



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

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**NEWS RELEASE**

FOR RELEASE

March 14, 2017

Contact: Marlys Gaston  
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Dawson's Periodic Examination Report dated January 22, 2015. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period July 1, 2015 through June 30, 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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. Fourteen of the nineteen findings reported in the Periodic Examination Report dated January 22, 2015 are repeated in this report. While the City corrected five of the findings, partially corrected two of the findings and one finding is no longer valid, twelve of the findings are reported as "not corrected". Four additional findings identified during the follow-up procedures are included in this report.

A copy of the City of Dawson'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/1422-0231-EPFP>.

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**CITY OF DAWSON**

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

**FOR THE PERIOD  
JULY 1, 2015 THROUGH JUNE 30, 2016**

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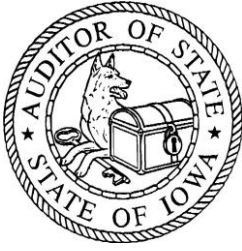
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**City of Dawson**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Breanna Morman	Mayor	Jan 2016	Jan 2018
Billy Carpenter	Council Member	Jan 2016	Jan 2018
Glenda Hiddleson	Council Member	Jan 2016	Jan 2018
Clarence Morman	Council Member	Jan 2016	Jan 2018
Robin Wolfe	Council Member	Jan 2016	Jan 2018
Jen Zander	Council Member	Jan 2016	Jan 2018
Sherry James	City Clerk		Indefinite
DuWayne J. Dalen	City Attorney		Indefinite

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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 January 22, 2015 on the City of Dawson, Iowa covering the period January 1, 2014 through December 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 date January 22, 2015 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedure.

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 Dawson and other parties to whom the City of Dawson 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 Dawson 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

November 3, 2016

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



City of Dawson

Report on the Status of Periodic Examination Findings and Recommendations

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

**Findings Reported in the Periodic Examination Report dated January 22, 2015:**

(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, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Journal entries – preparing and journalizing.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (8) Utilities – depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (9) 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) Dawson Fire and Rescue Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, prenumbered receipts are not issued, paid invoices or other supporting documentation are not properly cancelled and accounting records did not facilitate the proper classification of receipts or disbursements.

Recommendation – The Dawson Fire and Rescue Department should segregate accounting duties to the extent possible. In addition, prenumbered receipts should be issued for all collections, invoices or other supporting documentation should be cancelled to prevent reuse and receipts and disbursements should be properly classified in the accounting records.

**Current Status – No longer valid. The City took control of the Fire Department and First Responders accounts effective June 10, 2015.**

City of Dawson

Report on the Status of Periodic Examination Findings and Recommendations

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

- (C) Bank Reconciliations – Cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The “Bank Statement Reconciliation” report generated from the City’s financial system includes the City’s main checking account, but excludes the investment accounts.

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.

**Current Status – Not corrected. The City could not provide bank reconciliations because they were unable to retrieve historical bank reconciliation information from the computerized system that maintains information as of a point in time. The City Clerk does not print the bank reconciliation from the computerized system to support the balances reported to the City Council. We reviewed the June 30, 2016 report provided to the City Council and the amount reported was within \$136 of the amount reported by the bank for these accounts. The recommendation is repeated.**

- (D) Financial Reporting – The following were noted:

Although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting, evidenced by liabilities remaining in the fund “Balance Sheet” report at each month end reviewed.

Property tax receipts totaling \$833 were deposited in the City’s bank account on June 14, 2014. However, we were unable to determine where the receipts were posted in the City’s general ledger.

Investments are recorded at market value in the “Bank Cash Report” rather than at cost.

Monthly financial reports, including fund balances and comparison of actual results to budget by function, were not provided to the City Council for review and approval.

Beginning fund balances reported in the Annual Financial Report (AFR) did not agree with the City’s financial records and budget amounts reported in the AFR did not agree with the City’s amended budget.

Recommendation – The City should establish procedures to ensure financial transactions, including property tax receipts, are properly recorded and are reported using the cash basis of accounting. Liability accounts in the “Balance Sheet” report should be zeroed out each month and investments should be recorded at cost, not market value.

To improve financial accountability and control, a monthly report should be submitted to the City Council showing beginning balance, receipts, disbursements, transfers and ending balance for each fund. To provide better control over budgeted disbursements and the opportunity for timely amendment to the budget, the City Clerk’s monthly financial reports to the City Council should include comparisons to the budget by function.

The City should establish procedures to ensure balances reported in the AFR reconcile to the general ledger. In addition, the budget column in the AFR should agree with the City’s amended budget.

City of Dawson

Report on the Status of Periodic Examination Findings and Recommendations

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

**Current Status – Partially corrected.** During the period reviewed, the City changed accounting systems. As a result, the “Balance Sheet” report is no longer generated and all receipts and disbursements are posted on a cash basis to the current accounting system. All property tax apportionments for the period reviewed were traced to the City’s accounting system and were properly posted. Although monthly reports provided to the City Council now include a listing of fund balances, they do not include a comparison of actual results to the budget by function. Investments are recorded at market value rather than cost. Beginning fund balances reported on the fiscal year 2016 AFR do not agree with ending fund balances reported on the fiscal year 2015 AFR and do not agree with City’s financial records. The budget column in the fiscal year 2015 AFR agreed with the City’s 2015 budget, however the fiscal year 2016 AFR budget column equaled the fiscal year 2015 budget and did not agree with the fiscal year 2016 amended budget. The recommendation is partially repeated.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review 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.**

- (F) Financial Condition – At December 31, 2014, the City had a deficit balance of \$8,667 in the General Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

**Current Status – Corrected. As of June 30, 2016 fund balances were in a positive position.**

- (G) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 33% for property tax relief, 33% for public safety, City parks, community betterment and City quality of life projects and 34% for distribution to the Tri-County Regional Authority for recreational trails. The City’s LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

**Current Status – Not corrected. The recommendation is repeated.**

City of Dawson

Report on the Status of Periodic Examination Findings and Recommendations

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

- (H) Journal Entries – Supporting documentation was not maintained for journal entries and journal entries were not approved.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Journal entries should be approved by an independent person and evidence of the approval should be documented by the signature or initials of the approver and the date of approval.

