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STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

February 16, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Strawberry Point, 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 reconcile bank and investment balances to book balances and utility billings, collections and delinquent accounts. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Mosiman reported misuse of a City credit card by the former City Clerk/Administrator. The City issued credit card was used for personal purchases not related to City business. In addition to the personal purchases, late fees and interest charges were also incurred on the card.

Mosiman also reported utility services were provided and billed for the personal residence of the former City Clerk/Administrator. The utility account for the residence had a delinquent balance which was adjusted to zero without approval by the City Council.

Copies of the report have been filed with the Clayton County Attorney's office. 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/1721-0199-BLOF>.

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

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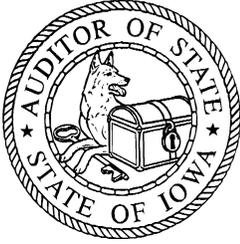
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City of Strawberry Point

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Bente	Mayor	Jan 2018
Travis Kruger	Council Member	(Resigned Jul 2016)
Dave Kuehl (Appointed Jul 2016)	Council Member	Nov 2017
Walter Rowcliffe	Council Member	Jan 2018
Hannah Evans	Council Member	Jan 2020
Megan Hansel	Council Member	Jan 2020
Duane Johnson	Council Member	Jan 2020
Elizabeth Jaster	City Clerk/Administrator	(Resigned Jul 2016)
Alison Osweiler (Appointed Aug 2016)	City Clerk/Administrator	Indefinite
Patrick Dillon	City Attorney	Indefinite

City of Strawberry Point



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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 Strawberry Point 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 Strawberry Point'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.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
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.
17. We reviewed credit card statements, purchases and payments made on the City issued credit card, which was in the name of the former City Clerk, to determine whether purchases were for public purpose.
18. We reviewed the utility account for the former City Clerk's residence to determine if utility usage was properly billed and paid.

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 Strawberry Point 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
MARY MOSIMAN, CPA
Auditor of State

November 14, 2017

Detailed Recommendations

City of Strawberry Point

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) Accounting system – performing all general accounting functions, including journal entries and having custody of assets.
 - (2) Cash – handling, reconciling and recording.
 - (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
 - (6) Debt – recordkeeping, compliance and debt payment processing.
 - (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (8) Payroll – recordkeeping, preparing, distributing and entering rates into the system.
 - (9) Financial reporting – preparing and reconciling.
 - (10) Journal entries – preparing 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 – Bank and investment balances were not reconciled to the book balances recorded in the City’s accounting system for eight months of the fiscal year. In addition, for the months reconciled by the City, the reconciliations were not reviewed by an independent person. For one of the two months reviewed, the bank and investment balance was \$17,786 more than the City’s book balance. Subsequent to the examination fieldwork and prior to the issuance of this report, the City was able to complete reconciliations of the bank and investment balances to the book balances for the remaining eight months of the fiscal year. As of June 30, 2017, no variances existed between the bank and investment balances and the book balances.

Recommendation – The City should establish procedures to continue to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Strawberry Point

Detailed Recommendations

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

- (C) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” Receipts and disbursements on the Annual Financial Report (AFR) did not agree with the City’s financial records.

Recommendation – The City should continue to establish procedures to ensure the receipts and disbursements included in future Annual Financial Reports are supported by the City’s records.

- (D) Petty Cash/Change Fund Authorization – The City maintains a separate petty cash/change fund for which no authorization could be located.

Recommendation – The petty cash/change fund should be formally authorized by the City Council.

- (E) Petty Cash – The City did not perform a timely reconciliation of the petty cash fund. Also, the petty cash fund was not maintained at an authorized amount or on an imprest basis.

Recommendation – To provide better control and overall accountability, the petty cash fund should be maintained at an authorized amount and on an imprest basis and should be reconciled in a timely manner.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – 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, document their review and monitor delinquent accounts.

- (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
Megan Hansel, City Council, granddaughter of the owner of Rodas Chevrolet	Maintenance, repair and services for City vehicles	\$ 10,464

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 Strawberry Point

Detailed Recommendations

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

- (H) Certified Budget – Disbursements at year end exceeded the amounts budgeted in the general government and cultural and recreational 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.

- (I) 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 and include total disbursements from each fund and a summary of receipts. For all four of the meetings tested, published minutes did not include a summary of receipts. For one of four meetings tested, published minutes did not include total disbursements from each fund.

Recommendation – The City should comply with the Code of Iowa and publish a summary of receipts and total disbursements from each fund, as required.

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

Recommendation – An independent person should review and approve journal entries and the approval should be documented by the signature or initials of the approver and the date of approval.

- (K) Payroll – The following items were noted during our testing of payroll:

- One of five timesheets tested showed no indication the timesheet had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.
- Salary/wage rate increases for some City employees were approved based upon a percentage and the actual approved wages were not documented in the City Council minutes.

Recommendation – Timesheets, including vacation and compensatory time, should be reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. Salaries/wage rates of City employees should be adequately documented in the City Council minutes.

- (L) Investment Policy – The City has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The policy requires that the City review the policy every two years. We found no evidence the policy had been reviewed since it was first approved in 2007.

Recommendation – The City should review and update the investment policy every two years, as required, and document the review in the City Council meeting minutes.

City of Strawberry Point

Detailed Recommendations

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

- (M) Revenue Bonds – The provisions of the City’s revenue bonds require sufficient monthly transfers be made to separate sewer and electric sinking accounts each month to provide for the payment of the bond principal and interest payments when due. The City is making an annual transfer to each account rather than monthly transfers. In addition, the electric sinking account appears to be overfunded.

Recommendation – The City should make sufficient monthly transfers to the sewer and electric sinking funds for the purpose of making the bond principal and interest payments when due. The City should also review the minimum funding requirements for the electric sinking account.

