



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

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

December 22, 2016

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Stockton, 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 establish procedures to ensure all City accounts are reconciled to the general ledger monthly, collections are deposited intact and utilities are reconciled monthly. In addition, the City should comply with the Code of Iowa and ensure budgeted disbursements are not exceeded prior to amending the budget.

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/1522-0655-EPOP>.

###

CITY OF STOCKTON

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE 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
Receipts	B 8
Bank Reconciliations	C 8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D 9
Financial Reporting	E 9
Disbursements	F 9
Employee Timesheets	G 9
Authorized Pay	H 9
Monthly Cell Phone Reimbursement	I 10
Mileage Reimbursement	J 10
Annual Financial Report	K 10
City Council Meeting Minutes	L 10
Certified Budget	M 10
Staff	11

City of Stockton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Begins</u>	<u>Term Expires</u>
Patrick Baker	Mayor	Jan 2016	Jan 2018
Roger Bennett	Council Member	Jan 2014	(Resigned May 2016)
Donnalee Holmes	Council Member	Jan 2013	(Resigned May 2016)
David Clark	Council Member	Jan 2014	Jan 2018
Heidi Halferty	Council Member	Jan 2016	Jan 2020
Michael Halferty	Council Member	Jan 2016	Jan 2020
Laurie Ganzer	City Clerk		(Resigned April 2016)
Janet Wheeler	City Clerk		Indefinite
Robert C. Meyer	Attorney		(Resigned May 2016)

City of Stockton



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Stockton for the period April 1, 2015 through March 31, 2016. The City of Stockton'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 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.

8. 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.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
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 Stockton, 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 Stockton and other parties to whom the City of Stockton 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 Stockton 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 7, 2016

Detailed Recommendations

City of Stockton

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

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) Receipts – All cash receipts were not deposited intact. In addition, the former City Clerk deposited cash collections into her personal bank account and subsequently issued personal checks to the City for deposit. We were unable to determine the reason deposits were made in this manner. However, we were able to account for all collections and determine all collections were deposited to the City's bank account.

In addition, the City does not issue pre-numbered receipts for collections.

Recommendation – The City Council should establish a policy which prohibits depositing City receipts to a personal bank account. Procedures should be implemented to ensure all cash receipts are deposited intact, directly into a City bank account. In addition, pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

- (C) Bank Reconciliations – Although monthly bank reconciliations are prepared, not all City accounts are included in the reconciliations. The City reconciles the checking account but does not include the savings accounts in the reconciliations. Also, for the savings accounts, the City receives bank statements which do not cut off at month end.

In addition, the reconciled balance of the checking account agrees in total to the general ledger, but the breakdown by fund does not agree to the general ledger and there is no evidence of an independent review of the monthly bank reconciliations.

Recommendation – To facilitate month end balancing, the City should request bank statements which cut off at month end. The City should establish procedures to ensure all accounts, including checking and savings, are reconciled to the general ledger monthly and the reconciled balance agrees to the general ledger by fund and in total. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Stockton

Detailed Recommendations

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

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled monthly. For one month reviewed, utility billings did not agree to deposits by \$117 and the utility billing payment report did not agree to the general ledger by \$2,392.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquent accounts each month. 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) Financial Reporting - The City improperly recorded \$905 of local option sales tax receipts as road use tax receipts. In addition, a \$10,000 transfer from the General Fund to the Special Revenue, Road Use Tax Fund was improperly recorded as a negative \$10,000 property tax receipt and a \$10,000 road use tax receipt rather than as a transfer.

Recommendation - The City should implement procedures to ensure all transactions are properly recorded in the City's financial statements.

- (F) Disbursements - Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for six disbursements tested could not be located. Additionally, although individual invoices are reviewed by the Mayor prior to signing checks, there is no evidence of this review.

In addition, we identified a disbursement for maintenance services at City Hall issued to the City maintenance employee as a vendor through accounts payable rather than payroll.

Recommendation - All disbursements should be supported by an invoice or other supporting documentation. The independent review of invoices prior to payment should be documented by the signature or initials of the reviewer and the date of the review. In addition, payments issued to employees for work performed for the City should be issued through payroll.

- (G) Employee Timesheets - Employee timesheets do not include evidence of review and approval. Additionally, one instance was noted in which an employee was overpaid by one hour compared to the hours worked per the employee's timesheet.

Recommendation - Employee timesheets should be reviewed and approved by an independent person prior to processing payroll. The review should be documented by the signature or initials of the reviewer and the date of the review. Additionally, the City should ensure hours paid agree with hours worked per the employee timesheets.

- (H) Authorized Pay - In accordance with the City's Code of Ordinances, the Mayor should be paid \$100 for each City Council meeting attended. However, the Mayor was paid \$100 for each regular City Council meeting attended, plus an additional \$40 for each meeting attended for outside boards. The additional pay of \$40 for attendance at these outside meetings is not authorized.

Recommendation - Compensation should be paid in accordance with the City ordinance. The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for past and current amounts improperly paid to the Mayor.

City of Stockton

Detailed Recommendations

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

- (I) Monthly Cell Phone Reimbursement – In accordance with the City’s personnel policy, adopted by Resolution 2011-10, the City will reimburse each maintenance department employee and the City Clerk \$20 per month for cell phone use. Beginning in August 2015, the former City Clerk was reimbursed \$25 per month for cell phone use. The increase from \$20 to \$25 per month was not authorized by the City Council.

Recommendation – The City should seek reimbursement for past and current amounts improperly paid to the former City Clerk. The City should also implement procedures to ensure cell phone reimbursements are paid at the authorized rate.

- (J) Mileage Reimbursement – In accordance with Chapter 70A.9 of the Code of Iowa, the City Council is required to establish an authorized rate to be reimbursed to employees for mileage incurred while on official City business. The City’s mileage reimbursement rate was not approved by the City Council. For the period reviewed, employees and elected officials of the City were reimbursed \$0.505 per mile and in one instance, the former City Clerk was reimbursed \$0.575 per mile.

Recommendation – The City Council should establish an authorized mileage rate, as required, and should implement procedures to ensure all employees and officials of the City are reimbursed at that rate.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Report (AFR) to contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The disbursements and beginning and ending fund balances included in the City’s AFR do not agree to the City’s records.

Recommendation – The City should establish procedures to ensure amounts reported in the AFR agree to the City’s records. An independent person should review the report for accuracy and document the review by the signature or initials of the reviewer and the date of the review.

- (L) City Council Meeting Minutes – Chapter 380.7 of the Code of Iowa requires minutes of all City Council proceedings be signed by the City Clerk. Signed copies of City Council meeting minutes for the months of September 2015 and January 2016 were not available.

Recommendation – The City should comply with the Code of Iowa and ensure all City Council meeting minutes are signed, as required.

- (M) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, culture and recreation 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.”

Additionally, a comparison of actual disbursements to budgeted amounts by function is not prepared and provided to City Council monthly.

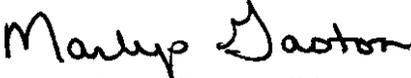
Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City Clerk should prepare and provide to the City Council a comparison of actual disbursements to budgeted amounts by function monthly.

City of Stockton

Staff

This engagement was performed by:

Jennifer Campbell, CPA, Manager
Jenny M. Podrebarac, Senior Auditor II
Sarah J. Swisher, Assistant Auditor


Marlys K. Gaston, CPA
Director