



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

December 15, 2016

Contact: Marlys Gatson
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Steamboat Rock, 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 review the current financial accounting system and ensure records are maintained to facilitate fund accounting. In addition, the City should ensure bank and investment balances are reconciled to the general ledger monthly.

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/1522-0397-EPOP>.

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CITY OF STEAMBOAT ROCK

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

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City of Steamboat Rock

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Marvin Veld	Mayor	Jan 2016	Jan 2018
Eric Nielsen	Mayor Pro-Tem	Jan 2016	Jan 2020
Jeff Risius	Council Member	Jan 2014	Jan 2018
Kevin Pieters	Council Member	Jan 2014	Jan 2018
Carol Williams	Council Member	Jan 2016	Jan 2020
Adam Blackburn	Council Member	Jan 2016	Jan 2020
Marcia Frerichs	City Clerk		Indefinite
Taylor Nederhoff	City Attorney		Indefinite

City of Steamboat Rock



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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 Steamboat Rock for the period April 1, 2015 through March 31, 2016. The City of Steamboat Rock'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 voter approval levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
12. 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.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Steamboat Rock, 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 Steamboat Rock and other parties to whom the City of Steamboat Rock 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 Steamboat Rock 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

June 22, 2016

Detailed Recommendations

City of Steamboat Rock

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) Cash - handling, reconciling and recording.
 - (2) Investments – recordkeeping, custody and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, reconciling and posting.
 - (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (5) Debt – recordkeeping, compliance and debt payment processing.
 - (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (7) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
 - (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 evidenced by the signature or initials of the reviewer and the date of the review.

- (B) City Financial Management Information – 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 property tax levied for specific purposes, road use tax and local option sales tax.

In addition, the monthly financial reports prepared and provided to the City Council did not include individual fund balances. At June 30, 2015, the City's Annual Financial Report reported a General Fund deficit of \$250,044 and a Special Revenue Fund balance of \$296,627. The balances were reviewed and corrected when the City implemented new software in fiscal year 2017. Once adjusted the General and Special Fund balances were \$13,551 and \$61,892 respectively. The adjusted balances were reviewed and approved by the City Council.

Recommendation – 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. Monthly reports provided to the City Council should include beginning and ending balances by fund.

City of Steamboat Rock

Detailed Recommendations

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

- (C) 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.

- (D) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 75% for capital improvements and equipment and 25% for City maintenance. The City is not adequately tracking the use of LOST receipts or the unspent balances held for the specified purposes. In addition, the City recorded \$591 less LOST receipts in the City’s general ledger (ledger card) than was actually received for the period of April 1, 2015 through March 31, 2016. The variance was due to a LOST receipt incorrectly posted as a road use tax receipt and another LOST receipt posted at an incorrect amount.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST balance provisions. The City should also ensure LOST receipts are properly recorded in the City’s general ledger and should correct the fund balances for the LOST receipt incorrectly recorded as a road use tax receipt.

- (E) Separately Maintained Records – The Library and the Schoolhouse Committee maintain bank accounts for activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Report.

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.

- (F) Bank Reconciliation – Although bank reconciliations were prepared for the checking account, a reconciliation of all bank and investment account balances to the City’s total general ledger balance was not prepared.

Recommendation – The City should establish procedures to ensure all bank and investment account balances are reconciled to the City’s general ledger balance monthly.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Two of four monthly minutes reviewed were not published within fifteen days. In addition, although the claims approved were published, the reason for the claims was not published as required.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. In addition, the publication of claims approved should include the reason for the claim, as required.

City of Steamboat Rock

Detailed Recommendations

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

- (H) Disbursements – Four of thirty disbursements tested were not approved by the City Council.

Recommendation – The City should ensure all disbursements are properly approved in the City Council minutes.

- (I) Payroll – Timesheets did not include evidence of supervisory review.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Supervisory approval should be documented by the signature or initials of the supervisor and the date of approval.

- (J) 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 back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (K) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the public safety and general government 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.

- (L) Deposits and Investments – The City does not have 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 approved 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 should adopt a resolution naming official depositories and the maximum deposit amount as required by Chapter 12C.2 of the Code of Iowa.

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

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

City of Steamboat Rock

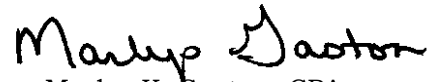
Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager

Melissa A. Hastert, CPA, Staff Auditor

Melinda D. Lawrence, Assistant Auditor

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