



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

December 26, 2017

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of New Virginia, 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. The City should also ensure all bank and investment accounts are reconciled to the general ledger monthly and the Annual Financial Report is properly completed. In addition, the City should comply with the Code of Iowa requirements for budget amendments and publishing City Council meeting minutes.

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/1622-0877-EP0P>.

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**CITY OF NEW VIRGINIA**

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

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

## Table of Contents

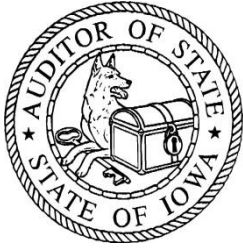
		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Bank Reconciliations	B	8
Monthly City Clerk’s Report	C	8
Annual Financial Report	D	9
Reconciliation of Utility Billings, Collections and Accounts Receivable	E	9
City Council Meeting Minutes	F	9
Separately Maintained Records	G	9
Certified Budget	H	9-10
Mowing Contract	I	10
Library Debit Card	J	10
Long-term Debt	K	10
Deposits and Investments	L	10
Questionable Disbursements	M	10-11
City Clerk Approved Salary	N	11
Change Fund	O	11
Unsupported Disbursement	P	11
Staff		12

**City of New Virginia**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Norville Huston	Mayor	Jan 2016	Jan 2018
Larry Dittmer	Mayor Pro Tem	Jan 2016	Jan 2020
Justin Strange	Council Member	Jan 2017	Nov 2017
Jake Zuercher	Council Member	Jan 2014	Jan 2018
Michael Spurling	Council Member	Jan 2016	Jan 2020
Brian Nelson	Council Member	Jan 2016	Jan 2020
Brent Baughman	City Clerk		Indefinite
Robert Stuyvesant	Attorney		Indefinite

**City of New Virginia**



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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 New Virginia 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 New Virginia'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 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 New Virginia 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

December 7, 2017



## **Detailed Recommendations**

City of New Virginia

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) Investments – recordkeeping, investing, custody and reconciling earnings.
- (2) Long Term Debt – recording, compliance and debt payment processing.
- (3) Receipts – opening mail, collecting, depositing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and reconciling.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, entering rates into the system, preparing and distributing.
- (7) Financial reporting – preparing and reconciling.
- (8) Journal entries – preparing and recording.

For the New Virginia Library and Gerry Allen Memorial Park (GAMP) Board accounts, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, recording 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, the Library and the GAMP Board 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 and journal entries 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 bank and investment accounts held by the City.

Recommendation – The City should establish procedures to ensure bank and investment account balances, including all bank and investments accounts, are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely.

(C) Monthly City Clerk's Report – The monthly City Clerk's reports do not include disbursements or balances by fund or a comparison of actual disbursements to budgeted disbursements by function. In addition, the reports do not include all funds held by the City.

Recommendation – The City should establish procedures to ensure the monthly City Clerk's reports include disbursements and balances by fund. A comparison of actual disbursements to budget by function should also be included in the monthly City Clerk's reports provided to the City Council.

City of New Virginia

Detailed Recommendations

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

- (D) Annual Financial Report – The fiscal year 2016 Annual Financial Report was not properly completed. The receipts and disbursements were “plugged” to force them to equal each other. Also, the beginning and ending balances are the same amount and do not agree with the City’s book balance.

Recommendation – The Annual Financial Report should be properly completed to include actual receipts, disbursements and beginning and ending balances.

- (E) Reconciliation of Utility Billings, Collections and Accounts Receivable – Although the City’s computer system generates a monthly utility reconciliation report, the amounts in the report, including billings, collections, applied deposits and other reconciling items, are not compared to utility and other records to ensure accuracy. In addition, an independent person does not review and approve adjustments made to accounts.

Recommendation – Procedures should be established to compare amounts on the computer generated reconciliation report to utility and other records for accuracy. An independent person should review the reconciliation and monitor delinquent accounts. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review. In addition, adjustments to utility accounts should be reviewed and approved by an independent person.

- (F) 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 summary of receipts, total disbursements by fund and a list of claims allowed. Minutes for one meeting tested were not published within fifteen days and the minutes published did not include a summary of receipts, total disbursements by fund or a list of all claims allowed. Also, the minutes reviewed were not properly signed by the City Clerk, as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days of the meeting, including a summary of receipts, total disbursements by fund and a list of all claims allowed. In addition, the City should require all minutes to be signed by the City Clerk, as required.

- (G) Separately Maintained Records – The City of New Virginia Library and the GAMP Board maintain separate accounting records for certain operations. 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 and reported to the City Council on a monthly basis.

- (H) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, debt service 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.”

City of New Virginia

Detailed Recommendations

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

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) Mowing Contract – During the period reviewed, the City over paid Huston’s Mowing and Snow Removal \$679 for the 2016 mowing contract.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the over payment.

- (J) Library Debit Card – The Library has a debit card used to make purchases for the Library.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the 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.

- (K) Long-term Debt – Principal and interest on the City’s general obligation refunding note were paid from the Special Revenue, Road Use 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, the City incorrectly recorded principal and interest payments for the water revenue loan. Interest paid was overstated by \$611 and principal paid was understated by \$611.

Recommendation – The City should transfer from the Special Revenue, Road Use Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

In addition, the City should establish procedures to ensure the correct amounts of principal and interest for the water revenue loan are recorded.

- (L) Deposits and Investments – Although a resolution naming official depositories was adopted by the City Council on January 7, 2017, the maximum deposit amounts were not included as required by Chapter 12C.2 of the Code of Iowa. In addition, the City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City Council, by resolution, should adopt a new depository resolution which establishes maximum deposit amounts as required by Chapter 12C.2 of the Code of Iowa. The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (M) Questionable Disbursements – During the period reviewed, the City donated \$25 to the Interstate 35 After Prom Party Committee. This disbursement 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.

City of New Virginia

Detailed Recommendations

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

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.

Recommendation – The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (N) City Clerk Approved Salary – The City Council meeting minutes did not include approval of the City Clerk’s salary.

Recommendation – The City Council meeting minutes should document approval of the City Clerk’s salary.

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

Recommendation – The change fund should be set at an established amount and should be formally authorized by the City Council.

- (P) Unsupported Disbursement – One disbursement tested from the GAMP Board account for \$12 was not properly supported.

Recommendation – Supporting documentation should be retained for all disbursements.

City of New Virginia

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager  
Cole L. Hocker, Staff Auditor  
Libby C. Lamfers, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director