



**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

NEWS RELEASE

FOR RELEASE

August 1, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Davis City's Periodic Examination Report dated July 12, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period January 1, 2017 through December 31, 2017.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. The thirteen findings reported in the Periodic Examination Report dated July 12, 2016 are repeated in this report. Three of the thirteen findings were corrected and one was partially corrected. The remaining findings are reported as "not corrected". Nine additional findings were identified during follow-up procedures are also included in this report.

A copy of the City of Davis City's Report on the Status of Periodic Examination Findings and Recommendations 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/1522-0246-EPFP>.

###

CITY OF DAVIS CITY

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 31, 2017**

Table of Contents

	<u>Page</u>	
Officials	3	
Independent Accountant’s Report on the Status of Periodic Examination Findings and Recommendations	5	
Status of Findings and Recommendations Previously Reported in the City’s Periodic Examination Report:		<u>Finding</u>
Segregation of Duties	7	A
Bank Reconciliations	7	B
Financial Reporting	8	C
Reconciliation of Utility Billings		
Collections and Delinquent Accounts	8	D
Pre-numbered Receipts	8	E
Deposits and Investments	9	F
City Council Meeting Minutes	9	G
Certified Budget	9	H
Disbursements	9	I
Revenue Notes	10	J
Transfers	10	K
Surety Bond Coverage	10	L
Travel Reimbursement	10-11	M
Additional Findings Identified During Follow-up Procedures:		
Timesheets	11	N
Payroll	11	O
Bidding	11	P
Disbursements	12	Q
Journal Entries	12	R
Charge Account	12	S
Certificates of Deposit	12	T
Community Center	12-13	U
Utilities	13-14	V
Reconciliation of Utility Billings, Collections and Delinquent Accounts	14	W
Staff	15	

City of Davis City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Nicole Beavers	Mayor	Jan 2018	Jan 2020
Annette Boswell	Council Member	Jan 2018	Jan 2020
Evelyn Hamilton	Council Member	Jan 2018	Jan 2020
Bob Rehm	Council Member	Jan 2018	Jan 2020
Peggy Rehm	Council Member	Jan 2018	Jan 2020
Jimmy Snethen	Council Member	Jan 2018	Jan 2020
Royal Johnson	City Clerk/Treasurer		Indefinite
Perry A. Lawyer	Attorney		Indefinite

City of Davis City



**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 the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated July 12, 2016 on the City of Davis City, Iowa covering the period April 1, 2015 through March 31, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date July 12, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period January 1, 2017 through December 31, 2017.


The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated July 12, 2016. This report is not suitable for any other purpose.

During the periodic follow-up engagement, additional procedures were performed to evaluate concerns identified by the City Clerk. These additional procedures included testing utility corrections made by the City Clerk, testing Community Center receipts and procedures, reviewing the cashing of certificates of deposit and testing additional disbursements for propriety. The findings resulting from these additional procedures can be found in pages 11-14, findings (P) through (V).

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Davis City during the course of our follow-up procedures engagement. Should you have 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

May 1, 2018

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Davis City

Report on the Status of Periodic Examination Findings and Recommendations

For the Period January 1, 2017 through December 31, 2017

Findings Reported in the Periodic Examination Report dated July 12, 2016:

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

Current Status – Not corrected. The recommendation is repeated.

(B) Bank Reconciliations – Book balances were not reconciled to bank and investment account balances throughout the year. In addition, support for one of the City's certificates of deposits could not be located.

Recommendation – To improve financial accountability and control, book balances should be reconciled to the bank and investment account balances monthly. Variances, if any, should be investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. In addition, the City should ensure documentation of all investments is maintained in a safe location.

Current Status – Not corrected. During the period reviewed, the City received a monthly record of certificates of deposits. However, reconciliations between book and bank/investment balances were not performed for all accounts. The City Clerk reconciled receipts and disbursements between the general ledger and the bank statements, but did not reconcile the fund balances. The certificates of deposit were not included in reconciliations.

City of Davis City

Report on the Status of Periodic Examination Findings and Recommendations

For the Period January 1, 2017 through December 31, 2017

- (C) Financial Reporting – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including, but not limited to, road use tax and local option sales tax.

A monthly City Clerk's report, including a summary of beginning balances, receipts, disbursements and ending balances is prepared, but does not report transfers separate from receipts and disbursements. In addition, a comparison of total disbursements for all funds to the certified budget is not prepared.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. The City Clerk should prepare a monthly City Clerk's report which includes transfers by fund, separate from receipts and disbursements, and comparisons of total disbursements for all funds by function to the certified budget.

Current Status – Not corrected. The recommendation is repeated.

- (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.

Current Status – Partially Corrected. During the period reviewed, a delinquent accounts listing was prepared monthly. However, utility reconciliations were not prepared.

- (E) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

Current Status – Corrected. During the period reviewed, pre-printed and pre-numbered receipts were issued for collections.

