

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

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NEWS RELEASE

FOR RELEASE

November 10, 2016

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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Bertram's Periodic Examination Report dated August 27, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period August 1, 2015 through July 31, 2016.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report are indications the City Council needs to exercise additional fiduciary oversight. Eight of nineteen findings reported in the Periodic Examination Report dated August 27, 2014 have been corrected and three have been partially corrected. The City Council has not yet taken action to implement the remaining eight findings. Three additional findings identified during the follow-up procedures are also included in this report.

A copy of the Report on the Status of Findings and Recommendations from the City of Bertram's Periodic Examination Report dated August 27, 2014 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/1422-0538-EPFP>.

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CITY OF BERTRAM

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
AUGUST 1, 2015 THROUGH JULY 31, 2016**

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City of Bertram

Officials

<u>Name</u>	<u>Title</u>	<u>Term Begins</u>	<u>Term Expires</u>
James Drahos	Mayor	Jan 2016	Jan 2018
Steve Carpenter	Council Member	Jan 2016	Jan 2018
Penny Kula	Council Member	Jan 2016	Jan 2018
Robert Malone	Council Member	Jan 2016	Jan 2018
William Mulholland	Council Member	Jan 2016	Jan 2018
Stephanie Vislisel	Council Member	Jan 2016	Jan 2018
Lisa Berry	City Clerk		Indefinite
Donna Kephart	Treasurer		Indefinite

City of Bertram



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated August 27, 2014 on the City of Bertram, Iowa covering the Period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.


This report includes the findings and recommendations from the City's Periodic Examination Report dated August 27, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedure

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

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 Bertram and other parties to whom the City of Bertram 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 Bertram during the course of our follow-up procedures. Should you have 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

August 24, 2016

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Bertram

Detailed Recommendations

For the period August 1, 2015 through July 31, 2016

Findings Reported in the Periodic Examination Report dated August 27, 2014

(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) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.

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.

Status – Partially corrected. During the period reviewed, payroll was prepared by the City Treasurer who is independent of payroll record keeping and distributing. The recommendation is repeated for cash, receipts, disbursements, payroll distribution, utilities and financial reporting.

(B) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to bank account balances throughout the year.

Recommendation – The City should establish procedures to ensure all bank account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Status – Not corrected. The recommendation is repeated. In addition, see finding (V).

(C) 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.

Status – Not corrected. The recommendation is repeated.

City of Bertram

Detailed Recommendations

For the period August 1, 2015 through July 31, 2016

- (D) 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.

Status – Not corrected. The recommendation is repeated.

- (E) Utility Billings – For the month reviewed, two non-residential customers were not billed.

Recommendation – The City should establish procedures to ensure all customers are billed monthly.

Status – Not corrected. The recommendation is repeated. In addition, Chapter 388.6 of the Code of Iowa states, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies...”. The City should charge all utility customers for service as required by Chapter 388.6 of the Code of Iowa. The City should consult legal counsel to determine whether to seek payment for the past unbilled utility service.

- (F) 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.

Status – Corrected. The City adopted a written investment policy and a depository resolution on September 2, 2015.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to include total disbursements from each fund and a list of claims allowed, including the reason for the claim. Minutes did not include disbursements from each fund and the list of claims allowed did not include the reason for each claim. In addition, meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and include disbursements by fund and a listing of claims allowed, including reasons for the claims, in the published minutes. The City should comply with the Code of Iowa and properly sign the approved minutes.

Status – Corrected. During the period reviewed, the minutes publications complied with the Code of Iowa and the meeting minutes were properly signed.

City of Bertram

Detailed Recommendations

For the period August 1, 2015 through July 31, 2016

- (H) Monthly City Clerk's Report – A monthly City Clerk's report, including a summary of receipts, disbursements and ending balances by fund, was not prepared throughout the year.

Recommendation – The City should establish procedures to ensure a monthly City Clerk's report which includes a summary of receipts, disbursements and ending balances by fund is prepared each month. The City Council should review and approve the City Clerk's report monthly and document the review with the signature or initials of the reviewer and the date of the review.

Status – Corrected. For the period reviewed, monthly City Clerk's reports were prepared and included a summary of receipts, disbursements and ending balances by fund. The monthly reports also included evidence of review.

- (I) Annual Financial Report – A complete general ledger with balances for all funds is not maintained. Balances reported in the Annual Financial Report could not be traced directly to the City's general ledger.

Recommendation – The City should ensure the receipts and disbursements included in future Annual Financial Reports are supported by the amounts recorded in the City's general ledger.

Status – Corrected. The amounts reported on June 30, 2015 Annual Financial Report for receipts, disbursements and fund balances agree with the City's general ledger.

- (J) Financial Condition – At July 31, 2014, the City had deficit balances of \$787 and \$16,503 in the Special Revenue, Road Use Tax and Local Option Sales Tax Funds, respectively.

