



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

February 24, 2017

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Zearing, 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 reported \$1,486 of improper disbursements by the former City Clerk, including:

- \$1,062 of additional payroll,
- \$302 of personal purchases on the City's credit card, and
- \$122 of unauthorized withdrawals for vision insurance.

In addition, review of delinquent utility account balances identified an unauthorized write off of \$1,036 on the former City Clerk's personal utility account.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Copies of the report have been filed with the Story County Attorney's Office and the Story County Sheriff's Department. 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/1622-0824-EPOP>.

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**CITY OF ZEARING**

**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 Zearing**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Martin Herr	Mayor	Jun 2016	Jan 2018
Rick Good	Council Member	Jan 2014	Jan 2018
Dave Tisdale	Council Member	Jan 2014	Jan 2018
Gerald Murrell, Jr.	Council Member	Feb 2016	Jan 2020
David Skinner	Council Member	Feb 2016	Jan 2020
Marchele Soe	City Clerk		(resigned June 2016)
Frank Feilmeyer	Attorney		Indefinite

**City of Zearing**



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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 Zearing for the period July 1, 2015 through June 30, 2016. The City of Zearing'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 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 Zearing, 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 Zearing and other parties to whom the City of Zearing may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Copies of this report have been filed with the Story County Attorney's Office and the Story County Sheriff's Department.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Zearing 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

September 1, 2016



## **Detailed Recommendations**

City of Zearing

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, depositing, reconciling and recording.
  - (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
  - (3) Debt – recordkeeping, compliance and debt payment processing.
  - (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - (5) Disbursements – invoice processing, check writing and signing, mailing, reconciling and recording.
  - (6) Payroll – recordkeeping, preparing, signing checks, distributing and entering rates into the system.
  - (7) Utilities – billing, collecting, depositing, posting, entering rates into the system, and maintaining detailed accounts receivable and write-off records.
  - (8) 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) Financial Reporting – During our review, we identified material amounts of receipts not posted in the general ledger or posted to incorrect accounts.

Recommendation – The City should implement procedures to ensure receipts are properly recorded in the City's financial statements.

- (C) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the month reviewed, June 2016, bank and book balances did not properly reconcile. At June 30, 2016, the bank balance was \$5,686 higher than the book balance. In addition, a list of outstanding checks was not prepared and retained for each month.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. In addition, a listing of outstanding checks should be prepared each month and retained.

- (D) 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. A delinquent account listing at June 30, 2016 was not available. However, the system-generated delinquent account listing

City of Zearing

Detailed Recommendations

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

for August 2016 showed a total delinquent account balance of \$24,867. Based on discussions with City personnel, it does not appear the former City Clerk consistently applied the City's established procedures for utility shut-offs when delinquent balances were not paid in a timely manner.

The City does not have written procedures for the write-off of uncollectible accounts. During the period reviewed, we noted a utility account with a balance of \$1,776 which appeared to be written off in the accounting software. Per discussion with the Mayor and other City officials and review of City Council minutes, there was no evidence of proper authorization for the account write-off. In addition, the write-off amount only appears in the "Bad Debts" screen in the accounting software and does not appear on the delinquent account listing. As a result, the City Council would have no knowledge the account was written off.

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.

The City should follow established procedures for utility shut-off when delinquent balances are not paid in a timely manner. In addition, the City should establish written procedures for the write-off of uncollectible accounts, and all amounts to be written off should be approved by the City Council and the approval should be documented in the minutes record.

- (E) Monthly Reports – Monthly reports, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of total disbursements for all funds to the certified budget by function, are not provided to the City Council.

The December 2015 City Clerk's report did not reconcile to the City Treasurer's report generated by the City's software. Fund balances in the City Clerk's report totaled \$433,173 while fund balances in the City Treasurer's report totaled \$488,860. In addition, the monthly City Clerk's reports did not separately report activity for the Special Revenue, Employee Benefits Fund.

Recommendation – The City Clerk should prepare and provide the City Council with monthly City Clerk's reports which include a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements to the certified budget by function for all funds. Procedures should be established to ensure the City Clerk's monthly reports reconcile to the City Treasurer's monthly reports. Variances should be reviewed and resolved in a timely manner.

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not materially agree with City records.

