

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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 17, 2016

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Davis City, 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. The City should also ensure bank and utility reconciliations are completed monthly and are independently reviewed and establish procedures to ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting.

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/1522-0246-EP0P>.

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CITY OF DAVIS CITY

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE TWELVE MONTH 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
Financial Reporting	C 8-9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D 9
Prenumbered Receipts	E 9
Deposits and Investments	F 9
City Council Meeting Minutes	G 9
Certified Budget	H 10
Disbursements	I 10
Revenue Notes	J 10
Transfers	K 10
Surety Bond Coverage	L 10
Travel Reimbursement	M 10-11
Staff	12

City of Davis City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Rick Boswell	Mayor	Jan 2016	Jan 2020
Rick Toney	Mayor Pro-tem	Jan 2016	Jan 2020
James DeLong	Council Member	Jan 2016	Jan 2020
Gary Garrells	Council Member	Jan 2016	Jan 2020
Louise Kelley	Council Member	Jan 2016	Jan 2020
Brenda Toney	Council Member	Jan 2016	Jan 2020
Royal Johnson	City Clerk		Indefinite

City of Davis City



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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 Davis City for the period April 1, 2015 through March 31, 2016. The City of Davis City'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 Davis City, 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 Davis City and other parties to whom the City of Davis City 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 Davis City 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 12, 2016

Detailed Recommendations

City of Davis City

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) Debt – record keeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (8) 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.

(B) Bank Reconciliations – Book balances were not reconciled to bank and investment account balances throughout the year. In addition, support for one of the City's certificates of deposits could not be located.

Recommendation – To improve financial accountability and control, book balances should be reconciled to the bank and investment account balances monthly. Variances, if any, should be investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. In addition, the City should ensure documentation of all investments is maintained in a safe location.

(C) Financial Reporting – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including, but not limited to, road use tax and local option sales tax.

City of Davis City

Detailed Recommendations

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

A monthly City Clerk's report, including a summary of beginning balances, receipts, disbursements and ending balances is prepared, but does not report transfers separate from receipts and disbursements. In addition, a comparison of total disbursements for all funds to the certified budget is not prepared.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. The City Clerk should prepare a monthly City Clerk's report which includes transfers by fund, separate from receipts and disbursements, and comparisons of total disbursements for all funds by function to the certified budget.

- (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.

- (E) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

- (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.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published, including total disbursements from each fund, a listing of all claims allowed, the purpose for each claim, a summary of receipts and a summary of ordinance or amendments adopted. The minutes published did not include the required information.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and ensure the minutes publications include all the required information.

City of Davis City

Detailed Recommendations

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

- (H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the general government function. 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.

- (I) Disbursements – Supporting documentation for two of twenty nine transactions could not be located. Also, supporting documentation is not cancelled to prevent reuse.

Recommendation – All disbursements should be supported by invoice or other supporting documentation. Supporting documentation should be cancelled to prevent duplicate payments.

- (J) Revenue Notes – The provisions of the water revenue note resolution require sufficient transfers be made to a separate water revenue sinking account for the purpose of making the note principal and interest payments when due. The City has not established a water sinking account. In addition, the City has not established written proceeds to monitor compliance with arbitrage, yield restrictions and rebate requirements.

Recommendation – The City should establish a water revenue note sinking account and make the required transfers to the account for the purpose of making the note principal and interest payments when due. The City should also establish written procedures to monitor compliance with arbitrage, yield restrictions and rebate requirements.

- (K) Transfers – The City does not maintain a complete listing of transfers, including supporting documentation. Transfers are not approved by the City Council.

Recommendation – A complete listing of all transfers should be prepared, maintained and supported and transfers should be approved by the City Council.

- (L) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

- (M) Travel Reimbursement – The City maintenance employee submitted four travel claims between September and December 2015 for a total of 2,278 miles at \$.575 per mile, or \$1,310. During this same time period, the employee charged \$211 of fuel for his personal vehicle on the City’s charge account at the Lamoni Car Care Center. The \$211 was subsequently deducted from the mileage claimed, reducing the claim to \$1,099. Supporting documentation was not maintained to substantiate the mileage claim, including a mileage log and a Council approved mileage reimbursement rate. The City does not have a written travel policy establishing a mileage reimbursement rate, circumstances under which mileage can be reimbursed or documentation required to support mileage claims.

City of Davis City

Detailed Recommendations

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

Recommendation – The City should prohibit the use of City charge accounts for personal use. In addition, the City should adopt a formal written policy to regulate travel reimbursements. At a minimum, the policy should establish a mileage reimbursement rate and should address the circumstances under which travel reimbursements are allowed, including the types of supporting documentation required to substantiate travel claims. Mileage claims should be supported by a mileage log detailing the dates, locations traveled and the number of miles for each trip.

City of Davis City

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Mallory A. Sims, Assistant Auditor
Anthony J. T. Mallie, CPA, Assistant Auditor


Marlys K. Gaston, CPA
Director