



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

October 5, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Salem, 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. Also, the City should establish procedures to ensure bank and utility reconciliations are reviewed monthly and the Annual Financial Report is accurate. In addition, the City should comply with Chapter 384.18 of the Code of Iowa and amend the budget before disbursements are allowed to exceed budgeted amounts.

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/1622-0417-EPOP>.

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**CITY OF SALEM
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 Salem

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Dan Patterson	Mayor	Jan 2014	Jan 2018
Warren Barton	Council Member	Jan 2014	Jan 2018
Jeremy Hunold	Council Member	Jan 2014	Jan 2018
Mary Hoyer	Council Member	Jan 2016	Jan 2020
Charles Kramer	Council Member	Jan 2016	Jan 2020
Bruce Eltrich	Council Member	Jan 2016	Jan 2020
Alyse Kreiss	City Clerk/Treasurer		Indefinite
Pat Brau	Attorney		Indefinite

City of Salem



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

April 26, 2017

Detailed Recommendations

City of Salem

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 – recording, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
- (6) Payroll – entering rates into system, recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing and posting and entering rates into the system.
- (8) Financial reporting – preparing and reconciling.

For the Salem Library, 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, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City 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, they were not prepared for all savings and investment accounts held by the City. In addition, there is no evidence of review of the reconciliations.

For the Library, a bank reconciliation is performed using the duplicate checks in the checkbook, however an accounting register is not maintained and an independent person does not review the bank reconciliation.

City of Salem

Detailed Recommendations

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

Recommendation – The City should establish procedures to ensure 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 reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Also, the Library should establish an accounting register and reconcile the register to the bank statements monthly. An independent person should review the bank reconciliation and document their review by signing or initialing and dating the reconciliation.

- (C) City Financial Management – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and bond, note and loan proceeds.

The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, year to date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate preparation of and to support the Annual Financial Report (AFR).

Recommendation – The City should establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – 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.

- (E) Monthly City Clerk's Report – The monthly City Clerk's report presented to the City Council does not include a comparison of actual disbursements to budget by function.

Recommendation – The monthly City Clerk's report presented to the City Council should include a comparison of actual disbursements to budget by function.

- (F) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, 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 adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

City of Salem

Detailed Recommendations

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

- (G) 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, including a list of claims allowed, a summary of receipts and total disbursements by fund. Minutes for all meetings tested did not include a summary of disbursements by fund, a summary of receipts or a listing of claims allowed, as required by Chapter 372.13(6) of the Code of Iowa. Minutes for three of four meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and ensure that minutes publications include a summary of disbursements by fund, a summary of receipts and a listing of bills approved, as required. All meeting minutes should be signed to authenticate the actions taken.

- (H) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the general government and business type activities 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.

- (I) Annual Financial Report – The beginning fund balances for the governmental and proprietary activities did not agree to the prior year ending balances reported on the June 30, 2015 Annual Financial Report (AFR). The AFR only included the balances of the City’s General, Water and Sewer checking accounts and did not include the balances of the City’s savings accounts and investments. In addition, the City’s AFR reported receipts, disbursements and fund balances which could not be traced to the City’s records.

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

- (J) Separately Maintained Records – The Salem Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records. Also, invoices and other supporting documentation are not provided to the City Council for approval.

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. Also, invoices and other supporting documentation should be provided to the City Council for approval.

- (K) 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 for all bank accounts.

Recommendation – The City 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.

City of Salem

Detailed Recommendations

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

- (L) Payroll – For three employees tested there was no evidence of approval by the City Council for the wage rates paid.

Recommendation – The City should ensure all wage rates are approved by the Council.

- (M) Change Fund – The City maintains a change fund for which no authorization could be located.

Recommendation – The change fund should be formally authorized by the City Council.

- (N) Disbursements – Prior to July 1, 2016, a listing of approved bills was not retained. Fifteen disbursements tested had no evidence of approval by the City Council.

Recommendation – All invoices should be approved by the City Council and a listing of approved bills should be retained.

- (O) Transfers – Transfers between funds were not always approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval as part of the City Council meeting minutes.

- (P) Local Option Sales Tax – The City's Local Option Sales Tax (LOST) ballot requires LOST receipts be used for capital improvements and tax relief. The City's LOST receipts are deposited to the General Fund and no documentation is maintained to support how the funds are used or the unspent balances held for the specified purposes.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

- (Q) Sewer Revenue Note – The City does not pay for sewer usage as required by the revenue note resolutions. In addition, because the sewer sinking account is a separate bank account the activity for which is not recorded, the City is not properly accounting for principal and interest payments in the general ledger.

In addition, the City is required to establish a reserve account in an amount equal to the lesser of the maximum amount of the principal and interest coming due or ten percent of the stated principal amount. The City has not established a reserve account as required. In addition, the City has an account called Sewer Funded Deprecation for which a clear purpose has not been established.

Recommendation – The City should establish procedures to ensure all City departments are charged for sewer usage, as required. In addition, the City should ensure principal and interest payments are properly recorded in the general ledger and should establish a reserve account, as required. The City should also review the Sewer Funded Depreciation account to determine its purpose. If no specific purpose is determined, the fund should be closed and the balance transferred to an appropriate fund such as the Sewer Fund.

City of Salem

Detailed Recommendations

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

- (R) Loan Agreement – During our procedures, we noted in June 2017 the City entered into a \$85,500 loan agreement with a local bank with interest at 3% per annum to purchase a fire truck. The City did not comply with the provisions of Chapter 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed prior to entering into a loan agreement including publication of a notice of intended action and the time and place of the public hearing.

Recommendation – The City should comply with Chapters 384.24A and 384.25 of the Code of Iowa before entering into future loan agreements.

City of Salem

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Emma L. McGrane, Senior Auditor
Debora M. Copeland, Assistant Auditor


Marlys K. Gaston, CPA
Director