



**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

January 18, 2018

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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 Galva, 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 possible and establish procedures to ensure bank reconciliations and utility reconciliations are reviewed monthly. In addition, the City should ensure the monthly City Clerk's reports and the City's Annual Financial Report agree to the City's records and supporting documentation is maintained for all City disbursements. Also, the City should establish a written investment policy in accordance with Chapter 12B.10B of the Code of Iowa.

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/1722-0438-EP0P>.

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**CITY OF GALVA**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2016 THROUGH JUNE 30, 2017**

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**City of Galva**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Stan Nading	Mayor	Apr 2016	Jan 2018
Daniel Bloyer	Council Member	Jan 2017	Nov 2017
Alan Goettsch	Council Member	Apr 2016	Nov 2017
Todd Schossow	Council Member	Jan 2014	Jan 2018
Rick Wiese	Council Member	Jan 2014	Jan 2018
Gaylen Freese	Mayor-Pro tem	Jan 2016	Jan 2020
Anita Brandt	City Clerk/Treasurer		Indefinite
William Cook	Attorney		Indefinite

**City of Galva**



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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 Galva 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 Galva'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 tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. We reviewed voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
13. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
14. 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.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 Galva 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 20, 2017

## **Detailed Recommendations**

City of Galva

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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Debt – recordkeeping, compliance and debt payment processing.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
- (7) Payroll – recordkeeping, preparing and distributing.
- (8) Journal entries – preparing, approving and recording.

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) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances monthly, however, the reconciliations were not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure bank reconciliations are reviewed by an independent person. The review should be documented by signing or initialing and dating the monthly reconciliations.

(C) 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 Galva

Detailed Recommendations

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

- (D) Management Financial Information – Although monthly City Clerk’s reports are prepared and reconciled to the bank balances in total, monthly balances by fund do not agree with the City’s general ledger.

Recommendation – The City should establish procedures to ensure the monthly City Clerk’s reports reconcile to the City’s general ledger by fund.

- (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...” The City’s fiscal year 2016 AFR ending fund balances were greater than the City’s records by \$15,843 and total receipts and disbursements reported on the AFR were less than the City’s records by \$4,948 and \$5,121, respectively.

Recommendation – The City should ensure future AFRs agree with the City’s records.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – While utility billings, collections and delinquent accounts were reconciled monthly, there is no evidence of independent review of the utility reconciliations.

Recommendation – The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts each month. Reviews of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (G) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Gaylen Freese, City Council Member, owner of G&C Full Service	Gas and vehicle repairs	\$ 6,992

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.

- (H) Disbursements – Invoices and other supporting documentation for four of thirty transactions tested could not be located.

Recommendation – The City should ensure all disbursements are properly supported by an invoice or other supporting documentation.

City of Galva

Detailed Recommendations

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

- (I) Questionable Disbursements – During the year, \$32 was disbursed for a retirement cake for a City official. 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 benefit to be derived has not been clearly documented.

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 public purpose documentation.

- (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) Certified Budget – Disbursements for the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, culture and recreation, 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 budgets should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (L) Payroll – Timesheets were not always prepared by salaried employees. In addition, timesheets did not include evidence of supervisory review.

Recommendation – Timesheets should be prepared by all City employees to support hours worked and taken as leave time. In addition, all timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Supervisory approval should be documented by the signature or initials of the supervisor and the date of approval.

- (M) Compilation of City Ordinances – The City Code was last updated October 2003. Chapter 380.8 of the Code of Iowa requires cities to compile a code of ordinances containing all ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances vacating streets and alleys at least once every five years.

Recommendation – The City should recodify its City Ordinances as required by the Code of Iowa.

City of Galva

Detailed Recommendations

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

- (N) Employee Benefits Fund – The Special Revenue, Employee Benefits Fund had a balance of approximately \$43,000 at June 30, 2017. Per the expense report, the City only paid \$6,463 for employee benefits from this fund during fiscal year 2017.

Recommendation – The City should consider lowering the Employee Benefits Fund levy in future years to reduce the excess balance in this fund.

- (O) Change Fund – The City maintains a change fund which is not maintained on an imprest basis. In addition, the fund is not included in the City’s accounting records and fund balances.

Recommendation – The change fund should be maintained on an imprest basis to provide additional control over the fund. In addition, the change fund should be included in the City’s accounting records and fund balances.

City of Galva

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Premnarayan Gobin, Staff Auditor  
Nicholas A. Kruse, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director