



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

September 7, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Wallingford, Iowa for the period January 1, 2016 through December 31, 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. In addition, the City should maintain proper supporting documentation for all disbursements, maintain their general ledger in accordance with the Uniform Chart of Accounts, ensure their annual report agrees with City records and comply with various sections of the Code of Iowa.

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/1622-0308-EPOP>.

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CITY OF WALLINGFORD

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2016 THROUGH DECEMBER 31, 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
City Fire Department	B 8
Disbursements	C 8
Chart of Accounts	D 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	E 9
Annual Financial Report	F 9
Deposits and Investments	G 9
City Council Meeting Minutes	H 10
Certified Budget	I 10
Business Transactions	J 10
Separately Maintained Records	K 10
Electronic Check Retention	L 11
Authorized Pay	M 11
Financial Condition	N 11
Staff	12

City of Wallingford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Terry Osher	Mayor	Jan 2016	Jan 2018
Jeremy Bodle	Council Member	Jan 2016	Jan 2018
Ryan Cellan	Council Member	Jan 2016	Jan 2018
Jarrold Fischer	Council Member	Jan 2016	Jan 2018
Linda Mickelson	Council Member	Jan 2016	Jan 2018
Ronald Sabby	Council Member	Jan 2016	Jan 2018
Ann Van De Walle	City Clerk		Indefinite
Kevin R. Sander	City Attorney		Indefinite

City of Wallingford



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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 Wallingford for the period January 1, 2016 through December 31, 2016. The City of Wallingford'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 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 and tested selected receipts for accurate accounting and consistency with the recommended COA.

9. 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.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. 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 Wallingford, 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 Wallingford and other parties to whom the City of Wallingford 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 Wallingford 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

March 29, 2017

Detailed Recommendations

City of Wallingford

Detailed Recommendations

For the period January 1, 2016 through December 31, 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 and signing, mailing, recording and reconciling.
- (4) Payroll – preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting, reconciling, entering rates in the system and maintaining detailed accounts receivable records.

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) City Fire Department – All accounting functions for the City’s Fire Department account are handled by one individual without adequate compensating controls. In addition, pre-numbered receipts are not issued, paid invoices or other supporting documentation are not properly cancelled and accounting records do not facilitate the proper classification of receipts or disbursements in accordance with the Uniform Chart of Accounts. There is no evidence bank accounts are reconciled on a monthly basis.

Recommendation – The Fire Department should segregate accounting duties to the extent possible utilizing currently available staff, including elected officials. The Department should also require the issuance of pre-numbered receipts for all collections, cancel invoices or other supporting documentation and properly classify receipts and disbursements in the accounting records in accordance with the Uniform Chart of Accounts. Additionally, bank accounts should be reconciled monthly and the reconciliations should be reviewed by an independent person as evidenced by the signature or initials of the reviewer and the date of the review.

(C) Disbursements – Supporting documentation for one transaction tested could not be located. Additionally, there is no evidence of independent review of supporting documentation.

Supporting documentation for one transaction tested for the Fire Department could not be located. Additionally, one credit card account transaction tested for the Fire Department was not supported by an original receipt or invoice. Fire Department disbursements are not approved by the City Council and there is no evidence of independent review of supporting documentation.

Recommendation – All disbursements should be supported by original invoices or other supporting documentation. The Fire Department should ensure original receipts or invoices are maintained for all credit card account disbursements. All disbursements should be approved by the City Council and supporting documentation should be reviewed by an independent person. Independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

City of Wallingford

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (D) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. A general ledger of transactions is maintained on a monthly basis, however each receipt is not classified by source and each disbursement is not classified by function.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Receipts should be classified by source and disbursements should be classified by function in the general ledger.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although utility billings, collections and delinquent accounts are reconciled on a monthly basis, there is no independent review of the reconciliations.