**Current Status – Not corrected. During the period reviewed, the City changed from a packaged accounting system to QuickBooks, eliminating a clear audit trail for journal entries.**

- (I) City Clerk's Wages – The City Clerk's gross wages for calendar year 2014, paid in two semi-annual payments of \$1,800 each, totaled \$3,600. Documentation of City Council approval of the City Clerk's wages and the frequency of payment was not available.

Recommendation – The City should establish procedures to ensure City Council approval is documented and available to support all City employee wages.

**Current Status – Corrected. The City Clerk's gross monthly wages to be paid annually in December were approved by the City Council on March 3, 2015.**

- (J) Certified Budget – Disbursements during the year ended December 31, 2014 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development 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."

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.

**Current Status – Not corrected. Disbursements during the year ended June 30, 2015 and June 30, 2016 exceeded the amounts budgeted in the general government and business type activities functions. The recommendation is repeated.**

- (K) 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 its bank account.

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

**Current Status – Not corrected. The recommendation is repeated.**

City of Dawson

Report on the Status of Periodic Examination Findings and Recommendations

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

- (L) Timesheets – Timesheets did not include evidence of supervisory review.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll.

**Current Status – Not corrected. The recommendation is repeated.**

- (M) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council minutes include “a list of all claims allowed and a summary of all receipts” and include “total disbursements from each fund”. Four of four monthly meeting minutes reviewed did not include total disbursements from each fund, two of four monthly meeting minutes reviewed did not include a list of all claims allowed and four of four monthly meeting minutes reviewed did not include a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and ensure the minutes publications (postings) include total disbursements by fund, a list of all claims allowed and a summary of receipts, as required.

**Current Status – Partially corrected. Although monthly City Council meeting minutes now include a listing of all claims allowed, for the most recent period reviewed, four of four monthly meeting minutes did not include total disbursements from each fund and two of four monthly meeting minutes did not include a summary of receipts. The recommendation is partially repeated.**

- (N) Disbursements – Invoices or other supporting documentation were not always available to support disbursements. Supporting documentation for three transactions tested could not be located.

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

**Current Status – Not corrected. For the period reviewed, supporting documentation for three transactions tested, including one voided check, could not be located. The recommendation is repeated.**

- (O) Voided Checks – Voided checks were not retained, making it difficult to account for all checks.

Recommendation – Voided checks should be retained to provide accountability and control over all checks.

**Current Status – Not corrected. The recommendation is repeated.**

City of Dawson

Report on the Status of Periodic Examination Findings and Recommendations

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

- (P) Questionable Disbursements – During the period reviewed, \$133 was disbursed for gift sacks for elderly citizens and \$40 was disbursed for gift cards for distribution at community events. These disbursements may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has 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 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 public purpose documentation.

**Current Status – Not corrected. During the period reviewed, \$144 was disbursed for candy and soda and \$65 was disbursed for gift cards and gift certificates for a Halloween party. The recommendation is repeated.**

- (Q) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Clarence Mormon, City Council Member, wife mows for the City	Mowing services	\$ 4,750

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since the transactions exceed \$2,500 and were not competitively bid.

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

**Current Status – Corrected. The September 1, 2015 City Council meeting minutes document bids for a repair project. Also, the April 5, 2016 City Council meeting minutes awarded the mowing services to the one bid received.**

- (R) Separately Maintained Records – The Dawson Fire and Rescue Department maintains separate accounting records for certain operations. These transactions and resulting balances are 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 Dawson

Report on the Status of Periodic Examination Findings and Recommendations

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

**Current Status – Corrected. Effective June 10, 2015, the City took control of the Fire Department and First Responders accounts. Activity in the accounts is properly reflected in the City’s accounting records.**

- (S) Official Depositories – A resolution naming official depositories has not been adopted by the City as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

**Current Status – Not corrected. The recommendation is repeated.**

**Additional Findings as a Result of Follow-up Procedures:**

- (T) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections.

Recommendation – Pre-numbered receipts should be issued for all collections to provide additional control over the proper collection and recording of all money.

- (U) Transfer Documentation – Supporting documentation was not maintained for interfund transfers and transfers were not approved or balanced monthly.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers. Additionally, all interfund transfers should be approved by the City Council and the approval should be documented in the minutes or budget, as applicable. Interfund transfers should be balanced monthly to ensure transfers in equal transfers out.

- (V) Credit Card – The City has a credit/debit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit/debit card and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Also, the City should adopt a formal written policy regulating the use of the City’s credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to support the purchases.

- (W) Investments – At June 30, 2016, the City held investments with a total cost of \$260,963 in the Tennessee Valley Authority (TVA). The City was unable to demonstrate how these investments are allowable investments for public funds, as specified in the City’s Investment Policy and in Chapter 12B.10(5) of the Code of Iowa.

Recommendation – The City should consult legal counsel to determine the propriety of these investments.

City of Dawson

Staff

This engagement was performed by:

Ernest H. Ruben Jr., CPA, Manager  
Anthony M. Heibult, Senior Auditor

  
Marlys K. Gaston, CPA  
Director