



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 27, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Martensdale, 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 establish procedures to ensure bank and utility reconciliations are performed monthly and the Annual Financial Report is prepared accurately. 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 budgeted amounts.

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/1622-0875-BLOF>.

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

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant’s Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	
	<u>Finding</u>
Segregation of Duties	A 8
Bank Reconciliations	B 9
Management Financial Information	C 9
Chart of Accounts	D 10
Reconciliation of Utility Billings, Collections and Delinquent Accounts	E 10
Separately Maintained Records	F 10
City Council Meeting Minutes	G 10
Payroll	H 10-11
Fire Department Disbursements	I 11
Questionable Disbursements	J 11
Change Fund	K 11
Pre-signed Check	L 11
Credit Cards	M 11
Fire Department Debit Cards	N 12
Deposits and Investments	O 12
Accounting Policies and Procedures Manual	P 12
Electronic Check Retention	Q 12
Disbursement Approval	R 12
Payment of General Obligation Notes	S 13
Certified Budget	T 13
Fire Fighters Association Donation	U 13-14
Utility Rates	V 14
Staff	15

City of Martensdale

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott Morrow	Mayor	Jan 2016
John Carroll	Council Member	Jan 2016
Doug Reynolds	Council Member	Jan 2016
Ryan Baker	Council Member	Jan 2018
Scott Henson	Council Member	Jan 2018
Nathan Wheeldon	Council Member	Jan 2018
Donna Bahun	City Clerk/Treasurer	Indefinite
Robert Stuyvesant	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Ralls	Mayor	Jan 2018
Ryan Baker	Council Member	Jan 2018
Scott Henson	Council Member	Jan 2018
Nathan Wheeldon	Council Member	Jan 2018
Adam Vanderkamp	Council Member	Jan 2020
Rob Wetzler	Council Member	Jan 2020
Donna Bahun	City Clerk/Treasurer	Indefinite
Robert Stuyvesant	Attorney	Indefinite

City of Martensdale



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

April 17, 2017

Detailed Recommendations

City of Martensdale

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 bank accounts and recording.
- (2) Investments – investing and recording.
- (3) Long-term debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (5) Disbursements – purchasing, check writing, signing, mailing, reconciling and recording.
- (6) Payroll – preparing, distributing, entering payroll rates and adding or removing employees from the system.
- (7) Utilities – billing, collecting, depositing, posting and reconciling.
- (8) Financial reporting – preparing and reconciling.
- (9) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
- (10) Computer systems – performing all general accounting functions and controlling all data input and output.

For the Martensdale Volunteer Fire Department, one individual has control over each of the following areas:

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

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Martensdale Volunteer Fire Department should review their 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.

City of Martensdale

Detailed Recommendations

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

- (B) Bank Reconciliations – The cash and investment balances in the City’s and the Fire Department’s general ledgers were not reconciled to the bank and investment account balances throughout the year. While outstanding check lists were completed monthly, the lists did not include all information, such as the date of the check.

Recommendation – The City and the Fire Department should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. The bank reconciliations should be reviewed by an independent person and the reviews should be documented by the signature or initials of the reviewer and the date of the review. Variances, if any, should be investigated and resolved timely. Outstanding check lists should include check number, amount and date written for each listed check.

- (C) Management Financial Information – Although monthly City Clerk’s reports are prepared, the reports do not agree with the general ledger or bank balances. The total fund balance of \$471,112 reported in the June 30, 2016 monthly City Clerk’s report cannot be supported and did not include \$704 of IPAIT investments or \$92,568 of Fire Department funds. When all funds are combined the balance in the City Clerk’s report was \$1,268 less than the City’s adjusted bank balance of \$565,652 at June 30, 2016.

In addition, receipts, disbursements, ending fund balances and total indebtedness reported in the fiscal year 2016 Annual Financial Report (AFR) did not agree with the City’s financial records. Also, the total beginning fund balance of \$371,166 did not agree to the prior year total ending fund balance of \$464,744. The total ending fund balance of \$532,180 reported in the fiscal year 2016 AFR was \$32,204 less than the monthly City Clerk’s report balance, including IPAIT investments and fire and rescue accounts of \$564,384, and was \$33,472 less than the City’s adjusted bank balance of \$565,652.

The City Clerk’s financial reports to the City Council include a summary of beginning balance, receipts, disbursements and ending balance by fund, but do not include comparisons of actual disbursements to the certified budget by function.

Additionally, in December 2015 the City Clerk made several correcting transfers between funds for which no City Council approval was documented. Subsequent to these transfers, balances in the City Clerk’s monthly reports did not agree to balances reported in the AFR.

Recommendation – The City should establish procedures to ensure the monthly City Clerk’s reports and the Annual Financial Report reconcile to the general ledger and bank balances, including all investment and Fire Department accounts. 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 certified budget by function.