City of Zearing

Detailed Recommendations

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

The ending balance in the June 30, 2015 Annual Financial Report totaled \$530,812, which did not agree with the June 2015 City Clerk's report and the City Treasurer's report balance of \$475,032 and \$504,106, respectively. In addition, total receipts and disbursements per the Annual Financial Report were \$696,639 and \$718,377, respectively, while the receipts and disbursements per the City's accounting software totaled \$420,171 and \$486,213, respectively.

Recommendation – We were unable to determine the reasons for the variances. The City should ensure future Annual Financial Reports are supported by the City's records, including the monthly City Clerk's and City Treasurer's reports.

(G) Questionable Transactions – Certain improper disbursements and personal purchases, as well as an improper write-off of the former City Clerk's unpaid utility balance were identified during our review. These transactions are detailed as follows:

- We noted two extra payroll checks issued to the former City Clerk in fiscal year 2016. Although these payments could have been for payout of vacation balances, there were no timesheets, discussions in City Council minutes or other documentation to evidence the purpose of these payments. The payments totaled \$1,062 for fiscal year 2016.
- The former City Clerk made personal purchases on the City's credit card for a monthly subscription to My Life Background Reports from March 2016 through August 2016, when the subscription was cancelled by City personnel. The personal charges totaled \$302 during this period. The City requested reimbursement of the unauthorized purchases from the former City Clerk and has received \$252 in reimbursements as of September 15, 2016.
- We noted monthly withdrawals from the bank account for vision insurance for the former City Clerk through the Iowa Rural Water Association. Per discussion with the Mayor, this benefit was not authorized by the City Council. The payments totaled \$122 for fiscal year 2016.
- The City changed accounting software during the year. While performing a search for write-offs of delinquent utility balances, we noted a write-off in the "Bad Debts" screen of the software for the former City Clerk indicating a balance of \$1,036 was written off in October 2013. Per discussion with the Mayor, the City does not have written policies for utility write-offs and the Mayor does not remember any instances of write-offs presented to the City Council for approval.

Recommendation – The City Council should consult legal counsel to determine the disposition of these matters.

(H) Disbursements – The following items were noted during our testing of disbursements:

- 16 of 31 transactions tested were not supported by proper documentation.
- 11 of 31 transactions tested did not have adequate documentation to determine whether public purpose was met or the public benefits to be derived were not clearly documented for unusual purchases.

City of Zearing

Detailed Recommendations

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

- 2 of 31 disbursements tested could not be traced to posting in the accounting records.
- We noted several manual checks issued to the City which appear to be for refunds of utility deposits. However, it is unclear why the checks were issued to the City rather than to the utility customer who was owed the deposit.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. In addition, the public benefit to be derived from a disbursement should be clearly documented on the supporting documentation when not readily apparent. All disbursements should be reconciled to the City's ledgers monthly.

The City should cease the practice of issuing checks to the City to refund utility deposits. Utility deposit refunds should be issued to the utility customer who was owed the refund.

(I) Payroll – The following items were noted during our testing of payroll:

- Hourly rates for City employees were not documented in the minutes record. In addition, rate increases were approved by the City Council as a percentage increase rather than as an hourly rate.
- Timesheets were not required for all employees.
- Vacation and compensatory time balances were not tracked for fiscal year 2016.
- There is no independent review of new employees entered on the City's payroll system.
- Written approval is not required for all payroll deductions.
- Personnel files do not contain all required IRS forms.
- The former City Clerk's payroll check for the pay period ended November 11, 2015 was dated a week early.

Recommendation – All hourly rates should be approved by the City Council and adequately documented in the minutes record. In addition, the City Council should review the current hourly rate and the proposed hourly rate to ensure the approved percentage increase is applied accurately. Timesheets should be required for all employees, salaried as well as hourly. The timesheets should be signed by the employee and should be reviewed and approved by supervisory personnel prior to the preparation of payroll. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days.

Personnel files should contain all necessary IRS forms and evidence of authorization for any payroll deductions. In addition, the entry of new employees on the City's payroll system should be reviewed by an independent person.

All non-routine payroll checks should be properly supported and approved and payroll checks should not be processed in advance of the regular schedule.

