



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

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**NEWS RELEASE**

FOR RELEASE

August 18, 2017

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Contact: Marlys Gaston  
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations on the City of Cumming's Periodic Examination Report dated January 9, 2015. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2015 through March 31, 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. Five of the twelve findings reported in the Periodic Examination Report dated January 9, 2015 were corrected. The remaining seven findings are repeated in this report. Of the seven repeat findings, the City partially corrected two which are reported as "partially corrected" and five of the findings are reported as "not corrected". Four additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Cumming'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/1422-0871-EPFP>.

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**CITY OF CUMMING**

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

**FOR THE PERIOD  
JUNE 1, 2015 THROUGH MARCH 31, 2016**

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**City of Cumming**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Tom Becker	Mayor	Jan 2014	Jan 2018
Dino Goode	Council Member	Jan 2014	Jan 2018
Ed Harkin	Council Member	Jan 2014	Jan 2018
Dave Chelsvig	Council Member	Jan 2016	Jan 2020
Peggy Koch	Council Member	Jan 2016	Jan 2020
Jean Lare	Council Member	Jan 2016	Jan 2020
Rachelle Swisher	City Clerk/Treasurer		Indefinite
Geri Huser	Attorney		Indefinite

**City of Cumming**



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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 9, 2015 on the City of Cumming, Iowa covering the period December 1, 2013 through November 30, 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 9, 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 procedures. This report covers the period June 1, 2015 to March 31, 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.

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 Cumming and other parties to whom the City of Cumming 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 Cumming 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, CPA  
Auditor of State

July 19, 2017

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

City of Cumming

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through March 31, 2016

**Findings Reported in the Periodic Examination Report dated January 9, 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) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Debt – recordkeeping, compliance and debt payment processing.
- (4) Journal entries – preparing and journalizing.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (7) Computer system – performing all general accounting functions and controlling all data input and output.
- (8) 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 and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

**Current Status – Partially corrected. Journal entries are reviewed and approved by a Council Member. The remaining segregation of duties findings have not been corrected. The recommendation is partially repeated.**

(B) Checks Posted – The City reports using the cash basis of accounting. However, several checks written after June 30, 2014 were posted as June 30, 2014 activity and reported in the 2014 Annual Financial Report (AFR). Disbursements should be recorded when checks are written and not when the activity/service was incurred. These transactions resulted in the misstatement of the AFR and disbursements were charged to an incorrect fiscal year.

Recommendation – For better accountability, financial and budgetary control, the financial activity should be recorded when receipts are received and checks are written.

**Current Status – Corrected. No checks were written after June 30, 2015 and posted back to fiscal year 2015.**

City of Cumming

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through March 31, 2016

- (C) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, no independent review of the bank reconciliations was performed prior to September 2014.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

**Current Status – Corrected. During the period reviewed, bank reconciliations were reviewed by an independent person. However, see additional finding (N).**

- (D) Monthly City Clerk’s Report – A monthly City Clerk’s report, including a summary of receipts disbursements and ending balances by fund, is not prepared.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a summary of receipts, disbursements and ending balances by fund. The City Council should review and approve the monthly City Clerk’s report.

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

- (E) Tax Increment Financing (TIF) Debt Certifications – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from the fund as provided in Chapter 403.19 of the Code of Iowa. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. 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(5)(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 certified interfund loans as TIF obligations on November 27, 2006, November 26, 2007 and November 24, 2008 although the loans were not made. Because the City received TIF receipts for debt the City did not incur, the City’s TIF receipts exceeded its TIF indebtedness.

Recommendation – The City should consult bond counsel to determine the disposition of this matter, including determining if 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.

**Current Status – Corrected. The City contacted bond counsel and subsequently approved and repaid two interfund loans totaling \$106,479 related to phase two of its sewer project. The City intends to use the remaining \$39,125 of TIF receipts collected in excess of TIF indebtedness to help pay \$934,100 of general obligation TIF debt certified to the County Auditor for the sewer project. See additional finding (Q).**

City of Cumming

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through March 31, 2016

- (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 and include a summary of all receipts. The minutes for all meetings tested were not published within fifteen days and did not include a summary of receipts.

Recommendation – The City should publish minutes timely and include a summary of receipts as required.

