



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 15, 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 Kelley's Periodic Examination Report dated December 11, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period April 1, 2015 through March 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 indicate the City Council needs to exercise additional fiduciary oversight. Twelve of fifteen findings reported in the Periodic Examination Report dated December 11, 2014 are repeated in this report. While the City partially corrected one of the twelve findings, eleven of the findings are reported as "not corrected". 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 Kelley's Periodic Examination Report dated December 11, 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/1422-0817-EPFP>.

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CITY OF KELLEY

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

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

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City of Kelley

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Kenneth Kling	Mayor	Jan 2016	Jan 2020
Jane Walter	Council Member	Jan 2014	Jan 2018
Kenneth Kaufman (Elected)	Council Member	Jan 2016	Jan 2018
Matthew Brazelton	Council Member	Jan 2016	Jan 2020
Kelly Netcott	Council Member	Jan 2016	Jan 2020
Sean Ringgenberg	Council Member	Jan 2016	Jan 2020
Jennifer Davies	City Clerk/Treasurer		Indefinite
Dennis Parmenter	Attorney		Indefinite

City of Kelley



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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 December 11, 2014 on the City of Kelley, Iowa covering the period November 1, 2013 through October 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 date December 11, 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 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 Kelley and other parties to whom the City of Kelley 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 Kelley 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
MARY MOSIMAN, CPA
Auditor of State

May 11, 2016

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

City of Kelley

Report on the Status of Periodic Examination Findings and Recommendations

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

Findings Reported in the Periodic Examination Report dated December 11, 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) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Financial reporting – preparing and reconciling.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.

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. For the period reviewed, timesheets were signed by the Mayor and pay rates were entered into the accounting system by an outside firm. Also, for the period reviewed, the accounting functions were performed by the three office staff of a neighboring City. However, all City staff have access to perform all functions in the accounting software. The recommendation is repeated.

(B) Bank Reconciliations – The balances in the City’s general ledger were not properly reconciled to bank and investment account balances throughout the year. The system generated reconciliation summary was reconciled to the checking account balance. However, the summary was not reconciled to the general ledger balances. Also, there was no independent review of the bank reconciliation.

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

City of Kelley

Report on the Status of Periodic Examination Findings and Recommendations

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

Current Status – Partially corrected. For the period reviewed, the City’s general ledger was reconciled to bank and investment account balances each month. However, there was no independent review of the bank reconciliations. The recommendation is partially repeated.

- (C) Investments – An accounting record/register is not maintained for each investment.

Recommendation – An accounting record/register for each investment which includes the principal amount, description, date purchased, interest rate, maturity date and identifying number should be maintained.

Current Status – Not corrected. The recommendation is repeated.

- (D) 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.

Current Status – Not corrected. The recommendation is repeated.

- (E) Credit Card – The City has not adopted a formal policy to regulate the use and control of the City’s credit card and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City’s credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to support the purchase.

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

- (F) Investment Policy – 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.

Current Status – Corrected. The City adopted a written investment policy on December 9, 2014.

City of Kelley

Report on the Status of Periodic Examination Findings and Recommendations

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

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety and culture and recreation 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.

Current Status – Not corrected. Disbursements for the year ended June 30, 2015 exceeded the amounts budgeted in the community and economic development and the general government functions. In addition, disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the community and economic development and culture and recreation functions prior to the budget amendment. The recommendation is repeated.

- (H) Monthly City Clerk’s Report – The Monthly City Clerk’s Report presented to the City Council for approval does not include beginning and ending fund balances for each fund.

Recommendation – The beginning and ending fund balances should be included in the Monthly City Clerk’s reports presented to the City Council for approval.

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

- (I) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation storm water improvement bond were paid from the Enterprise, Storm Sewer 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 Enterprise, Storm Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

Current Status – Not corrected. The recommendation is repeated.

- (J) 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 by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

Report on the Status of Periodic Examination Findings and Recommendations

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

- (K) Payroll – Timesheets did not include evidence of supervisory review. Wage and withholding rates entered into the payroll system are not reviewed by an independent person. Payroll checks are not kept in a secured location prior to distribution to employees.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. An independent person should review payroll rates entered into the payroll system. In addition, the City should secure payroll checks in a locked cabinet prior to distribution.

Current Status – Partially corrected. For the period reviewed, timesheets were reviewed and signed by the Mayor. Also, wage and withholding rates were entered into the accounting system by an outside firm and rates were reviewed by appropriate City employees. However, all City staff have access to perform all functions in the accounting software. In addition, payroll checks were stored in a secured location prior to distribution.

- (L) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 100% for property tax relief. The City’s LOST receipts are deposited and recorded in the General Fund. However, these receipts are reported in the Special Revenue column on the Annual Financial Report (AFR).

Recommendation – The City should establish procedures to ensure LOST receipts are reported in the AFR consistent with the general ledger posting.

Current Status – Partially corrected. For the period reviewed, the City correctly recorded LOST receipts in a Special Revenue Fund in the general ledger. However, the AFR for the year ending June 30, 2015 reported LOST receipts in the General Fund. The recommendation is repeated.

- (M) Utility Rates – The utility rates entered into the system are not reviewed by an independent person to ensure proper utility calculations and billings.

Recommendation – An independent person should periodically review the system utility rates to ensure proper utility calculations and billings. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. While utility rates were entered into the utility system by an outside firm for the period reviewed, all City employees have access to changing the rates and there is no independent review of system rates.

- (N) Annual Financial Report – While the City maintains a record of receipts and disbursements by fund, the City does not maintain balances by fund. Therefore, we were unable to determine if ending balances by fund as reported in the AFR are accurate. Total receipts reported in the AFR were \$435 higher than recorded receipts.

Recommendation – The City should maintain beginning and ending balances by fund and should ensure receipts reported in the AFR are supported by recorded receipts.

City of Kelley

Report on the Status of Periodic Examination Findings and Recommendations

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

Current Status – Not corrected. For the period reviewed, the City’s accounting system tracked balances by fund. However, the June 30, 2015 AFR, general ledger and bank balances did not agree. In addition, see finding (R).

- (O) 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 front and 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.

Current Status – Corrected. The City has on-line access to images of both the front and the back of each cancelled check.

Additional Findings as a Result of Follow-up Procedures:

- (P) Disbursements – Supporting documentation for all credit card charges was not available. In addition, the listing of claims provided to the City Council for approval did not agree with the claims paid. Also, two credit card transactions tested were for payment of interest on the credit card balance and a fee for exceeding the credit card limit.

Recommendation – The City should ensure supporting documentation for all credit card charges is retained. The City should also ensure timely payment of credit card balances to avoid interest charges and should monitor credit card limits to avoid fees for exceeding the limit. In addition, the listings of claims provided to the City Council for review should agree with actual claims paid.

- (Q) 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 the City Clerk’s reports include a comparison of total disbursements for all funds to the certified budget by function.

- (R) Annual Financial Report – The Enterprise, Storm Water Fund was reported as part of the General Fund on the June 30, 2015 AFR. Also, total disbursements on the AFR were \$7,513 less than disbursements recorded in the general ledger. In addition, the City’s general obligation debt outstanding balance was not reported on the AFR.

Recommendation – The City should report the Enterprise, Storm Water Fund as a proprietary fund on the AFR, consistent with how the fund is recorded in the general ledger. Also, the City should ensure disbursements reported on the AFR agree to the general ledger and all debt outstanding is properly reported on the AFR.

City of Kelley

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager

Karen L. Brustkern, CPA, Senior Auditor II

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director