

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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

June 28, 2017

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Meservey, Iowa for the period October 1, 2015 through September 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, including an independent review of reconciliations. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. In addition, the City should comply with Chapter 384.18 of the Code of Iowa by amending its budget before disbursements are allowed to exceed the budget.

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/1622-0146-EPOP>.

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**CITY OF MESERVEY**

**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD**  
**OCTOBER 1, 2015 THROUGH SEPTEMBER 30, 2016**

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**City of Meservey**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Richard Miller	Mayor	Jan 2016	Jan 2020
Scott Brown	Council Member	Jan 2014	Jan 2018
Joey Dickman	Council Member	Jan 2014	Jan 2018
Patrick White	Council Member	Jan 2014	Jan 2018
Michael Howey	Council Member	Jan 2016	Jan 2020
David Weide	Council Member	Jan 2016	Jan 2020
Angie Even	City Clerk/Treasurer		Indefinite
Brian Miller	Attorney		Indefinite

**City of Meservey**



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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 Meservey for the period October 1, 2015 through September 30, 2016. The City of Meservey'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 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.


8. 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.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Meservey, 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 Meservey and other parties to whom the City of Meservey 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 Meservey 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

December 21, 2016



## **Detailed Recommendations**

City of Meservey

Detailed Recommendations

For the period October 1, 2015 through September 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) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing, distributing and entering rates in the system.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and recording.

For the Meservey Volunteer 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.

For the Meservey Library 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, the Fire Department and the Library 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.

(B) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual bank accounts, a complete reconciliation, including accounts from the Fire Department and the Library, was not prepared. Bank reconciliations are not reviewed by an independent person. In addition, the reconciled bank balance for June 2016 did not trace to monthly reports provided to the City Council.

City of Meservey

Detailed Recommendations

For the period October 1, 2015 through September 30, 2016

Recommendation – The City should establish procedures to ensure all 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 bank reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Also, monthly reports provided to the City Council should agree to reconciled bank balances.

- (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) Bank Loan Agreement – On August 18, 2016, the City entered into two bank loans totalling \$76,000 for an addition to the Fire Department building. The loan agreements are in the City's name and were approved by the City Council, but the loan proceeds were given to the Fire Department and were not recorded in the City's general ledger. In addition, detailed records of the loans were not maintained.

Recommendation – The loan proceeds provided to the Fire Department should be returned to the City. In addition, the City should establish procedures to ensure detailed records of all debt are maintained.

- (E) Checks Signed in Advance – Certain checks are signed before the check payee and amounts are completed.

Recommendation – Checks should not be signed in advance.

- (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. Minutes for three meetings tested were not published within fifteen days.

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

- (G) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the general governmental 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."

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.

City of Meservey

Detailed Recommendations

For the period October 1, 2015 through September 30, 2016

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

Name, Title and Business Connection	Transaction Description	Amount
Joey Dickman, Council Member, Jaspersen Insurance & Real Estate, Ltd	City insurance	\$14,711

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

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

- (I) Questionable Disbursements – Certain disbursements by the Fire Department we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Accents on Main	Flowers	\$ 73
McCubbin Trophy	Plaques for volunteer firefighters	84
Lightning Productions	DJ for ox roast	350

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 and the 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 requirements for proper documentation.

- (J) Journal Entries – Journal entries are not reviewed and approved by an independent person. In addition, supporting documentation was not always retained for journal entries.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries. In addition, supporting documentation should be maintained for all journal entries.

City of Meservey

Detailed Recommendations

For the period October 1, 2015 through September 30, 2016

- (K) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for five transactions tested could not be located. In addition, the Fire Department did not have proper supporting documentation for three of five transactions tested and the Library did not have proper supporting documentation for one transaction tested.

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

- (L) Separately Maintained Records – The Fire Department and Library maintain separate accounting records for certain operations. These transactions and resulting balances were not included in the City’s accounting records, annual budget, monthly financial reports or Annual Financial Reports.

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.

- (M) Debit Cards – The City and Library have a debit card available for use by employees while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. Debit cards 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.

- (N) Payroll – Employees do not prepare and submit timesheets to support hours worked. In addition, the wages for two employees were not properly authorized.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and the employee’s immediate supervisor prior to submission. Timesheets should support all hours worked. In addition, employee wages should be properly authorized by the City Council.

- (O) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.”

During the period October 1, 2015 through September 30, 2016, the Mayor was compensated \$957 for performing the duties of a water employee and performing other miscellaneous services for the City. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits the Mayor from receiving compensation as a City employee while serving as Mayor.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$957 improperly paid to the Mayor.

City of Meservey

Detailed Recommendations

For the period October 1, 2015 through September 30, 2016

- (P) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

- (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 Volunteer Fire Department and City Library do not receive an image of the back of each cancelled check for their bank accounts.

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

- (R) Water Rate Surcharge – Chapter 384.84 of the Code of Iowa allows the City to establish, impose, adjust, and provide for the collection of rates and charges to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the city utility. Rates must be established by ordinance of the City Council. The City Council approved a monthly water surcharge for major water tower repairs and maintenance by resolution, not by ordinance, as required.

Recommendation – The City should comply with Chapter 384.84 of the Code of Iowa when authorizing utility rates and charges and should seek legal counsel to determine the disposition of the unauthorized surcharge.

- (S) Monthly Financial Reports – A comparison of actual disbursements to budget by function is not provided to the City Council monthly.

Recommendation – A comparison of actual disbursements to budget by function should be provided to the City Council monthly.

City of Meservey

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager  
Joshua W. Ostrander, Senior Auditor  
Libby C. Lamfers, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director