City of Zearing

Detailed Recommendations

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

- (J) Credit Cards – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

In addition, original credit card receipts are not always provided to the City Clerk to be reconciled to the statement each month. We noted certain items purchased with the City's credit card such as candy, crackers, cookies, chocolates, small games and items with no description for which public purpose was not clearly documented.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Original receipts should be provided to the City Clerk in a timely manner and should be reconciled to the credit card statement each month. All charges should be reviewed and scrutinized prior to payment. For items which are unusual in nature, the public purpose of the purchase should be clearly documented.

- (K) Accounting Records – Certain records, including journal entries processed on the City's accounting system and certain revenue debt documents, were not properly retained.

Recommendation – The City should retain all accounting records in accordance with the City's record retention policy.

- (L) Manual Checks – The City issued a significant number of manual checks during the fiscal year. However, the City does not account for the numerical sequence of checks issued and control was not maintained over the supply of unused and/or voided checks.

In addition, certain checks included only one signature although dual signatures are required by City policy. Several of these checks were issued to the former City Clerk and were signed only by the former City Clerk.

Recommendation – The City should discontinue the use of manual checks and should establish procedures to account for the numerical sequence of all checks issued. Proper controls should be exercised over the supply of unused and/or voided checks. In addition, the City should implement procedures to ensure checks are signed by two individuals. Bank statements with images of cancelled checks should be reviewed by an independent individual to ensure all checks include dual signatures and appear appropriate.

- (M) Separately Maintained Records – The Zearing Park Board maintains separate bank accounts for certain purposes. The activity and resulting balances of these accounts are not included in the City's accounting records. In addition, a certificate of deposit held for the Zearing Public Library was not included in the City's accounting records.

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.

City of Zearing

Detailed Recommendations

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

- (N) Restrictive Endorsement – A restrictive endorsement was not placed on checks immediately upon receipt.

Recommendation – A restrictive endorsement should be placed on all checks when received to help provide protection in case of theft or loss.

- (O) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the general government and business type activities functions. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the public works, health and social services 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.”

The notice of public hearing for the budget amendment approved March 14, 2016 was published fifteen days after the stated hearing date. No notice of public hearing could be located for the budget amendment approved on May 28, 2016.

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.

Before approving any budget amendment, the City Council should set a date for a public hearing and give notice of the hearing at least ten but not more than twenty days prior to the hearing as required by Chapters 384.16(3) and 384.18(2) of the Code of Iowa.

- (P) City Council Meeting Minutes – Certain disbursements were not approved by the City Council and other disbursements were not approved prior to the disbursement. The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval.

Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for the four meetings tested were not published within fifteen days. In addition, the City did not publish a summary of receipts and in certain cases, the reason for the claim was not published as required by Chapter 372.13(6) of the the Code of Iowa.

There was no evidence in the minutes to demonstrate public hearings were held in advance of the City Council approving the March 14, 2016 and May 28, 2016 budget amendments.

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval. The minutes record for City Council proceedings should be published as required by the Code of Iowa, including a summary of receipts and the reason for claims allowed. The minutes record should document all significant action taken by the City Council, including public hearings held.

City of Zearing

Detailed Recommendations

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

- (Q) Deposits and Investments – The City Council has named an official depository but has not specified the maximum that may be kept on deposit as required by Chapter 12C.2 of the Code of Iowa. In addition, an investment register is not maintained.

Recommendation – The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa. In addition, the City should maintain an investment register documenting the activity of each investment.

- (R) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the General Fund. The LOST ballot requires the receipts to be used for specified purposes. However, during the fiscal year, LOST disbursements were not tracked in a manner which documented compliance with the LOST ballot referendum provisions.

Recommendation – The City should document the collection, disbursement and balance of all LOST funds. Disbursement of these funds should be properly identified to document compliance with the LOST ballot referendum provisions.

- (S) Financial Condition – At June 30, 2016 the Special Revenue, Road Use Tax Fund and the Enterprise, Water Fund had deficit balances of \$49,694 and \$7,925, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

- (T) 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 for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts, as required.

- (U) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the State Treasurer's Office annually. The City did not remit these obligations as required.

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



City of Zearing

Staff

This engagement was performed by:

Jennifer Campbell, CPA, Manager  
Lesley R. Geary, CPA, Senior Auditor II  
Grant W. Pomerenk, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director