



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 15, 2016

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Olin's Periodic Examination Report dated November 17, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2015 through April 30, 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 indicate the City Council needs to exercise additional fiduciary oversight. Seventeen of the twenty findings reported in the Periodic Examination Report dated November 17, 2014 are repeated in this report. While the City partially corrected four of the findings, thirteen of the findings are reported as "not corrected". One additional finding identified during the follow-up procedures is included in this report.

A copy of the Report on the Status of Findings and Recommendations from the City of Olin's Periodic Examination Report dated November 17, 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/1422-0497-EPPF>.

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CITY OF OLIN

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

**FOR THE PERIOD
JUNE 1, 2015 THROUGH APRIL 30, 2016**

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City of Olin

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Becky McAtee	Mayor	Jan 2016	Jan 2018
Ron Zimmerman	Mayor Pro Tem	Jan 2014	Jan 2018
Greg Eganhouse (Elected)	City Council	Dec 2014	Jan 2018
David Dircks	City Council	Jan 2016	Jan 2020
Bruce McCormick	City Council	Jan 2016	Jan 2020
Kahm Sauer	City Council	Jan 2016	Jan 2020
Jean McPherson	City Clerk		Indefinite
Adrain Knuth	Attorney		Indefinite

City of Olin



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Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated November 17, 2014 on the City of Olin, Iowa covering the period July 1, 2013 through June 30, 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 November 17, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for another issue identified during our follow-up procedures.

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 Olin and other parties to whom the City of Olin 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 Olin 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

May 19, 2016

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

City of Olin

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through April 30, 2016

Findings Reported in the Periodic Examination Report dated November 17, 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 bank accounts and recording.
 - (2) Investments – investing, recording and custody.
 - (3) Long-term debt – recording and reconciling.
 - (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (5) Disbursements – purchasing, check writing and signing, mailing, reconciling and recording.
 - (6) Payroll – preparing, distributing, entering payroll rates and adding or removing employees from the system.
 - (7) Utilities – billing, collecting, depositing, posting and reconciling.
 - (8) Financial reporting – preparing and reconciling.
 - (9) Journal entries – preparing and recording.
 - (10) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
 - (11) Computer systems – performing all general accounting functions and controlling all data input and output.

For the Olin Hose Company, Olin Volunteer Ambulance, Olin Library Memorial, Friends of Olin Heritage Center, Olin Horizons and City Park Board accounts, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording 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.

Current Status – Not corrected. The recommendation is repeated.

City of Olin

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through April 30, 2016

- (B) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to the bank and investment balances throughout the year. Listings of outstanding checks were not prepared and retained monthly.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled monthly to the general ledger. Variances, if any, should be investigated and resolved timely. The City should prepare and retain monthly outstanding check listings.

Current Status – Not corrected. The recommendation is repeated.

- (C) Financial Reporting – The total fund balance of \$22,307 reported on the fiscal year 2014 Annual Financial Report (AFR) was \$558,391 less than the City’s general ledger balance of \$580,698. We were unable to determine the reason for the variance. However, although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting. A portion of the \$558,391 variance represents liabilities remaining in the Fund “Trial Balance” report at June 30, 2014. In addition, monthly reports provided to the City Council do not include individual beginning and ending fund balances.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded and reported using the cash basis of accounting established by the City and the AFR reconciles to the City’s general ledger. Monthly reports provided to the City Council should include individual beginning and ending fund balances.

Current Status – Not corrected. The total fund balance of \$34,465 reported on the fiscal year 2015 AFR was \$741,561 less than the \$776,026 balance reported on the City’s Fund “Trial Balance” report. Liabilities reported on the Fund “Trial Balance” report totaled \$696,583 at June 30, 2015. Adjusting for these liabilities results in a fund balance of \$79,443. The City’s bank balance at June 30, 2015 was \$39,862, a difference of \$5,397 and \$39,581 from the AFR and the City’s Fund “Trial Balance” report (adjusted for liabilities), respectively. The recommendation is repeated.

- (D) Revenue Notes/Bonds – The following were noted:

- (1) The City has not made the required transfers to a revenue note/bond sinking account as required by the note/bond resolutions.
- (2) The City’s sewer revenue note/bond resolutions require the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers that produce net operating receipts equal to at least 110% of the principal and interest coming due each fiscal year. The City’s fiscal year net sewer operating receipts of \$90,427 were less than 110% of the \$129,020 of sewer revenue bond principal and interest due during fiscal year 2014.

