



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 14, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Inwood, 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. Also, the City should consult legal counsel regarding the disposition of the Special Revenue, Urban Renewal Tax Increment Fund cash balance which exceeds the amount of TIF debt outstanding.

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/1621-0571-BLOF>.

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CITY OF INWOOD

**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 Inwood

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Moen	Mayor	Jan 2016
Joe Lloyd	Mayor Pro tem	Jan 2016
Gerald Brands	Council Member	Jan 2016
Kyle Knobloch	Council Member	Jan 2018
Kenny Scholten	Council Member	Jan 2018
Mark Timmerman	Council Member	Jan 2018
Carol Vander Kolk	City Clerk/Treasurer	Indefinite
Paul Kippley	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gerald Brands	Mayor	Jan 2020
Kenny Scholten	Mayor Pro tem	Jan 2018
Kyle Knobloch	Council Member	Jan 2018
Mark Timmerman	Council Member	Jan 2018
Rebecca Bixler	Council Member	Jan 2020
Chad Evans	Council Member	Jan 2020
Carol Vander Kolk	City Clerk/Treasurer	Indefinite
Paul Kippley	Attorney	Indefinite

City of Inwood



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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 Inwood for the period July 1, 2015 through June 30, 2016. The City of Inwood'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 to determine the debt and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 Inwood, 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 Inwood and other parties to whom the City of Inwood 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 Inwood 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

February 13, 2017

Detailed Recommendations

City of Inwood

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 – initiating cash receipt and disbursement transactions, handling and recording cash and reconciling bank accounts.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Long-term debt – maintaining long-term debt records, handling and recording cash and reviewing compensated absence records.
- (5) Disbursements – preparing, recording and reconciling.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (8) Financial reporting – preparing, recording and reconciling.
- (9) Computer usage – performing all general accounting functions and controlling all data input and output.

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 – The City and Library bank reconciliations did not always include evidence of review by an independent person. Also, bank reconciliations were not always performed for the swimming pool bank accounts or the library checking and savings account throughout the year.

Recommendation – The City should establish procedures to ensure all bank account balances, including the Library and swimming pool accounts, 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. Also, the delinquent penalty policy is not enforced.

City of Inwood

Detailed Recommendations

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

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other designated independent person 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 established delinquent penalty policy should be enforced.

- (D) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has tax increment financing (TIF) debt outstanding June 30, 2016 totaling \$12,341. However, the balance in the Special Revenue, Urban Renewal Tax Increment Fund is \$119,787 at June 30, 2016, \$107,446 in excess of the TIF debt outstanding.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including whether the TIF receipts in excess of TIF indebtedness should be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

- (E) Local Option Sales Tax – The City is not properly tracking the use and unspent balance of local option sales tax (LOST) receipts to demonstrate compliance with the LOST ballot.

Recommendation – The City should properly track the use of LOST receipts, including the unspent balance, to demonstrate compliance with the LOST ballot. Subsidiary ledgers should be maintained or separate funds should be used to track each purpose.

- (F) Payroll – Timesheets do not include evidence of supervisory review or approval. The compensatory time earned and used is not formally tracked. Also, the 2016 calendar year wage increases were approved as a percentage increase and not as an hourly rate or salary in the City Council meeting minutes.

In addition, the annual hourly wage increases for all Library employees were based upon a percentage rather than a specific amount per hour. The actual approved wages were not documented in the Library Board minutes.

Recommendation – The timesheets should be signed by the employee and should be reviewed and signed by the employee's supervisor. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days. Also, compensatory time earned and used should be formally tracked for all employees. In addition, wage rates and increases should be adequately documented in the minutes as an approved hourly rate or salary and not just a percentage increase, including salaries of Library employees.

City of Inwood

Detailed Recommendations

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

- (G) Journal Entries and Transfers – Journal entries made directly to the general ledger, including interfund transfers, were not always approved by the City Council.

Recommendation – The City Council should review and approve all journal entries and transfers to ensure they are reasonable and supported.

- (H) 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 and include a list of disbursements for each fund as well as a summary of all receipts. Minutes for three of four meetings tested were not published within fifteen days. Also, the publication of minutes for the meetings tested did not include a list of total disbursements by fund or a summary of receipts. In addition, Chapter 380.7 of the Code of Iowa requires all minutes of City Council meetings be properly signed. Minutes for the meetings tested were not properly signed.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes, including a list of disbursements by fund and a summary of receipts, within fifteen days of the meeting. In addition, minutes of the City Council meetings should be signed to authenticate the actions taken.

- (I) Disbursements – Seven of the thirty disbursements tested were not approved by the City Council and certain disbursements were made prior to City Council approval. The City does not have a written policy allowing certain items to be paid prior to City Council approval. In addition, supporting documentation for three of the thirty disbursements tested was not retained.

Recommendation – All disbursements should be approved by the City Council and the approval should be documented in the meeting minutes. The City could adopt a written policy to allow payment of certain bills prior to City Council approval, if desired. All disbursements should be approved by the City Council prior to disbursement, with the exception of those specifically allowed by the 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. In addition, supporting documentation should be required and retained for all disbursements.

- (J) Annual Urban Renewal Report – TIF debt outstanding on the Annual Urban Renewal Report (AURR) Levy Authority Summary does not agree with City records. The City understated the amount of outstanding debt by \$12,341.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City's records.

- (K) Computer Systems – Access to the City's computer systems are not restricted through the use of user IDs and passwords.

Recommendation – To protect against unauthorized access to its computer systems, the City should restrict access to its systems through the use of user IDs and passwords.

City of Inwood

Detailed Recommendations

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

(L) Policies and Procedures – The City does not have written policies and procedures for the following:

- Accounting policies and procedures.
- Personnel policies, including policies for sick leave and vacation accrual, regular evaluations of employee performance and requirements to maintain confidentiality of sensitive information.
- Information security and computer usage policies.
- A disaster recovery plan.

Recommendation – Policies and procedures covering the above items should be developed and approved by the City Council.

(M) 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 general government function disbursements which were \$9,561 higher than the amount recorded in the City’s general ledger. As a result, the ending fund balance for the governmental funds was understated.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

(N) Financial Condition – At June 30, 2016, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
Enterprise:	
Waterworks	\$ 93,671
Storm Sewer	15,261

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

(O) Payment of General Obligation Bonds – 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.” During the year ended June 30, 2016, a portion of the general obligation debt payments were paid from the General Fund.

Recommendation – In the future, the City should transfer from the General Fund to the Debt Service Fund to pay the general obligation bond debt.

City of Inwood

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Ryan J. Pithan, CPA, Senior Auditor
Luke M. Bormann, CPA, Assistant Auditor


Marlys K. Gaston, CPA
Director