



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

December 4, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Grand River, 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 establish procedures to ensure utility reconciliations are performed monthly.

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 <http://auditor.iowa.gov/reports/1622-0249-EP0P>.

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CITY OF GRAND RIVER

**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 Grand River

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Craig Stodgill	Mayor	Jan 2014	Jan 2018
Bob Davis	Council Member	Jan 2014	Jan 2018
Mary Hewlitt	Council Member	Jan 2014	Jan 2018
Camron Collier	Council Member	Jan 2014	Jan 2018
Mike Adkisson	Council Member	Jan 2016	Jan 2020
Sandra White	Council Member	Jan 2016	Jan 2020
Cheryl German	City Clerk		Indefinite

City of Grand River



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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 Grand River 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 Grand River'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 and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 Grand River 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 31, 2017

Detailed Recommendations

City of Grand River

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 and Investments – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Utilities – billing, collecting, depositing, recording and maintaining detailed accounts receivable and write-off records.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing, posting and distributing.
- (6) Financial reporting – preparing and reconciling.

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) 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.

(C) Financial Reporting – A monthly City Clerk’s report, including a summary of receipts, disbursements, transfers and beginning and ending balances by fund, was prepared. However, this report does not include a comparison of disbursements to the certified budget by function. In addition, the monthly financial reports did not include \$10,000 in certificates of deposit held by the City.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report showing all resources of the City and a comparison of total disbursements for all funds to the certified budget by function.

City of Grand River

Detailed Recommendations

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

- (D) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.
- Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.
- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures....” We were unable to determine the accuracy of disbursements reported on the City’s fiscal year 2016 AFR as the City’s financial records do not classify disbursements by function. In addition, the ending fund balance at June 30, 2016 does not include a \$10,000 certificate of deposit held by the City.
- Recommendation – The City should ensure the AFR fund balances and disbursements by function are supported by City’s records.
- (F) Timesheets – Timesheets were not prepared by City employees to support hours worked.
- Recommendation – Timesheets should be prepared and retained to support time worked by all employees. Timesheets should be reviewed and approved by a responsible official before the payroll checks are prepared.
- (G) Disbursement Approval – There is no evidence supporting documentation is reviewed prior to the approval of claims.
- Recommendation – Supporting documents should be reviewed by the City Council prior to approval of disbursements. Payment approval should be documented by the signature or initials of the reviewer and the date of review on the supporting documentation. In addition, supporting documentation for claims should be cancelled to prevent reuse.
- (H) Debit Card Purchases – The City has a debit card available for use by employees while on City business.
- Recommendation – The City should prohibit the use of debit cards. 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. If the City replaces the debit card with a credit card, the City should adopt a formal written policy regulating the use of the credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to substantiate charges.
- (I) Pre-numbered Receipts – Pre-numbered receipts were only issued for cash collections and for checks upon request and the numerical sequence of pre-numbered receipts is not independently monitored.
- Recommendation – Pre-numbered receipts should be issued for all collections. The pre-numbered receipts should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented. The City should establish procedures to account for the numerical sequence of all pre-numbered receipts issued.

City of Grand River

Detailed Recommendations

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

- (J) Bank Reconciliations – Although monthly bank reconciliations were prepared and reviewed by an independent person, the reconciliations did not include a certificate of deposit of \$10,000.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should include certificates of deposit.

- (K) Recording Receipts – Receipts are entered into the City’s accounting system from the deposits listed on the monthly bank statements.

Recommendation – Receipts should be recorded in the City’s accounting system immediately upon collection to provide control over the proper collection and recording of all funds.

- (L) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works, community and economic development 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.

- (M) 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 images of both the front and back of each cancelled check as required by Chapter 554D.114 of the Code of Iowa.

- (N) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B 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.

- (O) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

City of Grand River

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Sarah K. Nissen, Assistant Auditor


Marlys K. Gaston, CPA
Director