



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 9, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations on the City of Derby's Periodic Examination Report dated August 27, 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. The findings included in this report are indications the City Council needs to exercise additional fiduciary oversight. While four of the twenty findings reported in the Periodic Examination Report dated August 27, 2014 have been corrected and four were partially corrected, twelve of the findings are repeated in this report and are reported as "not corrected". Four additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Derby'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/1422-0564-EPFP>.

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CITY OF DERBY

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

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

Table of Contents

		<u>Page</u>
Officials		3
Independent Accountant’s Report on the Status of Periodic Examination Findings and Recommendations		5
Status of Findings and Recommendations Previously Reported in the City’s Periodic Examination Report:	<u>Finding</u>	
Segregation of Duties	A	7
Chart of Accounts	B	7
Bank Reconciliations	C	8
Charge Account	D	8
Disbursements	E	8
Questionable Disbursements	F	9
Payroll Approval	G	9
Payroll	H	9
Mayor/City Council Compensation and Payroll	I	9-10
Accounting Policies and Procedures Manual	J	10
Annual Financial Report	K	10
Monthly City Clerk’s Report	L	10
Debt Service	M	11
Revenue Bonds	N	11
Electronic Check Retention	O	11
City Council Meeting Minutes Publication	P	11
Certified Budget	Q	12
Reconciliation of Utility Billings, Collections and Delinquent Accounts	R	12
Tax Incremental Financing	S	12-13
Annual Urban Renewal Report	T	13
Additional Findings Identified During Follow-up Procedures:		
Monthly City Clerk’s Report	U	13
City Council Meeting Minutes Posting	V	13
Certified Budget	W	13
Utility Billings and Meter Readings	X	13
Staff		14

City of Derby

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Christopher Chapman	Mayor	Jan 2016	Jan 2018
Stephanie Bear	Council Member	Jan 2016	Jan 2018
Melissa Bundy	Council Member	Jan 2016	Jan 2018
Vicki Connor	Council Member	Jan 2016	Jan 2018
Jasper Hanna	Council Member	Jan 2016	Jan 2018
Lori Lockwood	Council Member	Jan 2016	Jan 2018
Carla Mongar	City Clerk/Treasurer		Indefinite

City of Derby



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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 August 27, 2014 on the City of Derby, Iowa covering the period August 1, 2013 through July 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 August 27, 2014 and the current 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 Derby and other parties to whom the City of Derby 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 Derby 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 Derby

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 August 27, 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) 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) 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 documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

(B) Chart of Accounts – The City has not implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002. In addition, the City does not maintain a general ledger to track balances and transactions occurring during the year.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed. In addition, a general ledger should be prepared and maintained to ensure accurate financial information is recorded and reported throughout the year.

Current Status – Partially corrected. The City has implemented the COA and maintained a manual general ledger of transactions occurring during the period reviewed. Receipts were tracked by source and disbursements were tracked by function. However, the general ledger does not track individual fund balances and does not include the Enterprise, Sewer Fund transactions. The recommendation is partially repeated.

City of Derby

Report on the Status of Periodic Examination Findings and Recommendations

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

- (C) Bank Reconciliations – Bank balances were not reconciled to book balances on a monthly basis for the General and Sewer accounts. In addition, the monthly bank reconciliations which were completed were not reviewed by an independent person.

Recommendation – To improve financial accountability and control, monthly bank and investment balances should be reconciled to book balances and variances between bank and book balances should be investigated and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Current Status – Partially corrected. Reconciliations were not prepared for three of the twelve months reviewed for the General account and for two of the twelve months reviewed for the Sewer account. Beginning in January 2016, the bank reconciliations were reviewed by an independent person; however, there is no evidence of the independent review by initials or signature of the reviewer. The City’s general ledger does not track fund balances on a monthly basis, therefore the bank accounts are being reconciled to the checkbook balance rather than the City’s general ledger. The recommendation is repeated. In addition, bank balances should be reconciled to general ledger balances monthly.

- (D) Charge Account – The City has a retail charge account for use by employees for City business. The City has not adopted a formal policy to regulate the use of the retail charge account and has not established procedures for the proper accounting of retail charge account purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City’s retail charge account. The policy, at a minimum, should address who is authorized to use the retail charge account and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Current Status – Not corrected. The recommendation is repeated.