Recommendation – The City Council or other independent person designated by the City Council should review the utility reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) to contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” While total fund balances reported in the City’s AFR agree to the City’s records, they do not agree by fund, as noted below.

The General Fund ending balance is overstated by \$17,049, after adjusting for the Special Revenue, Local Option Sales Tax Fund that should not be reported in the General Fund. Also, the total Proprietary Fund ending balance is overstated by \$29,113, the Special Revenue, Road Use Tax Fund ending fund balance is overstated by \$1,266 and the Special Revenue, Local Option Sales Tax Fund ending balance is understated by \$47,428.

Additionally, the Special Revenue, Local Option Sales Tax Fund is not properly reported as a Special Revenue Fund on the AFR.

Recommendation – The City should establish procedures to ensure amounts reported in the AFR are accurate and agree with the City’s records. An independent person should review the report for accuracy and document the review by the signature or initials of the reviewer and the date of the review.

- (G) Deposits and Investments – The City has adopted a written investment policy. However, the policy refers to an outdated Chapter of the Code of Iowa rather than to Chapter 12B.10B of the Code of Iowa. A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should modify the written investment policy to reference current Code of Iowa provisions. In addition, the City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories, as required.

City of Wallingford

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (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 total disbursements from each fund. In cities with a population of 200 or less, minutes may be posted in three public places, permanently designated by ordinance, in lieu of being published. Posted minutes do not include total disbursements from each fund.

Recommendation – The City should comply with the Code of Iowa and include total disbursements from each fund in the posted City Council meeting minutes, as required.

- (I) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works, health and social services, culture and recreation and community and economic development 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.”

Additionally, a comparison of actual disbursements to budgeted amounts by function is not prepared and provided to the City Council monthly.

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 Clerk should prepare and provide to the City Council a comparison of actual disbursements to budgeted amounts by function on a monthly basis.

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

Name, Title and Business Connection	Transaction Description	Amount
Terry Osher, Mayor, owner of Osher Excavating	Gravel and dog park improvements	\$2,520
Jeremy Bogle, City Council Member, owner of Jeremy’s Welding	Water line repairs and snow removal, ball park rent	\$ 6,251

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.

- (K) Separately Maintained Records – The Wallingford Fire Department maintains separate bank accounts and accounting records for activity separate from the City Clerk’s accounting records. These transactions and resulting balances are not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Report.

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.

City of Wallingford

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (L) 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 and the Fire Department does not receive an image of the front or the back of cancelled checks.

Recommendation – The City and the Fire Department 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.

- (M) Authorized Pay – In accordance with the City's Code of Ordinances, the Mayor's compensation is set at \$500 per year. However, the City also pays the Mayor the authorized City Council pay of \$30 per meeting for each City Council meeting attended. The additional pay of \$30 per meeting attended is not properly authorized.

Special meeting pay, as authorized by the City's Code of Ordinances, is \$35 per special meeting. However, during the period reviewed, the City paid the Mayor and City Council members \$45 per special meeting attended.

Additionally, the wages for the two City employees are not documented in the City Council minutes.

Recommendation – Compensation of the Mayor and City Council should be paid in accordance with rates authorized in the City's Code of Ordinances. Pay rates approved for City employees should be documented in the City Council minutes.

- (N) Financial Condition – During the period reviewed, the Enterprise, Water Fund had a deficit fund balance for 11 of 12 months reviewed, including a deficit of \$6,726 at June 30, 2016. However, the Enterprise, Water Fund ending fund balance as of December 31, 2016 was positive.

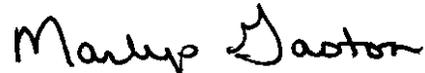
Recommendation – The City should monitor the fund balances monthly to ensure all funds are in a sound financial position.

City of Wallingford

Staff

This engagement was performed by:

Ernest H. Ruben Jr., CPA, Manager
Jenny M. Podrebarac, Senior Auditor II
Mallory A. Sims, Staff Auditor


Marlys K. Gaston, CPA
Director