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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 13, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Doon, Iowa for the period April 1, 2016 through March 31, 2017. 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 and ensure the Annual Financial Report agrees with City records.

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/1622-0569-EP0P>.

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CITY OF DOON

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2016 THROUGH MARCH 31, 2017**

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City of Doon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Tim Mantel	Mayor	Jan 2016	Jan 2020
Josh Bakker	Council Member	Jan 2014	Jan 2018
Jerry Keizer	Council Member	Jan 2014	Jan 2018
Mark Mantel	Council Member	Jan 2014	Jan 2018
Brian Denekas	Council Member	Jan 2016	Jan 2020
Nathan Van Beek	Council Member	Jan 2016	Jan 2020
Kristi Baker	City Clerk/Treasurer		Indefinite
Paul Kippley	Attorney		Indefinite

City of Doon



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Independent Accountant's Report on Applying Agreed-Up 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 Doon for the period April 1, 2016 through March 31, 2017 including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Doon's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Doon 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

October 20, 2017

Detailed Recommendations

City of Doon

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

(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 – record keeping, investing, custody of investments and recording.
- (3) Debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, recording, posting and reconciling.
- (5) Disbursements – purchasing, check writing, signing and mailing, recording and reconciling.
- (6) Payroll – preparing, distributing, entering payroll rates and adding or removing employees from the system.
- (7) Utilities – billing, collecting, depositing, posting and reconciling.
- (8) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.

For the Doon Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Doon Volunteer Fire Department 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 accounts for the City, they were not always reviewed by an independent person.

For the Doon Fire Department, cash balances were not reconciled to bank balances throughout the year.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including all bank accounts and investments, should be performed and variances between book and bank balances should be investigated and resolved timely. The reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the. The City should also ensure Fire Department cash balances are reconciled to bank balances monthly.

City of Doon

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

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

Recommendation – A listing of delinquent accounts should be prepared 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 the date of the review.

- (D) Utility Rates – Chapter 388.6 of the Code of Iowa states, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies...”. The City Clerk, City meter reader and a former City employee are not billed for water, sewer and garbage use.

Recommendation – The City should not provide free utility service and should charge all utility customers for service as required by Chapter 388.6 of the Code of Iowa. The City should consult legal counsel to determine whether to seek payment from the City Clerk, City meter reader and former City employee for past utility service.

- (E) Separately Maintained Records – The Fire Department maintains accounts separate from the City’s accounting records. The transactions and resulting balances of these accounts were not included in the City Clerk’s accounting records or the City’s annual budget and were not reported to the City Council each month.

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 should be reported to the City Council each month.

- (F) Monthly City Clerk’s Report – The Monthly City Clerk’s reports do not include a comparison of total disbursements for all funds to the certified budget by function.

Additionally, at March 31, 2017 the City had \$7,449 in a Centennial Park savings account which was not included in the City’s records or in the Monthly City Clerk’s Report.

Recommendation – A comparison of budget to actual disbursements by function should be included in the monthly reports presented to the City Council for approval.

Additionally, the City should develop procedures to ensure all accounts are properly recorded in the City’s records and are included in the Monthly City Clerk’s Report.

- (G) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Also, although a resolution naming official depositories has been approved by the City Council, the maximum deposit amount stated in the resolution was exceeded during the period reviewed.

City of Doon

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

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.

- (H) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes publications for City Council proceedings include total disbursements for each fund. The minutes publications for four of four meetings tested did not include total disbursements for each fund. In addition, Chapter 380.7 of the Code of Iowa requires all minutes of City Council meetings be properly signed. Minutes for four of four meetings tested were not signed, as required.

Recommendation – The City should comply with the Code of Iowa and include total disbursements by fund in the published minutes. In addition, minutes of the City Council meetings should be signed to authenticate the actions taken.

- (I) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works, health and social services, general government and debt service 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.

- (J) Annual Financial Report – Outstanding debt amounts reported on the fiscal year 2016 Annual Financial Report did not agree to the City’s records.

Recommendation – The City should ensure outstanding debt amounts reported on the AFR agree with City records.

- (K) Payroll – The following were identified during our payroll testing:

- (1) Approved salaries and wages were not documented in the City Council meeting minutes.
- (2) Timesheets are not prepared for salaried employees.
- (3) Compensatory time hours and balances are not adequately tracked or reviewed.

Recommendation – Actual approved wages and hourly rates should be documented in the City Council meeting minutes. 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. A formal, written policy should be established to provide for the proper accrual of and accounting for vacation, sick leave and compensatory time.

City of Doon

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (L) Manual Ledger Corrections – Adjustments and corrections to the manual general ledger system are made by the City Clerk without the review of an independent person. Supporting documentation is not maintained to support the adjustments and corrections.

Recommendation – Supporting documentation should be maintained to support all adjustments and corrections to the manual general ledger system. Additionally, adjustments and corrections should be reviewed and approved by an independent person and evidence of the review/approval should be documented.

- (M) Disbursements – Seven of thirty-three disbursements tested were not adequately supported and three disbursements tested, including \$2,020 for gift cards for Gary Baker and fees, were not properly approved by City Council. Also, two disbursements from the Centennial Park savings account were not properly supported. According to the City Clerk, one \$9,744 disbursement was for playground equipment for the park and one \$250 disbursement was to obtain change for a fundraiser.

Recommendation – All disbursements should be supported by invoices or other supporting documentation and all invoices should be approved by the City Council prior to disbursement.

- (N) Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all receipts.

- (O) 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.

- (P) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gary Baker, City Clerk's husband	Gift cards for City Hall construction	\$ 5,000

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.

City of Doon

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (Q) Questionable Disbursements – Certain City and Fire Department disbursements 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:

Paid to	Purpose	Amount
Doon Steakhouse	Appreciation supper for City Council & Zoning Commission	\$ 1,350
Premier Bank	Gift card fee for purchase of ten gift cards	50
Doon Steakhouse	Food for the Fire Department	3,289
R & L Foods	Groceries and janitor supplies for the Fire Department	1,221

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.

Also, the Fire Department disbursements were not supported with adequate documentation.

Recommendation – The City Council 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 requirement for proper documentation.

- (R) 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.

Recommendation – The City should obtain and retain check images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (S) City Hall Renovation – During the period reviewed, the City paid a former City employee \$18,359 to remodel the former fire station into a City Hall. The City also paid \$5,000 in gift cards to the City Clerk’s husband for assisting with the remodel.

The total cost of the renovation was \$117,079 which exceeds the \$36,000 threshold at which competitive quotations are required by Chapter 26.14 of the Code of Iowa. Also, the City did not have a licensed architect or engineer calculate the estimated total cost of the project as required by Chapter 26.3 of the Code of Iowa.

In addition, the City did not issue an Internal Revenue Service (IRS) Form 1099 to the City Clerk’s husband for the compensation he received for helping with the project.

City of Doon

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

Recommendation – The City should establish procedures to ensure compliance with Chapters 26.3 and Chapter 26.14 of the Code of Iowa, as applicable, for future public improvement projects.

The City should contact the IRS to determine the disposition of the unreported compensation paid to the City Clerk’s husband. The City should also establish procedures to ensure all required IRS Form 1099s are properly completed and filed in the future.

City of Doon

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Nicole L. Roethlisberger, Senior Auditor
Ian N. Judson, Assistant Auditor


Marlys K. Gaston, CPA
Director