- (E) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for thirteen disbursements tested could not be located. In addition, the approval of payments and the mathematical check of footings, extensions and/or discounts are not documented by the signature or initials of the reviewer and the date of review on the supporting documentation. Also, the supporting documentation for claims is not cancelled to prevent reuse.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Payment approval and mathematical checks of footings, extensions and/or discounts should be documented by the signature or initials of the reviewer and the date of review on the supporting documentation. In addition, supporting documentation for claims should be cancelled to prevent reuse.

Current Status – Not corrected. For the period reviewed, supporting documentation for two disbursements tested could not be located. The approval of payments and the mathematical check of footings, extensions and/or discounts are not documented by the signature or initials of the reviewer and the date of review on the supporting documentation. Also, the supporting documentation for claims is not cancelled to prevent reuse. The recommendation is repeated.

City of Derby

Report on the Status of Periodic Examination Findings and Recommendations

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

- (F) Questionable Disbursements – During the year ended July 31, 2014, \$190 was disbursed for the purchase of plaques for fire volunteers. We believe this disbursement may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by this type of disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Current Status – Corrected. For the period reviewed, no similar disbursements were noted.

- (G) Payroll Approval – The hiring salary and subsequent wage increases for the City Clerk were not documented in the City Council minutes. In addition, the amounts to be received by the Mayor and City Council members for attendance at each monthly meeting has not been approved in the minutes.

Recommendation – Salaries of employees, the Mayor and City Council members should be documented in the City Council minutes.

Current Status – Not corrected. The recommendation is repeated.

- (H) Payroll – City Council members are paid annually for the monthly meetings attended during the year. Two City Council members were paid \$10 more than the amount earned for attending the monthly City Council meetings.

Recommendation – The City should implement procedures to ensure City Council members are accurately paid for the number of monthly meetings attended during the year.

Current Status – Corrected. During the period reviewed, City Council member pay was accurate.

- (I) Mayor/City Council Compensation and Payroll – The Mayor and City Council member compensation was not reduced by the required Federal Insurance Contributions Act (FICA) tax and Iowa Public Employees’ Retirement System (IPERS) contribution. In addition, the City did not remit the required amount of FICA and IPERS.

Recommendation – The City should contact the Internal Revenue Service (IRS) and IPERS to determine the disposition of these matters.

City of Derby

Report on the Status of Periodic Examination Findings and Recommendations

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

Current Status – Partially corrected. The Mayor and City Council members have completed the “Election for Termination of IPERS Coverage” form. However, their compensation should be reduced by the required Federal Insurance Contributions Act (FICA) tax. The recommendation is partially repeated.

- (J) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff
- (2) Help achieve uniformity in accounting and in the application of policies and procedures
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Current Status – Not corrected. The recommendation is repeated.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial 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 receipts and disbursements included in the City’s AFR do not agree with the amounts in the City’s records.

Recommendation – The City should ensure the receipts and disbursements included in future AFRs agree to the City’s records. An independent person should review the report for accuracy, 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 amounts reported on the fiscal year 2015 AFR for the governmental funds agree to the City’s records in total; however, the City’s general ledger does not track balances by fund. Also, the AFR did not include the City’s activities related to the Enterprise, Sewer Fund and there is no evidence the AFR was reviewed. The recommendation is repeated.

- (L) Monthly City Clerk’s Report – Monthly City Clerk’s Reports showing receipts, disbursements, transfers and balances for each fund and in total are not prepared and presented to the City Council for review and approval.

Recommendation – Monthly City Clerk’s Reports should be prepared and maintained which include receipts, disbursements, transfers and balances for each fund and should be presented to the City Council for review and approval.

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

City of Derby

Report on the Status of Periodic Examination Findings and Recommendations

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

- (M) Debt Service – The general obligation public safety note payment was recorded in the General Fund rather than the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Recommendation – General obligation note payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (N) Revenue Bonds – The City has not established a sewer revenue bond sinking account and has not made the required monthly transfers to the account.

Recommendation – The City should establish a sewer revenue bond debt sinking account and ensure monthly transfers are made to the sewer revenue bond sinking account as required.

Current Status – Not corrected. The recommendation is repeated.

