentation for one transaction tested could not be located.

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

- (N) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit those obligations as required.

Recommendation – The outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

City of Royal

Detailed Recommendations

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

- (O) Authorized Signatures – For five of the eight accounts reviewed, the City did not remove the former City Mayor as an authorized signer on the account.

Recommendation – The City should ensure authorized signers are updated on all accounts when necessary.

- (P) Separately Maintained Records – The City maintains a community building checking account and separate accounting records for the Library. The transactions and resulting balances of these accounts are not included in the City’s accounting records. In addition, the Library records do not follow the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee and thirteen of fifteen Library disbursements selected for testing were not approved by the Library Board prior to payment.

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. To provide better financial information and control, the recommended COA, or its equivalent, should be followed. In addition, all disbursements should be approved by the Library Board prior to payment.

City of Royal

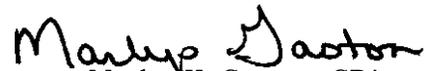
Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager

Ramona E. Daly, Staff Auditor

Mitchell W. Shipman, Assistant Auditor


Marlys K. Gaston, CPA
Director