**Current Status – Not corrected. The recommendation is repeated. In addition, see finding (M).**

- (G) Parks and Recreation – The Parks and Recreation Board sells various apparel and other items promoting the City without providing periodic reporting of sales and inventory on hand.

Recommendation – The City should establish policies and procedures to require a periodic reporting of sales and inventory on hand. The sales should be reconciled to collections deposited in the City's accounting system.

**Current Status – Partially Corrected. During the period reviewed, the Parks and Recreation Board provided various apparel and other items to a local business for resale. The City received a listing of inventory on hand, sales and the amount restocked from the local business and the City Clerk compared sales reported by the local business to deposits. However, the Parks and Recreation Board does not keep a periodic inventory of merchandise on hand at the City. The recommendation is partially repeated.**

- (H) Timely Deposits – The City's receipts were not always deposited on a timely basis.

Recommendation – To safeguard cash and increase funds available for investment, receipts should be deposited intact and timely.

**Current Status – Corrected. During the period reviewed, all receipts tested were deposited intact and timely.**

- (I) Credit Card – The City has a credit card for use by the City Clerk. The City has not adopted a formal policy to regulate the use of the credit card 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 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 purchases.

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

City of Cumming

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through March 31, 2016

- (J) Journal Entry Approval – Journal entries are not approved by the City Council.

Recommendation – 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 – Corrected. During the period reviewed, journal entries were approved by a City Council Member and the approval was documented by the City Council Member's initials and the date.**

- (K) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the general government 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.

**Current Status – Not corrected. At June 30, 2015, the City exceeded the amount budgeted in the capital projects function. The recommendation is repeated.**

- (L) Financial Condition – At June 30, 2014, the City had a deficit balance of \$2,764 in the Debt Service Fund.

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

**Current Status – Partially corrected. At March 31, 2016, the City's Debt Service Fund had a balance \$21,278. However, the Capital Projects Fund had a deficit balance of \$22,783 on March 31, 2016. The recommendation is partially repeated.**

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

- (M) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the minutes of City Council proceedings be published, including total disbursements from each fund and a list of claims allowed. The minutes for three of the four meetings tested did not include total disbursements from each fund or a list of claims allowed.

Recommendation – The City should publish total disbursements by fund and a list of claims allowed, as required.

- (N) Bank Reconciliations – The cash balances in the City's general ledger were reconciled to bank account balances and the reconciliations were reviewed by an independent person for four months tested. However, for two of the four months tested, the independent review was not timely.

Recommendation – The independent review of the bank reconciliations should be done prior to preparation of the following month's bank reconciliation.

City of Cumming

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through March 31, 2016

- (O) Annual Financial Report – Disbursements in the City’s fiscal year 2015 Annual Financial Report (AFR) were understated \$7,308 in the Capital Projects Fund and were overstated \$7,308 in the Proprietary Fund. The City Clerk corrected the accounting records for this error, but submitted the AFR with the incorrect disbursements. This resulted in incorrect ending fund balances reported for the Capital Projects Fund and the Governmental and Proprietary Funds.

Recommendation – The City should ensure disbursements and fund balances reported in the AFR agree with the City’s records.

- (P) Payment of General Obligation Bonds – Principal and interest on the General Obligation Sewer Improvement Bonds, Series 2015, were paid from the Capital Projects Fund from resources transferred from the Special Revenue, Tax Increment Financing (TIF) Fund. Chapter 384.4 of the Code of Iowa states, in part, “Money’s pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.”

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

- (Q) Tax Increment Financing (TIF) Debt Certifications – The City certified \$934,100 of general obligation bond principal and interest related to phase two of its sewer project to the County Auditor as a TIF obligation. The amount certified represents the total principal and interest due on the debt. However, the amount certified should have been reduced by the \$39,125 of TIF receipts on hand and available to help repay this debt. In addition, the amount certified was based on an estimated amortization schedule. Accordingly, the amount actually borrowed may differ from the estimated amount, resulting in a need for the City to adjust the amount certified for this obligation.

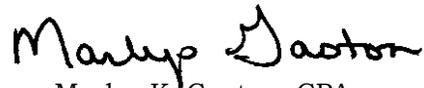
Recommendation – The City should decertify \$39,125 to reflect the use of the TIF receipts on hand and should adjust the amount certified to the actual amount borrowed once the final amortization schedule is available.

City of Cumming

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Manager  
Karen J. Kibbe, Senior Auditor II

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