City of Davis City

Report on the Status of Periodic Examination Findings and Recommendations

For the Period January 1, 2017 through December 31, 2017

- (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.

Current Status – Not corrected. The recommendation is repeated.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published, including total disbursements from each fund, a listing of all claims allowed, the purpose for each claim, a summary of receipts and a summary of ordinance or amendments adopted. The minutes published did not include the required information.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and ensure the minutes publications include all the required information.

Current Status – Not corrected. During the period reviewed, minutes publications tested did not include total disbursements for each fund or a summary of all receipts. In addition, three of four minutes tested were not published within 15 days of the meeting. This recommendation is repeated. In addition, all minutes should be published within 15 days, as required.

- (H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the general government function. 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.

Current Status – Not corrected. During the period reviewed, the budget was exceeded in the public safety and culture and recreation functions.

- (I) Disbursements – Supporting documentation for two of twenty nine transactions could not be located. Also, supporting documentation is not cancelled to prevent reuse.

Recommendation – All disbursements should be supported by invoice or other supporting documentation. Supporting documentation should be cancelled to prevent duplicate payments.

Current Status – Not corrected. See finding (Q) below. The recommendation is repeated.

City of Davis City

Report on the Status of Periodic Examination Findings and Recommendations

For the Period January 1, 2017 through December 31, 2017

(J) Revenue Notes – The provisions of the water revenue note resolution require sufficient transfers be made to a separate water revenue sinking account for the purpose of making the note principal and interest payments when due. The City has not established a water sinking account. In addition, the City has not established written proceeds to monitor compliance with arbitrage, yield restrictions and rebate requirements.

Recommendation – The City should establish a water revenue note sinking account and make the required transfers to the account for the purpose of making the note principal and interest payments when due. The City should also establish written procedures to monitor compliance with arbitrage, yield restrictions and rebate requirements.

Current Status – Not corrected. The recommendation is repeated. Although the City tracks a water sinking account in the City Treasurer’s report, there is no account established in the accounting system for tracking the funds. The City has not implemented fund accounting to properly set up different funds (see finding (C) above).

(K) Transfers – The City does not maintain a complete listing of transfers, including supporting documentation. Transfers are not approved by the City Council.

Recommendation – A complete listing of all transfers should be prepared, maintained and supported and transfers should be approved by the City Council.

Current Status – Not corrected. The recommendation is repeated.

(L) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

Current Status – Corrected. During the period reviewed, surety bond coverage was maintained.

(M) Travel Reimbursement – The City maintenance employee submitted four travel claims between September and December 2015 for a total of 2,278 miles at \$.575 per mile, or \$1,310. During this same time period, the employee charged \$211 of fuel for his personal vehicle on the City’s charge account at the Lamoni Car Care Center. The \$211 was subsequently deducted from the mileage claimed, reducing the claim to \$1,099. Supporting documentation was not maintained to substantiate the mileage claim, including a mileage log and a Council approved mileage reimbursement rate. The City does not have a written travel policy establishing a mileage reimbursement rate, circumstances under which mileage can be reimbursed or documentation required to support mileage claims.

City of Davis City

Report on the Status of Periodic Examination Findings and Recommendations

For the Period January 1, 2017 through December 31, 2017

Recommendation – The City should prohibit the use of City charge accounts for personal use. In addition, the City should adopt a formal written policy to regulate travel reimbursements. At a minimum, the policy should establish a mileage reimbursement rate and should address the circumstances under which travel reimbursements are allowed, including the types of supporting documentation required to substantiate travel claims. Mileage claims should be supported by a mileage log detailing the dates, locations traveled and the number of miles for each trip.

Current Status – Corrected. In February 2017, the City adopted a mileage reimbursement policy. All mileage claims tested during the period reviewed were properly supported.

Additional Findings as a Result of Follow-up Procedures:

- (N) Timesheets – City employees are required to complete timesheets to substantiate hours worked. However, timesheets are not approved.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review and approval should be documented by the supervisor’s initials and the date of the review and approval.

- (O) Payroll – City employee wages are not approved in the City Council meeting minutes. Also, payments to the Mayor were made in a lump sum at year end and payments to the City Council members were not made in a consistent and timely manner. The City could not locate a copy of the ordinance establishing the Mayor and City Council members’ compensation or addressing the timing of the compensation payments.

Recommendation – The City should adopt an ordinance establishing the Mayor and City Council member compensation as required by Chapter 372.13(8) of the Code of Iowa. The ordinance should also address the timing of compensation payments. Wages for all City employees should be approved by the City Council and documented in the minutes record.

- (P) Bidding – In May 2016, the City received FEMA funds related to flood damage. FEMA regulations require contracts for FEMA related work be awarded by through a bidding process. Depending on the size of the contract, the City would be allowed to solicit bids by phone (informal) or through a formal RFP. During the period reviewed, we identified a contract totaling \$2,775 for FEMA flood clean-up work for which the City did not retain documentation of how the contract was awarded. Although City officials indicated three vendors had been contacted to provide a bid, the City could not locate the support indicating who was contacted or their response. FEMA also included this finding as part of a monitoring visit in August 2016.