- (N) Monthly City Clerk’s Report – Monthly City Clerk’s reports were not provided to the City Council for eight months of the fiscal year. In addition, the City Clerk’s monthly reports did not include a comparison of actual disbursements to the certified budget by function.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a summary of receipts, disbursements, transfers and balances by fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk’s reports should include comparisons to the certified budget by function. The City Council should review and approve the City Clerk’s report monthly.

- (O) Long-Term Debt Issuances – The City filed Internal Revenue Service form 8038-G, Information Return for Tax-Exempt Governmental Obligations, indicating the City has written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements of Section 148 of the Internal Revenue Service rules. However, the City has not established these written procedures.

Recommendation – The City should establish written procedures for post issuance compliance, as required.

- (P) Misuse of City Credit Cards – The City has issued credit cards for City employee use. The credit card policy adopted by the City Council in April 2015 specified the procedures and guidelines pertaining to the use of credit cards issued in the name of the City. The policy stated that credit cards were to only be used for the following purposes unless otherwise approved by the City Council:

- Purchases requiring immediate payment where City is unable to issue a check for the purchase, including emergency vehicle maintenance,
- Employee training/travel accommodations including lodging when applicable, and
- Online purchases requiring a credit card and no other payment or billing option is available.

According to the April 2015 policy, credit cards with a \$500 credit limit were issued to the City Clerk/Administrator, City Superintendent, Public Works Director and Police Chief. In addition, we determined a City credit card was held at the Strawberry Point Public Library.

City of Strawberry Point

Detailed Recommendations

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

On September 28, 2016, the City received a delinquency notice from the Card Center for a City credit card held in the name of the former City Clerk/Administrator, Elizabeth Jaster. Ms. Jaster left employment with the City in July 2016. The City also subsequently received a notification the mailing address for the credit card held in Ms. Jaster's name was changed to her personal residence. The City closed the credit card account in October 2016.

Because statements and supporting documentation for the City's credit cards was available only for the period March 2014 through June 2014, statements for all City credit cards were obtained directly from the Card Center. These statements document purchases were made with the credit card held in Ms. Jaster's name from February 2014 through October 2016. City officials and staff stated they were not aware Ms. Jaster continued to use the credit card after her termination. The statements obtained directly from the Card Center also document credit cards for other City employees, including the credit card held at the Strawberry Point Public Library, were established as early as May 2013.

The statements obtained from the Credit Center document 74 charges, totaling \$2,890, were incurred from February 2014 through September 2016 on the credit card held in Ms. Jaster's name. The 74 charges include 12 late fees totaling \$148 and 21 interest charges totaling \$45. The 74 charges also include 4 purchases from April through June 2014 which appear to be for City operations. We determined 3 payments totaling \$715 were made from a City bank account to the Card Center for these 4 purchases.

The 37 remaining charges made with the credit card held in Ms. Jaster's name included purchases at Amazon, Cabela's, eBay, gas stations and restaurants. These purchases do not appear to be for City operations. In addition to the 3 payments made from a City bank account previously discussed, the statements obtained from the Card Center documented 14 payments totaling \$2,175. These payments did not originate from a City bank account. These charges totaling \$2,175 consisted of personal purchases made by Ms. Jaster, late fees and interest charges.

Recommendation – City officials should implement procedures to ensure the City's credit cards are not used for personal purchases, including independent review of City credit card statements by an independent person. The policy should be clearly communicated to all City employees and each employee holding a credit card should be required to sign a statement regarding their understanding of the policy.

- (Q) Utility Billings and Collections for Former City Clerk's Residence – The City bills for utility services, including water, sewer, garbage and electric fees. Utility payments and other miscellaneous fees are collected through the mail, in person at City Hall, or in the collection box at City Hall.

City of Strawberry Point

Detailed Recommendations

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

Prior to becoming the City Clerk/Administrator in December 2013, Ms. Jaster served as the Utility Clerk. As the Utility Clerk, Ms. Jaster had primary responsibility for billing, collecting payments, recording payments in the utility software for each customer, assessing penalties for non-payment and preparing and making the deposit. Ms. Jaster maintained utility records for each account by recording monthly billings and payment activity in a software program used by the City.

During our review, we determined utility services were provided and billed to a personal residence occupied by Ms. Jaster during the period March 8, 2011 through September 19, 2011 when she lived at the residence. Ms. Jaster's utility account for the residence showed a delinquent balance of \$250 at September 30, 2011. A manual adjustment was recorded to Ms. Jaster's utility account on May 31, 2012 which reduced the amount she owed to zero. The adjustment was not approved by the City Council.

As a result, the City did not receive the \$250 and additional unbilled fees for the period ended May 31, 2012. Based on our review, we did not identify any additional concerns regarding Ms. Jaster's utility account.

Recommendation – Procedures should be established to ensure utility billings are reconciled to subsequent collections and delinquent accounts for each billing period. The City Council, or an independent individual designated by the City Council, should review the reconciliations and monitor delinquencies. Delinquent accounts should not be written off without City Council approval.

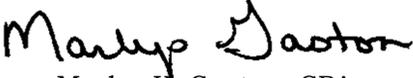
In addition, the City should consult legal counsel to determine resolution of the unpaid utility fees associated with Ms. Jaster's personal residence. In accordance with Chapter 11.53 of the Code of Iowa, a copy of this finding will be filed with the Clayton County Attorney.

City of Strawberry Point

Staff

This engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager
Anthony M. Heibult, Senior Auditor
Sidot K. Shipley, Staff Auditor
Taryn M. Plunkett, Assistant Auditor


Marlys K. Gaston, CPA
Director