



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

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NEWS RELEASE

FOR RELEASE

December 16, 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 Gilman's Periodic Examination Report dated October 10, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2015 through February 29, 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. The findings included in this report are indications the City Council needs to exercise additional fiduciary oversight. While three of the fourteen findings reported in the Periodic Examination Report dated October 10, 2014 have been corrected, eleven of the fourteen findings are repeated and are reported as "not corrected". The City Council has not yet taken action to implement the recommendations pertaining to the eleven remaining findings. One additional finding identified during the follow-up procedures is also included in this report.

A copy of the City of Gilman's Report on the Status of Periodic Examination Findings and Recommendations 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/1422-0606-EPFP>.

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CITY OF GILMAN

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

**FOR THE PERIOD
JUNE 1, 2015 THROUGH FEBRUARY 29, 2016**

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City of Gilman

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Richard Irish	Mayor	Jan 2016	Jan 2020
Sheila Beach	Council Member	Jan 2014	Jan 2018
Melinda Bennett	Council Member	Jan 2014	Jan 2018
Stanley Chesick	Council Member	Jan 2016	Jan 2020
Les Meyers	Council Member	Jan 2016	Jan 2020
Andrew Nott	Council Member	Jan 2016	Jan 2020
Karen Buchanan	City Clerk/Treasurer		Indefinite

City of Gilman



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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 October 10, 2014 on the City of Gilman, Iowa covering the period September 1, 2013 through August 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 October 10, 2014 and the status of the City's implementation of the recommendations included in that report.

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 Gilman and other parties to whom the City of Gilman 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 Gilman 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

April 14, 2016

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

City of Gilman

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through February 29, 2016

Findings Reported in the Periodic Examination Report dated October 10, 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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (7) 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.

Current Status – Not corrected. The recommendation is repeated.

(B) Bank Reconciliations – No independent review of the bank reconciliations was performed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Current Status – Not corrected. The recommendation is repeated.

(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, document the review by signing or initialing and dating the reconciliations and monitor delinquent accounts.

Current Status – Not corrected. The recommendation is repeated.

City of Gilman

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through February 29, 2016

- (D) Tax Increment Financing – The City had a cash balance of \$37,408 in the Special Revenue, Tax Increment Financing Fund (TIF Fund) at August 31, 2014. However, the City had no outstanding TIF obligations. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should consult legal counsel to determine the disposition of the excess monies in the Special Revenue, Tax Increment Financing Fund. If the City has no further tax increment financing debt, the \$37,408 should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa.

Current Status – Not corrected. At February 29, 2016, the City continued to carry a cash balance of \$37,408 in the TIF Fund. The recommendation is repeated.

- (E) City Clerk’s Monthly Report – Although a monthly City Clerk’s report was prepared, the report was not provided to the City Council for review.

Recommendation – To improve financial accountability, the City Clerk’s Monthly Report should be submitted to the City Council for review at each monthly meeting.

Current Status – Not corrected. The recommendation is repeated.

- (F) Financial Reporting – Although the total balance in the City’s computer system at August 31, 2014 agrees with the manually prepared City Clerk’s report, the balances by individual fund do not agree. The City has indicated certain adjustments are needed to correct the balances in the computer system, but was unable to provide supporting documentation for the adjustments.

Recommendation – The City should ensure the fund balances maintained in the City Clerk’s report and the computer system agree. The City should document the purpose of each adjustment and the adjustments and supporting documentation should be provided to the City Council for review and approval prior to making adjustments to the City’s computer system.

Current Status – Not corrected. Individual fund balances did not agree between the City Clerk’s monthly report, the computer system or the Annual Financial Report at June 30, 2015. The recommendation is repeated.

- (G) 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 that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

City of Gilman

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through February 29, 2016

- (H) Petty Cash – The petty cash fund on hand at City Hall was not maintained on an imprest basis.

Recommendation – Cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

Current Status – Not corrected. The recommendation is repeated.

- (I) Intergovernmental Receipts – In January 2014, the local option sales tax payment was incorrectly recorded as a road use tax receipt and the road use tax payment was incorrectly recorded as a local option sales tax receipt, resulting in a \$96 posting error.

Recommendation – The City should establish procedures to ensure receipts are recorded in the appropriate fund and account. The City should transfer \$96 from the Special Revenue, Road Use Tax Fund to the General Fund to correct the error.

Current Status – Corrected. The City transferred \$96 from the Special Revenue, Road Use Tax Fund to the General Fund. The receipts tested during the period reviewed were recorded correctly.

- (J) Timesheets – Timesheets were not always prepared for all employees. Also, timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll.

Recommendation – Timesheets should be prepared for all employees and procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review and approval should be documented by the supervisor's initials and the date approved.

Current Status – Corrected. Observed timesheets prepared by all four employees during the period reviewed. The timesheets included evidence they were reviewed by a City Council member.

- (K) Bank Signature Card – The bank signature card included a former employee as an authorized check signer for one bank account.

Recommendation – The City should ensure the bank signature card is updated timely.

Current Status – Corrected. The City updated the bank signature card in January 2016, removing the former employee.

- (L) 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.

Current Status – Not corrected. The recommendation is repeated.

City of Gilman

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through February 29, 2016

- (M) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding checks held for more than two years to the Office of Treasurer of State.

Recommendation – Outstanding checks should be reviewed annually and checks over two years old should be remitted to the Office of Treasurer of State annually, as required.

Current Status – Not corrected. The recommendation is repeated.

- (N) Annual Urban Renewal Report – The City reported a beginning and ending balance in the Special Revenue, Tax Increment Financing Fund of zero on the Levy Authority Summary, which does not agree with the City's general ledger balance of \$37,408.

Recommendation – The City should ensure the cash balances reported on the Levy Authority Summary agree with the City's records.

Current Status – Not corrected. The recommendation is repeated.

Additional Finding as a Result of Follow-up Procedures:

- (O) Receipts – Receipts totaling \$13,554 from the State of Iowa were deposited in the bank account in July 2015. However, the receipts were not recorded in the City's financial accounting system.

Recommendation – The City should establish procedures to ensure receipts recorded in the City's financial accounting system timely.

City of Gilman

Staff

This engagement was performed by:

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Jamie T. Reuter, Senior Auditor II


Marlys K. Gaston, CPA
Director