Additionally, the City Council should review the propriety of the correcting transfers made by the City Clerk and determine required adjustments, if any, to the reported fund balances. The City Council should approve corrected fund balances, if any. All future transfers between funds should be approved by the City Council prior to the transfer. City Council approval should be documented in the City Council meeting minutes.

City of Martensdale

Detailed Recommendations

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

- (D) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (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, document the review with the signature or initials of the reviewer and the date of the review and monitor delinquent accounts.

- (F) Separately Maintained Records – The Fire Department maintains accounts separate from the City's accounting records. The transactions and resulting balances of these accounts were not included in the City Clerk's accounting records or the City's annual budget and were not reported to the City Council each month.

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 annual budget and should be reported to the City Council each month.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the minutes of City Council proceedings be published within fifteen days of the meeting, including a list of claims allowed, a summary of receipts and total disbursements by fund. One of four meeting minutes tested was not published within fifteen days. Also, two of four meeting minutes tested did not include a list of claims allowed, a summary of receipts or total disbursements by fund, as required. Also, the City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish minutes within fifteen days, including a list of claims allowed, a summary of receipts and total disbursements by fund, as required. The City should also publish annual gross salaries, as required.

- (H) Payroll – The following were noted:

- (1) City employees do not prepare and submit timesheets to support hours worked.
- (2) The City does not have a written policy for how vacation, sick leave and compensatory time are to be accrued and accounted for.
- (3) Annual salary increases for City employees were approved based upon a percentage and the actual approved wages and hourly rates were not documented in the City Council meeting minutes.

City of Martensdale

Detailed Recommendations

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

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and reviewed, approved and signed by the employee’s immediate supervisor prior to submission. A formal, written policy should be established to provide for the proper accrual of and accounting for vacation, sick leave and compensatory time. Actual approved wages and hourly rates should be documented in the City Council meeting minutes.

- (I) Fire Department Disbursements – One invoice tested was paid electronically over the phone providing electronic access to the Department’s checking account. Additionally, \$27 of this transaction was not properly supported and was classified as “other.” Per inquiry of Fire Department personnel, this disbursements was for water.

Recommendation – All disbursements should be paid by check and should be properly supported.

- (J) Questionable Disbursements – Certain Fire Department 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:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Bob’s Trophies	Trophies for annual competition	\$ 244

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 and Fire Department 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 requirement for proper documentation of public purpose. Disbursements should not be approved if the public purpose is not served.

- (K) Change Fund – The City maintains a change fund for which no authorization could be located.

Recommendation – The change fund should be formally authorized by the City Council.

- (L) Pre-signed check – The City maintains a signed blank check for \$1,500 in the event of an emergency.

Recommendation – The City should void this check. Checks should not be signed in advance.

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

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

City of Martensdale

Detailed Recommendations

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

- (N) Fire Department Debit Cards – Until October 2015, the Fire Department had debit cards available for use by volunteers while on Department business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the Fire Department. 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.

- (O) 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, while a resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa, the City exceeded the maximum approved amount at one financial institution.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. 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.

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

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

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

- (Q) 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 retain electronic images of the back of cancelled checks for the first half of the fiscal year and the Fire Department does not retain electronic images of the front or the back of cancelled checks.

Recommendation – The City and Fire Department should retain an image of both the front and back of each cancelled check, as required.

- (R) Disbursement Approval – While the City Council notes approval of claims in the minutes, the claims list provided to the City Council is not signed to authenticate the record.

Recommendation – The City should establish procedures to authenticate a detailed list of approved claims or document approval on each invoice.

City of Martensdale

Detailed Recommendations

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

- (S) Payment of General Obligation Notes – Principal and interest on the City’s 2010 general obligation note 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 notes, and received from sources other than property taxes, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payments on the notes should be made from the Debt Service Fund, as required.

- (T) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the public safety function. 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.” Also, the City did not retain the proof of publication for the fiscal year 2016 budget.

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. Also, the City should retain the proof of publication in the future.

- (U) Fire Fighters Association Donation – In January 2016, the City approved transferring \$25,000 to the newly formed Martensdale Volunteer Fire Fighters Association (Association), a private non-profit corporation.

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.”

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, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property.”

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

City of Martensdale

Detailed Recommendations

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

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 Martensdale Volunteer Fire Fighters Association. In addition, the City should require an immediate accounting for these public funds from the date of each donation.

- (V) Utility Rates – During fiscal year 2016, the water and sewer rates charged to utility customers did not agree with approved rates in the City's utility rate ordinances.

Recommendation – The City should ensure approved utility rates are charged to utility customers.

City of Martensdale

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Jonathan M. Mader, Staff Auditor
Mark D. Newhall, Staff Auditor


Marlys K. Gaston, CPA
Director