City of Olin

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through April 30, 2016

- (3) The City’s sewer revenue note/bond resolutions require all principal and interest on the sewer revenue notes/bonds be paid solely and only from net sewer receipts. During the year ended June 30, 2014, the City paid \$150,118 of principal, interest and fees on revenue notes/bonds from the Debt Service Fund. The City subsequently transferred \$127,216 from the Enterprise, Sewer Fund to the Debt Service Fund to reimburse the Debt Service Fund for a portion of these payments. The reimbursement was \$22,902 less than the entire revenue note/bond payments and, accordingly, the City may be in violation of the revenue note/bond covenants. It is unclear why the revenue note/bond principal interest and fees were initially paid from the Debt Service Fund rather than being paid directly from the Enterprise, Sewer Fund via a sinking account, as required.

Recommendation – The City should establish a sewer sinking account and make the transfers required by the note/bond resolutions. The City should review sewer rates and consult bond counsel to determine the disposition of the apparent 110% net receipt violation. Future revenue note/bond principal, interest and fees should be paid directly from the sinking account of the Enterprise, Sewer Sinking Fund as required. A corrective transfer from Enterprise, Sewer Fund to the Debt Service Fund should be made to reimburse current and past sewer revenue bond principal, interest and fees incorrectly paid from the Debt Service Fund.

Current Status – Not corrected. The City has not established the sewer sinking account required by the note/bond resolutions. The City’s fiscal year net sewer operating receipts of \$111,300 were less than 110% of the \$143,982 of sewer revenue bond principal and interest due during fiscal year 2015. Also, during the year ended June 30, 2015, the City paid \$143,982 of principal, interest and fees on revenue notes/bonds from the Debt Service Fund. In July 2015 the City transferred \$128,868 from the Enterprise, Sewer Fund to the Debt Service Fund for a portion of these payments. The reimbursement was \$15,114 less than the entire revenue note/bond payments and, accordingly, the City may be in violation of the revenue note/bond covenants. The recommendation is repeated.

- (E) Financial Condition – At June 30, 2014, the City had deficit balances in the following funds:

Fund	Amount
General	\$153,853
Special Revenue:	
Road Use Tax	16,446
Employee Benefits	24,855
Debt Service	230,514

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

Current Status – Not corrected. At April 30, 2016 the General Fund, the Special Revenue, Road Use Tax and Employee Benefits Funds and the Debt Service Fund had deficit balances of \$85,019, \$26,581, \$28,460 and \$213,670, respectively. The recommendation is repeated.

City of Olin

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through April 30, 2016

- (F) 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, document their review and monitor delinquent accounts.

Current Status – Not corrected. The recommendation is repeated.

- (G) Debit Card – On October 13, 2013, the Council approved the use of a debit card with a limit of \$1,000 for certain City purchases.

Recommendation – The City Council should prohibit the use of a debit card for City purchases. The function of a debit card is to provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Current Status – Corrected. The debit card has been cancelled.

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

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

Current Status – Not corrected. The recommendation is repeated.

- (I) Certified Budget – Disbursements at June 30, 2014 exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service 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."

We were unable to determine whether proper notice of the City's fiscal 2014 budget hearing was given in accordance with Chapter 384.16 of the Code of Iowa since documentation supporting the published notice was not available.

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. Documentation supporting compliance with the requirements of Chapter 384.16 of the Code of Iowa for the notice of budget hearing should be retained.

Current Status – Partially corrected. Proper notice was provided for the City's fiscal year 2015 budget hearing in accordance with Chapter 384.16 of the Code of Iowa. Disbursements at June 30, 2015 exceeded the amounts budgeted in the public safety, community and economic development, general government and debt service functions. The recommendation is partially repeated.

City of Olin

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through April 30, 2016

- (J) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires the minutes of the City Council proceedings be published, including “a summary of all receipts.” The City’s publication of City Council minutes does not include a summary of receipts as required.

Recommendation – The City should publish a summary of all receipts, as required.

Current Status – Not corrected. The recommendation is repeated.

- (K) Contract Labor – The City did not file a form 1099 with the Internal Revenue Service for contract labor in excess of \$600 for the calendar year ended December 31, 2013.