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

Status – Partially corrected. As of July 1, 2016, the deficit balances in the Special Revenue, Road Use Tax and Local option Sales Tax Funds had been eliminated. However, the Capital Projects Fund had a deficit balance of \$155,171 at July 31, 2016. The recommendation is repeated for the Capital Projects Fund.

- (K) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections and an initial listing of collections was not prepared.

Recommendation – Pre-numbered receipts should be issued for all collections and an initial listing of collections should be prepared. These collections should be compared to the bank deposit and the accounting records by an independent person and the review should be documented.

Status – Not corrected. The recommendation is repeated.

City of Bertram

Detailed Recommendations

For the period August 1, 2015 through July 31, 2016

- (L) Disbursement Documentation – Supporting documentation for two disbursements could not be located. In addition, supporting documentation is not furnished to the check signer prior to signing the checks and approval for payment is not documented by the signature or initials of the reviewer and the date of review on the supporting documentation. Also, the supporting documentation for claims is not cancelled to prevent reuse.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. In addition, supporting documentation for disbursements should be reviewed by the check signer prior to signing checks. Payment approval should be documented by the signature or initials of the reviewer and the date of review on the supporting documentation. Also, the supporting documentation for claims should be cancelled to prevent reuse.

Status – Partially corrected. During the period reviewed, the City implemented procedures to review supporting documentation prior to signing checks and payment approval was documented by the signature of the reviewer and the date of the review on supporting documentation. Supporting documentation for claims was cancelled to prevent reuse. However, two disbursements for credit card purchases tested were not supported by invoice or other supporting documentation. In addition, see finding (T).

- (M) Charge Account – The City has a charge account at a local gas station for City business. The City has not adopted a formal policy to regulate the use of the charge account and has not established procedures for the proper accounting of charge account purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City's charge account. The policy, at a minimum, should address who is authorized to use the charge account and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Status – Corrected. The City adopted a Credit Card Policy on September 2, 2015 which addresses the items included in the recommendation.

- (N) Checks Signed in Advance – Certain checks are signed before work is completed and are held between accounting periods.

Recommendation – Checks should not be signed before work is completed and should not be written and held. The City should amend the budget, as needed, to account for disbursements in the proper accounting period.

Status – Corrected. During the period reviewed, the City did not sign checks in advance.

City of Bertram

Detailed Recommendations

For the period August 1, 2015 through July 31, 2016

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Carlyle Bys, Husband of Treasurer, Self employed	Mowing/general maintenance	\$ 2,977

The transactions with Carlyle Bys do not appear to represent a conflict of interest because they were competitively bid.

Status – Corrected. No business transactions occurred during the period reviewed.

- (P) 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>
Robert Malone	Reimbursement for plaque for former Mayor	\$ 41
Larry Hess	Late fee for late payment of invoice	10
Stephanie Vilisel	Memorial gift	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 documentation.

Status – Not corrected. During the period reviewed, a late fee of \$20 was paid to IPERS. The recommendation is repeated.

- (Q) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

Status – Corrected. During the period reviewed, the City restrictively endorsed checks upon receipt.

City of Bertram

Detailed Recommendations

For the period August 1, 2015 through July 31, 2016

- (R) Timesheets – Timesheets are not completed to substantiate hours worked prior to preparation of payroll.

Recommendation – Procedures should be established to ensure timesheets are completed and reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be documented by the supervisor's initials and the date approved.

Status – Not corrected. The recommendation is repeated.

- (S) 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.

Status – Not corrected. The recommendation is repeated.

Additional Findings as a result of Follow-up Procedures:

- (T) Utility Disbursements – For the period August 1 2015 through May 2016, the City Council did not review or approve disbursements from the Enterprise, Water Fund.

Recommendation – The City Council should continue to implement procedures to review and approve disbursements from the Enterprise, Water Fund.

- (U) Computer System – The City does not have policies and procedures to require adequate back-up of financial information. In addition, the City does not have a disaster recovery plan.

Recommendation – The City should develop policies and procedures to require adequate back-up of financial information. In addition, a written disaster recovery plan should be developed, approved and tested periodically.

- (V) Bank Reconciliations – For the two months tested, the bank reconciliations performed for the operating account were incomplete or incorrect and bank reconciliations were not performed for all accounts.

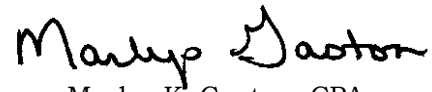
Recommendation – The City should establish procedures to ensure all bank account balances are correctly reconciled and the reconciliations are reviewed for accuracy and document the review by signing or initialing and dating the monthly reconciliations.

City of Bertram

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
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Marlys K. Gaston, CPA
Director