Recommendation – The City should establish procedures to ensure compliance with FEMA regulations pertaining to obtaining bids prior to awarding FEMA contracts, including the requirement to retain all bid documentation.

City of Davis City

Report on the Status of Periodic Examination Findings and Recommendations

For the Period January 1, 2017 through December 31, 2017

- (Q) Disbursements – We identified reimbursements to a former City official totaling \$179 for a subscription to IDrive the official had charged on their personal credit card. According to City officials, the former official may have used IDrive to back up the City’s accounting system; however, the City never received documentation supporting this purchase or a copy of the backup. The City was unable to access the IDrive account.

Recommendation – The City should seek reimbursement for the \$179 of undocumented payments to the former City official. The City should implement adequate controls to ensure payments are only made for City purposes and with City funds. The City should not allow reimbursements to individuals who are not employed by the City unless the payments are approved by the City Council and supported by adequate documentation.

- (R) Journal Entries – Supporting documentation was not maintained for journal entries and journal entries are not reviewed and approved.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Journal entries should be approved by an independent person and evidence of the approval should be documented by the signature or initials of the reviewer and the date of approval.

- (S) Charge Account – The City has a charge account for fuel at the Lamoni Car Care. The City does not have adequate controls over this charge account to ensure fuel is not purchased for personal purposes.

Recommendation – The City should either require employees complete mileage logs which are reviewed by an independent person or close the charge account and issue fuel cards which require the odometer reading be entered prior to fueling.

- (T) Certificates of Deposit – The City had four certificates of deposits (CD’s) which were cashed in and properly deposited into the City’s checking account. However, there was no documentation of approval by the City Council or Mayor to cash in the CD’s.

Recommendation – The City should require approval by the City Council or Mayor before cashing CDs. Documentation showing the approval should be maintained.

- (U) Community Center – The City does not have adequate segregation of duties over Community Center receipts. One person can handle one or more of the following duties; taking reservations, collecting, recording and depositing. In addition, the City has not maintained records to document all receipts have been properly deposited and recorded. As a result, we are unable to determine if all receipts were properly deposited.

City of Davis City

Report on the Status of Periodic Examination Findings and Recommendations

For the Period January 1, 2017 through December 31, 2017

Also, during the period reviewed, we noted the following deposits made to a private account held by a former City Council member which was used for the Davis City Community Center:

Deposit Date	Payee	Memo Line	Amount
10/05/16	Davis City Community Center	Donation	\$ 250.00
10/07/16	Davis City Community Center	Rental for Dec. 3, 2016	50.00
10/22/16	Louise Kelly	Rental	50.00
12/11/16	Louise Kelley	Donation	50.00
Total			<u>\$ 400.00</u>

As shown in the above table, two of the checks were written to the Davis City Community Center and two were written to Louise Kelly, the former City Council member holding the account.

We also identified a \$300 cash deposit to the account on January 12, 2017. The deposit ticket indicated \$50.00 cash was withheld from the deposit. We were unable to determine the source of the cash deposited to the account, or if all collections were deposited.

Recommendation – The City should segregate the duties pertaining to the Community Center activity, including duties for taking reservations, receipting, collecting, recording and depositing. The City should ensure adequate documentation is maintained for all receipts and procedures are in place to verify all receipts are properly deposited. The City should ensure all checks are written to the City and not to individuals and are deposited into the City’s bank account. The City should work with Ms. Kelly to recover the identified funds and if necessary, seek legal advice.

(V) Utilities – During our review, we identified late fees charged to customers by the former City Clerk which were not assessed in accordance with City Ordinances and the fees were not consistently calculated. In addition, meter readings for the period February 2016 through May 2017 were not maintained or retained by the prior City Clerk.

Multiple utility errors by the former City Clerk were identified by the current City Clerk, of which, two have not been resolved. Both of these errors pertain to customers who had a property tax lien placed on their account for delinquent utility balances. For one customer the application of payments and use of the customer’s deposit were handled incorrectly, resulting in a delinquent balance calculated when the account was not delinquent. Consequently, a property tax lien was incorrectly placed on the customer’s property. For the second customer, late fees were incorrectly calculated and added to the customer’s delinquent balance resulting in an overstatement of the property tax lien applied to this Customer’s property.

City of Davis City

Report on the Status of Periodic Examination Findings and Recommendations

For the Period January 1, 2017 through December 31, 2017

Recommendation – The City should establish procedures to ensure late charges are properly calculated and assessed in accordance with City ordinances and meter reading records are properly maintained and retained. The City should also ensure delinquent account balances are properly calculated.

City of Davis City

Staff

This engagement was performed by:

James S. Cunningham, CPA, Manager
Christian E. Cottingham, Senior Auditor
Michaela M. Goergen, Assistant Auditor
Cody L. Mathews, Assistant Auditor


Marlys K. Gaston, CPA
Director