



**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

February 17, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Colesburg, Iowa for the period July 1, 2015 through June 30, 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 bank and utility reconciliations are prepared monthly and are independently reviewed and the Annual Financial Report is accurate.

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/1622-0256-EPOP>.

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CITY OF COLESBURG
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

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City of Colesburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Richard Sampson	Mayor	Jan 2016	Jan 2018
Tom Forkenbrock	Council Member	Jan 2014	Jan 2018
Rex Meyer	Council Member	Jan 2014	Jan 2018
Jim Diers	Council Member	Jan 2016	Jan 2020
Jodi McCabe	Council Member	Jan 2016	Jan 2020
Roger Waterman	Council Member	Jan 2016	Jan 2020
Julie Wessel	City Clerk/Treasurer		Indefinite
Steve McCorkindale	Attorney		Indefinite

City of Colesburg



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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 Colesburg for the period July 1, 2015 through June 30, 2016. The City of Colesburg'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 transfers between funds for propriety, proper authorization and accurate accounting.
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 Colesburg, 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 Colesburg and other parties to whom the City of Colesburg 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 Colesburg 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

August 25, 2016

Detailed Recommendations

City of Colesburg

City of Colesburg

Detailed Recommendations

For the period July 1, 2015 through June 30, 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 – custody and detailed record keeping.
- (3) Long-term debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing, entering rates into the system and maintaining vacation and sick leave balances.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and journalizing.

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 – The cash and investment balances in the City’s general ledger were not reconciled to the bank and investment account balances throughout the year. For the two months reviewed (March and June 2016), the total balance per the City Clerk’s report was \$60,704 and \$1,851, respectively, greater than the bank balance. In addition, the June 2016 City Clerk’s report balance exceeded the City’s general ledger balance by \$42,448. We were unable to determine the reasons for these variances.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the City Clerk’s report and to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Monthly Financial Reporting – The City Clerk's financial reports to the City Council did not include comparisons of actual disbursements to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons of actual disbursements to the budget by function.

City of Colesburg

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (D) 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, although a resolution naming official depositories has been approved by the City Council, the maximum deposit amount stated in the resolution was exceeded during the period reviewed.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. A new resolution with amounts sufficient to cover anticipated balances should be adopted by the City Council.

- (E) 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 did not receive an image of the back of each cancelled check for several bank accounts for a portion of the period reviewed.

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

- (F) 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.

- (G) Utility Rates - Water, sewer and garbage rates charged did not agree with rates approved in the City's ordinances. The garbage rate charged was \$.25 per month less than the approved rate of \$11.75 per month. The sewer and water rate charged of \$4.79 per 1,000 gallons used did not agree with the approved rate of \$4.8825 per 1,000 gallons.

Recommendation – The City should establish procedures to ensure utility rates charged agree to the approved rates, including ensuring utility rates entered into the system are periodically reviewed by an independent person.

- (H) City Council Meeting Minutes – Minutes of the City Council meetings were not signed as required by Chapter 380.7 of the Code of Iowa and the minutes publications did not include total disbursements from each fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should ensure all meeting minutes are signed and total disbursements from each fund are published, as required.

City of Colesburg

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (I) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government and business type activities 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.” In addition, the City did not publish notice of the proposed budget hearing as required by Chapter 384.16(3) of the Code of Iowa.

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 notice of public hearing and proposed budget should be published, as required.

- (J) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tom Forkenbrock, Council Member, wife owns Every Auto & Tire Center	Fuel and vehicle repair	\$ 5,002

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (K) Questionable Disbursements – Certain disbursements we believe 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Blooms Flowers Gifts and More, Inc.	Plant and cross for memorial	\$ 53
JR Willie’s, Inc.	Pop for meeting	20

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 these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

City of Colesburg

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (L) Unsupported Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Two of thirty disbursements tested were not properly supported.

Recommendation – All disbursements should be supported by invoice or other supporting documentation.

- (M) Payment of Sewer Revenue Bonds – The City’s sewer bond resolution requires principal and interest on the sewer revenue bonds to be paid from net revenues set aside in a sewer revenue bond sinking account. Of the \$126,753 sewer revenue bond principal and interest paid during fiscal year 2016, \$78,543 was paid from the General Fund in violation of the sewer revenue bond resolution provisions.

Recommendation – The City should reimburse \$78,543 from the Enterprise, Sewer Fund to the General Fund for the incorrect payment. In addition, the City should transfer sufficient amounts from the Enterprise, Sewer Fund to a sewer revenue bond sinking account for future principal and interest obligations. Payments on the bonds should be made from the sinking account, as required.

- (N) Annual Financial Report – The ending fund balances in the June 30, 2015 Annual Financial Report (AFR) do not agree to the City Clerk’s monthly report fund balances. The AFR balance is \$73,111 less than the amount reported on the June 2015 report. In addition, receipts reported on the AFR do not agree with the City Clerk’s reports.

Recommendation – The City should establish procedures to ensure AFR receipts and balances agree to the City Clerk’s monthly reports.

- (O) Payroll – One of five timesheets reviewed did not include evidence of approval of hours worked. In addition, City Council approval was not documented for the hourly rate paid to one City employee and City Council Member compensation was not approved by City ordinance as required by Chapter 372.13(8) of the Code of Iowa. Payroll journals are not reviewed and approved by someone independent of processing payroll and no procedures exist to ensure employees do not receive more than their authorized pay.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. All salaries and wages should be approved by the City Council and Council Member compensation should be approved by ordinance, as required. Payroll journals should be reviewed by the City Council or other independent person designated by the City Council to ensure each payroll is proper and accurate.

- (P) Transfers – Transfers were not approved by the City Council.

Recommendation – All interfund transfers should be approved by the City Council. The approval should be documented in the City Council meeting minutes or certified budget, as applicable.

City of Colesburg

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (Q) Prenumbered Receipts – Prenumbered receipts were not issued for all collections. In addition, for one month reviewed, receipts recorded to the City’s ledger were \$5,192 less than the amount recorded as deposits to the bank.

Recommendation – Prenumbered receipts should be issued for all collections. Procedures should be established to reconcile general ledger receipts to bank deposits monthly.

- (R) Fire Department Funds – Effective March 30, 2016, the Colesburg Firefighters Association formed a Chapter 504 non-profit corporation. Subsequent to June 30, 2016, approximately \$15,000 of funds held by the City for the City’s Fire Department were transferred to the Colesburg Firefighters Association.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, “... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly.”

We previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

"... I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds,’ subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking."

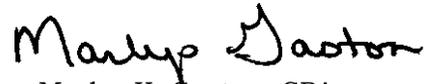
Recommendation – A 28E agreement, as described in the advice letter does not exist. We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over its public funds to a separate non-profit organization. The City should recover the remaining funds provided to the Association, including all income derived from the investment of the funds from the time they were remitted to the Colesburg Firefighters Association. In addition, the City should require an immediate accounting for these public funds from the date of donation.

City of Colesburg

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Laura M. Wernimont, Senior Auditor
Justin M. Gibbons, 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