



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 30, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Bagley, Iowa for the period July 1, 2016 through June 30, 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 and establish procedures to reconcile utility billings, collections and delinquent accounts. In addition, the City should adopt a formal policy to regulate the use of credit cards and eliminate the use of debit cards.

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/1722-0362-EPOP>.

###

CITY OF BAGLEY

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

**FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017**

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
Bank Reconciliations	B 8
Chart of Accounts	C 8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D 9
Monthly City Clerk’s Report	E 9
Deposits and Investments	F 9
Payment of General Obligation Bonds	G 9
Library Debit Card	H 10
Credit Card	I 10
Electronic Check Retention	J 10
Separately Maintained Records	K 10
Staff	11

City of Bagley

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Emily Chapman-Olesen	Mayor	Sep 2016	Jan 2018
Ruth Riley	Council Member	Jan 2014	Jan 2018
Deanna Gibson	Council Member	Jan 2014	Jan 2018
Amy Chapman	Council Member	Feb 2016	Jan 2018
Jon Shaffer	Council Member	Sep 2016	Jan 2018
Jennifer Ingles	Council Member	Sep 2016	Jan 2018
Patricia Augustus	City Clerk/Treasurer		Indefinite
Jeffery Bump	Attorney		Indefinite

City of Bagley



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Bagley for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Bagley'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 Bagley 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 30, 2017

Detailed Recommendations

City of Bagley

Detailed Recommendations

For the period July 1, 2016 through June 30, 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) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Financial reporting – preparing and reconciling.
- (6) Journal entries – preparing and recording.
- (7) Payroll – record keeping, preparing, entering rates and adding/removing employees from system.
- (8) Long-term debt – recording and reconciling.

For the Library, one individual has control over each of the following areas:

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

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and Library should review their operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of reviews should be documented by the signature or initials of the independent reviewer and the date of the review.

(B) Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations were not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure the reconciliations are reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

(C) 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.

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

City of Bagley

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (D) 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.

- (E) Monthly City Clerk’s Report – The City Clerk’s monthly financial reports to the City Council included cash and investment balances and year-to-date receipts and disbursements, but did not include comparisons of total disbursements for all funds to the certified budget by function.

In addition, the City does not classify disbursements by function in its accounting system. Therefore, we were unable to determine if the City exceeded the budgeted amounts by function.

Recommendation – The City should classify disbursements by function in the accounting system. To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include a comparison of total disbursements for all funds to the certified 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.

- (G) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation fire truck loan were 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 tax, must be deposited in the debt service fund.” In addition, one payment was made late and additional late fees of \$15 were incurred and paid by the City.

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa. In addition, the City should establish procedures to ensure all payments are made timely to avoid late fees.

City of Bagley

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (H) Library Debit Card – The City Library has a debit card available for use by employees while on City Library business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the City Library. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (I) Credit Card – The City has credit card for use by various employees while on City business. 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 credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to support the purchase.

- (J) 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 several 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.

- (K) Separately Maintained Records – The City of Bagley Library maintains separate accounting records for certain operations. Although activity of the Library is reported to the City monthly, these transactions and resulting balances are not included in the City’s accounting records.

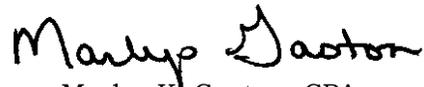
Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records.

City of Bagley

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager
Cody J. Pifer, Assistant Auditor
Erin M. Wittrock, Assistant Auditor


Marlys K. Gaston, CPA
Director