



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

March 30, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Radcliffe, 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 and take steps to reduce and eventually eliminate deficit balances. In addition, the City should establish procedures to ensure bank and investment accounts are reconciled to the general ledger monthly and to reconcile utility billings, collections and delinquent accounts for each billing period.

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/1622-0396-EP0P>.

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CITY OF RADCLIFFE
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 Radcliffe

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Taylor Roll	Mayor	Jan 2016	Jan 2018
Brad Fjelland	Council Member	Jan 2014	Jan 2018
Dale Hinderaker	Council Member	Jan 2014	Jan 2018
BJ Balvanz	Council Member	Jan 2016	Jan 2020
Roger Handsaker	Council Member	Jan 2016	Jan 2020
Al Rudy	Council Member	Jan 2016	Jan 2020
April Eller	City Clerk		Indefinite
Tom Wynia	Attorney		Indefinite

City of Radcliffe



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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 Radcliffe for the period July 1, 2015 through June 30, 2016. The City of Radcliffe'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 Radcliffe, 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 Radcliffe and other parties to whom the City of Radcliffe 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 Radcliffe 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 11, 2016

Detailed Recommendations

City of Radcliffe

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 – recordkeeping, investing, custody of investments and reconciling earnings.
- (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) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (7) Long-term debt – record keeping, compliance and debt payment processing.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and journalizing.
- (10) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (11) Computer system – performing all general accounting functions and controlling all data input and output.

For the Radcliffe City Fire Department account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

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 – Although monthly bank reconciliations were prepared for the City's checking account, a complete reconciliation including investments was not prepared. At June 30, 2016, bank and book balances did not properly reconcile. A variance of \$21,240 was not resolved. The book balance was higher than the bank balance. In addition, the bank reconciliations are not independently reviewed.

City of Radcliffe

Detailed Recommendations

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

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.

- (C) 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.

- (D) Financial Condition – At June 30, 2016, the City had a deficit balance of \$60,637 in the Enterprise, Water Fund.

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

- (E) Monthly City Clerk’s Report – The monthly City Clerk’s report presented to the City Council for approval does not include a comparison of total disbursements to the certified budget by function. In addition, for one month reviewed, amounts reported do not agree with the City’s records.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a comparison of total disbursements by function to the certified budget. In addition, amounts reported should agree with the City’s records.

- (F) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. For one of four meetings tested, minutes were not published within fifteen days of the meeting.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days of the meeting.

- (G) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 80% for capital improvements and capital equipment and 20% for community programs and services. The City has not been tracking the use of LOST receipts.

Recommendation – The City should implement procedures to track LOST disbursements and transfers to ensure LOST receipts are being used in accordance with the ballot.

- (H) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the health and social services, culture and recreation 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.”

City of Radcliffe

Detailed Recommendations

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

- (I) Petty Cash – Petty cash funds on hand at City Hall and the Library were not maintained on an imprest basis and included receipts from copies and other fees not separately accounted for.

Recommendation – Cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Also, receipts for copies and other fees should be accounted for separately to facilitate the depositing of these collections intact.

- (J) Disbursements – Two of the thirty disbursements tested were not approved by the City Council.

Recommendation – The City should ensure all disbursements are properly approved by the City Council.

- (K) Payroll – Timesheets are not required for all City employees. In addition, wage increases are approved by the City Council as a percentage increase rather than an hourly rate or salary.

Recommendation – Timesheets should be submitted by all City employees. The timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. In addition, wage increases should be approved by the City Council as an hourly rate or salary.

- (L) 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 comply with City ordinances and ensure residents are billed for sewer usage. The City should also establish procedures to periodically read water meters to verify self-reported usage.

- (M) Deposits and Investments – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa. In addition, the City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Also, an accounting register is not maintained for each investment.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required. The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. In addition, an accounting register should be maintained for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number.

- (N) Payments of General Obligation Bonds – Principal and interest payments on the City's fire truck general obligation bonds were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund."

City of Radcliffe

Detailed Recommendations

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

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

- (O) Separately Maintained Records – The Fire 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.

- (P) 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.

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Roger Handsaker, Council Member, Owner of Hands On Excavating LLC	Lagoon pumping and tree removal	\$ 6,598
Richard Drake, Mayor, Owner of Drake Insurance	City insurance	27,620

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions may represent a conflict of interest since total transactions exceeded \$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.

- (R) Annual Financial Report – Total receipts and disbursements on the fiscal year 2015 Annual Financial Report (AFR) did not agree with the City’s records. Receipts were understated by \$9,724 and disbursements were overstated by \$3,046.

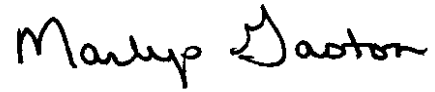
Recommendation – The City should implement procedures to ensure amounts reported on the AFR agree with the City’s records.

City of Radcliffe

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Chad C. Lynch, Staff Auditor
Alex W. Case, 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