



**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
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Ute, 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. 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/1622-0639-EP0P>.

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CITY OF UTE

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

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**City of Ute
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Richard Hageman	Mayor	Jan 2014	Jan 2018
Sue Kelm	Council Member	Jan 2014	Jan 2018
Matt Leitz	Council Member	Jan 2014	Jan 2018
Mark Bretthauer	Council Member	Jan 2016	Jan 2020
Buddy Leisinger	Council Member	Jan 2016	Jan 2020
Becky Miller	Council Member/ Mayor Pro Tem	Jan 2016	Jan 2020
Leah Schwery	City Clerk/Treasurer		Indefinite
David Briese	Attorney		Indefinite

City of Ute



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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 Ute for the period January 1, 2016 through December 31, 2016. The City of Ute'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 Ute, 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 Ute and other parties to whom the City of Ute 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 Ute 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 9, 2017

Detailed Recommendations

City of Ute

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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Long-term debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
- (6) Journal Entries – preparing and recording.
- (7) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (8) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (9) Computer system – performing all general accounting functions, controlling all data input and output and having custody of assets.
- (10) Financial Reporting – preparing and reconciling.

For the Ute Ambulance, 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.
- (4) Payroll – recordkeeping, preparing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and Ambulance 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 investments, petty cash and the Ambulance account, was not prepared. Also, the outstanding check listing does not include the date the check was written. In addition, bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances, including the Ambulance account and petty cash, are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. The outstanding check listing should include the date each check was written. In addition, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Ute

Detailed Recommendations

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

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared monthly.

Recommendation - A listing of delinquent accounts should be prepared and retained 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 date of the review.

- (D) Payroll - City employees do not prepare and submit timesheets to support hours worked.

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.

- (E) Certified Budget - Disbursements at June 30, 2016 exceeded the amounts budgeted in the public safety, health and social services and general governmental 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."

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.

- (F) Annual Financial Report - Receipts and ending fund balances reported in the fiscal year 2016 Annual Financial Report (AFR) did not agree with the City's financial records. The ending fund balance of \$331,695 reported in the fiscal year 2016 AFR was \$11,793 less than the monthly City Clerk's report balance of \$343,488.

Recommendation -The City should establish procedures to ensure amounts reported on the AFR are supported by the City's records.

- (G) Journal Entries - Supporting documentation is not maintained for journal entries and journal entries are not approved.

Recommendation - Supporting documentation should be maintained for all journal entries. In addition, journal entries should be reviewed and approved by an independent person. This review should be documented by the signature or initials of the reviewer and date of the review.

- (H) Local Option Sales Tax - The City's local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 40% for property tax relief and 60% for infrastructure, including streets and water. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with ballot requirements.

Recommendation - The City should implement procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

City of Ute

Detailed Recommendations

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

- (I) Compensatory Time – City Resolution 2016-07 states the maintenance/water superintendent can accumulate compensatory time during an emergency or snow removal. This compensatory time must be included on the employee’s time card and a reason documented for overtime. The Mayor must approve the compensatory time earned the next working day.

The maintenance/water superintendent accrued compensatory time multiple times per week when there were no emergencies or snow removal and there was no evidence of approval by the Mayor for the compensatory time earned. During the period reviewed, the City Council approved multiple compensatory time payouts to the maintenance/water superintendent, however, the hours paid were not accrued in accordance with the compensatory time resolution established by the City Council.

Recommendation – The City should comply with the resolution established by the City Council and allow the maintenance/water superintendent to accrue compensatory time only when the specified requirements are met.

- (J) Financial Condition – At June 30, 2016, the City had a deficit balance of \$39,584 in the Enterprise, Sewer Fund. At December 31, 2016, the deficit balance had decreased to \$29,787.

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

- (K) Sick Leave Payout – The City has not established a policy allowing sick leave payouts or compensatory time accruals for the City Clerk. During the period reviewed, the City Council approved and paid \$2,069 to the prior City Clerk for a portion of her sick leave balance. Also, during our review, we noted the prior City Clerk accumulated compensatory time and used the accumulated time while away from work, rather than sick leave, resulting in a higher sick leave balance and, consequently, a higher sick leave payout.

Recommendation – The City should establish policies and procedures regarding sick leave payouts and compensatory time accruals for the City Clerk.

- (L) 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. Two of four meeting minutes tested were not published within fifteen days and two meeting minutes tested were not published.

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

- (M) Monthly City Clerk’s Report – The monthly City Clerk’s report presented to the City Council for approval does not include a comparison of total disbursements to the certified budget by function. In addition, for one month reviewed, amounts reported do not agree with the City’s records.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a comparison of total disbursements by function to the certified budget. In addition, amounts reported should agree with the City’s records.

City of Ute

Detailed Recommendations

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

- (N) Uniform Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) recommended by the City Finance Committee. As a result, the City recorded utility excise tax receipts and commercial/industrial replacement tax as property taxes rather than other city tax and intergovernmental receipts, respectively.

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

- (O) Payment of General Obligation Bonds – During our review, we noted an additional principal payment on the City’s general obligation bonds on November 30, 2015 that was paid from the General Fund. 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.”

Recommendation – General obligation bond payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

- (P) Separately Maintained Records – The Ute Ambulance maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records and were not included in the City’s annual budget or monthly 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 annual budget and reported to the City Council on a monthly basis.

- (Q) Ambulance Disbursements – Supporting documentation for five of seven transactions tested could not be located.

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

- (R) Questionable Disbursements – Certain disbursements by the Ute Ambulance 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>
Bryce Reeves	Pop, water and cookies	\$ 188
Spartire	Alcohol	45

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.

City of Ute

Detailed Recommendations

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

Recommendation – The City and the Ute Ambulance 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.

- (S) Ambulance Trip Records – Ambulance employees are paid \$40 for each ambulance trip. Employees can accrue the number of trips and periodically receive a total payment for their trips. Adequate records are not maintained to track ambulance trip balances.

Recommendation – Ambulance officials should establish written policies and procedures requiring the maintenance of records to support ambulance trips and balances.

City of Ute

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Christian E. Cottingham, Senior Auditor
Jonathan M. Mader, Staff Auditor



Marlys K. Gaston, CPA
Director