- (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 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.

- (P) City Council Meeting Minutes Publication – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council meeting minutes include “a list of all claims allowed and a summary of all receipts.”

Recommendation – The City should publish all claims and a summary of all receipts, as required.

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

City of Derby

Report on the Status of Periodic Examination Findings and Recommendations

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

- (Q) Certified Budget – The City Council minutes did not include a resolution adopting the fiscal year 2014 budget. Per Chapter 384.16(5) of the Code of Iowa, “After the hearing, the council shall adopt by resolution a budget for at least the next fiscal year, and the clerk shall certify the necessary tax levy for the next fiscal year to the county auditor and the county board of supervisors. The tax levy certified may be less than but not more than the amount estimated in the proposed budget submitted at the final hearing, unless an additional tax levy is approved at a city election. Two copies each of the detailed budget as adopted and of the tax certificate must be transmitted to the county auditor, who shall complete the certificates and transmit a copy of each to the department of management.” In addition, disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, community and economic development 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 City should enact a resolution for the adoption of the budget as required by Chapter 386.16(5) of the Code of Iowa. In addition, the budget should have been amended as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Current Status – Partially corrected. The fiscal year 2017 budget was authorized by resolution and was certified to the County on March 14, 2016. However, disbursements during the fiscal year ended June 30, 2015 exceeded amounts budgeted in the public safety, culture and recreation and general government functions. The recommendation is partially repeated. In addition, see finding (W).

- (R) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year. One City Council Member had a delinquent bill of \$172 at June 30, 2014.

Recommendation – Procedures should be established to have an independent person 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 of the 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. In addition, see finding (X).

- (S) Tax Increment Financing – The City had a cash balance of \$5,448 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF fund) at June 30, 2014. However, the City had no outstanding TIF obligation at June 30, 2014. 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, Urban Renewal Tax Increment Fund. If the City has no further tax increment financing debt, the \$5,448 should be remitted to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

City of Derby

Report on the Status of Periodic Examination Findings and Recommendations

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

Current Status – Corrected. During our procedures we noted the City incorrectly reported the balance of \$5,448 in the Special Revenue, TIF column of the fiscal year 2014 AFR. The City subsequently corrected the fiscal year 2014 AFR to report the balance in the Special Revenue column.

- (T) Annual Urban Renewal Report – The City did not submit the Annual Urban Renewal Report to the Department of Management by December 1 as required by Chapter 384.22 of the Code of Iowa.

Recommendation – The City should submit its Annual Urban Renewal Report to the Department of Management before December 1 as required by the Code of Iowa.

Current Status – Corrected. The City of Derby is not required to file an Annual Urban Renewal Report.

Additional Findings as a Result of Follow-up Procedures:

- (U) Monthly City Clerk’s Report – Monthly City Clerk’s Reports showing a comparison of actual disbursements to the certified budget by function are not prepared and presented to the City Council for review and approval.

Recommendation – Monthly City Clerk’s Reports showing a comparison of actual disbursements to the certified budget by function should be prepared and presented to the City Council for review and approval.

- (V) City Council Meeting Minutes Posting – Chapter 372.13(6) of the Code of Iowa requires meeting minutes posted by the City to include total disbursements from each fund.

Recommendation – The City’s posting of meeting minutes should include total disbursements from each fund.

- (W) Certified Budget – The activity of the Enterprise, Sewer Fund was not included in the fiscal year 2017 budget.

Recommendation – In accordance with the Iowa Department of Management, the City is required to budget activity for all City funds, including the Enterprise, Sewer Fund. The City should ensure activity for all City funds is budgeted, as required.

- (X) Utility Billings and Meter Readings – Although required by City ordinance, the City does not bill for sewer usage. In addition, residents self-report meter readings for water usage each month. The City has not established procedures to periodically read meters to verify the self-reported readings.

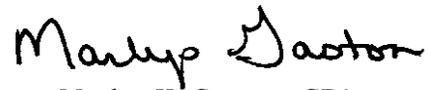
Recommendation – The City should ensure Residents are billed for sewer usage and should establish procedures to periodically read water meters to verify self-reported usage.

City of Derby

Staff

This engagement was performed by:

Tammy Hollingsworth, CIA, Manager
Jenny Podrebarac, 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