Recommendation – The City should establish procedures to ensure all required 1099 forms are properly completed and filed.

Current Status – Corrected. During the period reviewed, the City prepared a listing of “1099 Vendors” to facilitate identifying all vendors required to receive an IRS form 1099.

- (L) Timely Deposit – One intergovernmental receipt was not deposited timely.

Recommendation – The City should establish procedures to ensure receipts are deposited timely.

Current Status – Not corrected. For the period reviewed, two intergovernmental receipts tested were not deposited timely. The recommendation is repeated.

- (M) Disbursements – There is no evidence invoices/claims are approved by the City Council prior to payment. Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for three transactions tested could not be located.

Recommendation – All invoices should be approved by the City Council prior to payment. All disbursements should be supported by invoices or other supporting documentation.

Current Status – Partially corrected. Invoices tested during the period reviewed were properly supported. However, three transactions paid by the Olin Hose Company during the period reviewed were not approved by the City Council. The recommendation is partially repeated.

City of Olin

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through April 30, 2016

- (N) Payroll – Timesheets for Library employees are not reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.

The City has no written policy for how compensatory time should be accrued and accounted for. For one employee tested, compensatory time was banked for hours worked in excess of 15 hours per week.

Recommendation – Timesheets should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. A formal, written policy should be established to provide for the proper accrual of and accounting for compensatory time.

Current status – Partially corrected. The City adopted a written compensatory time policy on September 14, 2015. For the period reviewed, timesheets for Library employees were not reviewed and approved by supervisory personnel prior to preparation of the payroll. The recommendation is partially repeated.

- (O) Transfers – Transfers were not always approved by the City Council.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and individual transfer amount(s) as part of the budget or minutes record.

Current status – Not corrected. The recommendation is repeated.

- (P) Records of Accounts – The Olin Library Memorial, Olin Volunteer Ambulance, Olin Hose Company, Friends of the Olin Heritage Center, Olin Horizons and the City Park Board all maintain accounts separate from the City’s accounting records. The transactions and resulting balances of these accounts were not recorded in the City Clerk’s accounting records and were not reported to the City Council each month.

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 balance of all city accounts should be included in the City’s accounting records, including budget reports, and should be reported to the City Council on a monthly basis.

Current Status – Not corrected. The recommendation is repeated.

City of Olin

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through April 30, 2016

(Q) Computer Systems - The following weaknesses in the City's computer systems exist:

The City does not have written policies for:

- Requiring passwords be changed at least every 60-90 days.
- Requiring password length of a minimum of 8 characters, including special characters.
- Requiring a lockout function for incorrectly entered passwords.
- Proper disposal of sensitive media.
- Running an anti-virus program on computers.

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

Current status – Not corrected. The recommendation is repeated.

(R) 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 personnel
- (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 make each time the same, or a similar, situation arises.

Current Status – Corrected. The City adopted a policies and procedures manual on September 14, 2015.

(S) Investment Policy – Although the City has adopted an investment policy, Section 9 of the policy requires the investment policy be reviewed every two years. The investment policy was adopted in 2001 and has not been reviewed as required.

Recommendation – The City should review the investment policy and take appropriate actions to review and update the policy, if necessary.

Current Status – Not corrected. The recommendation is repeated.

City of Olin

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through April 30, 2016

- (T) Olin Hose Company Bank Reconciliations and Invoice Cancellation – The book and bank balances are not reconciled monthly. Also, prenumbered receipts were not issued for collections and invoices were not properly cancelled to prevent duplicate payment.

Recommendation – To improve financial accountability and control, monthly reconciliations of the book and bank balances should be prepared. The reconciliations should be reviewed monthly by an independent person. Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money collected. Invoices should be properly cancelled to prevent the possibility of duplicate payments.

Current status – Partially corrected. For the period reviewed, invoices were properly cancelled. The recommendation is partially repeated.

Additional Finding as a Result of Follow-up Procedures:

- (U) Annual Financial Report Budget Amounts – The debt service function budget amount on the 2015 Annual Financial Report (AFR) did not agree with the certified budget.

Recommendation – The budget amounts on the AFR should agree to the certified budget.

City of Olin

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Erin J. Sietstra, Staff Auditor


Marlys K. Gaston, CPA
Director