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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 6, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Clutier, Iowa for the period January 1, 2016 through December 31, 2016. 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, including independent review of reconciliations and financial reports. The City should also establish procedures to ensure bank and investment accounts are reconciled to the general ledger monthly. In addition, the City should establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period.

Mosiman reported that due to the significance of the findings identified during the review, the Auditor of State's Performance Investigation Division will review the findings to determine whether additional procedures are necessary.

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/1622-0826-EPOP>.

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CITY OF CLUTIER

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

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City of Clutier

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Gordon Fassett	Mayor	Jan 2016	Jan 2018
Karen Guglielmetti	Council Member	Jan 2016	Jan 2018
Blake Pearson	Council Member	Jan 2016	Jan 2018
Linda Pearson	Council Member/ Mayor Pro Tem	Jan 2016	Jan 2018
Krista Walker	Council Member	Jan 2016	Jan 2018
DeAnn Weber	Council Member	Jan 2016	Jan 2018
Keri Kopriva	City Clerk/Treasurer		Indefinite
Bruce Reinders	Attorney		Indefinite

City of Clutier



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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 Clutier for the period January 1, 2016 through December 31, 2016, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Clutier'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. Due to the significance of the findings identified during the review, the Auditor of State's Performance Investigation Division will review the findings to determine whether additional procedures are necessary.

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 Clutier 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

July 19, 2018

Detailed Recommendations

City of Clutier

Detailed Recommendations

For the period January 1, 2016 through December 31, 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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
 - (4) Long-term debt – recordkeeping and debt payment processing.
 - (5) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (7) Payroll – recordkeeping, preparing and distributing.
 - (8) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (9) Financial Reporting – preparing and reconciling.
 - (10) Journal Entries – preparing and recording.

For the Clutier Volunteer Fire Department account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Fire Department 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 should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Cash and investment balances were not reconciled to bank and investment account balances throughout the year and listings of outstanding checks were not prepared. For two months reviewed, bank and book balances did not properly reconcile. Variances of \$11,439 and \$11,131 were not resolved. In both cases, the book balance was higher than the bank balance. The City is reviewing prior bank statements and accounting records to determine what caused the variance.

Recommendation – To improve financial accountability and control, book and bank balances should be reconciled 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. A listing of outstanding checks should be prepared monthly.

City of Clutier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections, 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 date of the review.

- (D) City Clerk's Utility Account – The City Clerk is a resident of the City of Clutier. Based on a review of the utility account for the City Clerk's residence, we noted \$1,520 in unsupported manual billing adjustments which decreased the account balance during the period January 1, 2015 to March 28, 2017. Also, on the January 31, 2017 billing, the usage was adjusted from 36,100 gallons to 2,000. The accounting system reflected a \$458 delinquent balance for the Clerk's residence as of March 28, 2017.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (E) Solid Waste Fees – Per City ordinance, the fee for solid waste collection and disposal services for each residence and multiple family dwelling is \$3.00 per month. The fee for commercial, industrial and institutional customers is \$3.25 per month. Per review of utility billings, these fees are charged to all customers weekly rather than monthly. We estimate customers were overbilled approximately \$13,000.

Recommendation – The City should bill for solid waste collection and disposal services in accordance with the City's approved ordinance. The City should consult legal counsel to determine the disposition of this matter

- (F) Sewer and Water Ordinances – Both the sewer and water ordinances for the City include a provision stating "On each July 1, said rates shall be increased by 2% over the rates then in effect." The rates listed in subsequent ordinances were not adjusted to the current rate and it is unclear how many years have passed since the rates have been updated. Therefore, we were unable to determine if the City is charging the approved sewer and water rates.

Recommendation – The City should review the water and sewer utility ordinances and revise the ordinances to more clearly document water and sewer rates. The rates should be approved as a specific dollar amount rather than just a percentage increase.

- (G) Monthly City Clerk's Report – The monthly City Clerk's reports presented to the City Council do not include beginning and ending fund balances or a comparison of total disbursements for all funds to certified budget by function. Also, the reports are not provided to the City Council timely. As of April 2017, the City Council had only received monthly reports through October 2016.

Recommendation – The beginning and ending fund balances and a comparison of total disbursements for all funds to certified budget by function should be included in the monthly reports presented to the City Council for approval. Also, monthly City Clerk reports should be provided to the City Council timely.

City of Clutier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (H) Change Fund – Change funds are maintained at City Hall and the City Library for which no authorization could be located. Also, the funds are not maintained on an imprest basis and requests for reimbursement for the Library’s change fund do not have adequate supporting documentation. In addition, the change funds were not included in the City’s accounting records and resulting fund balances.

Recommendation – The change funds should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the funds. 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 funds and accounts, including the change funds, should be included in the City’s accounting records and resulting fund balances. Also, supporting documentation should be maintained for reimbursement requests for the Library’s change fund.

- (I) 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.

- (J) City Council Meeting Minutes – The following items related to City Council meeting minutes were noted:

- (1) 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. Minutes for two of four meetings tested were not published and minutes for two of four meetings tested were not published within fifteen days of the meeting. The minutes publications for all meetings tested did not include total disbursements from each fund and the minutes publication for one of four meetings tested did not include a summary of receipts.
- (2) The City Council went into closed session on June 21, 2016. The minutes did not document the reason for the closed session by reference to the specific exemption allowing the closed session as required by Chapter 21.5(2) 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. The publications should include a summary of receipts and total disbursements from each fund. In addition, the minutes for closed meetings should include the specific exemption in Chapter 21.5 allowing the closed session, as required.

- (K) Certified Budget – Disbursements at June 30, 2016 exceeded the amounts budgeted in the public works and culture and recreation 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 Clutier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

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.

- (L) City Street Finance Report – The Road Use Tax Fund (RUT) ending balance reported in the fiscal year 2016 Street Finance Report did not agree with the City's records. The City's June 30, 2016 RUT Fund balance was \$26,022 less than the balance reported in the 2016 City Street Finance Report.

Recommendation – The City should review the fiscal year 2016 City Street Finance Report and contact the Iowa Department of Transportation (DOT) to resolve discrepancies. The City should ensure amounts reported agree in future years.

- (M) Annual Financial Report – The ending balance reported in the fiscal year 2016 Annual Financial Report (AFR) did not agree with the City's financial records. The ending balance of \$338,574 reported in the AFR was \$8,736 more than the monthly City Clerk's report balance of \$329,838.

Recommendation – The City should implement procedures to ensure amounts reported in the AFR are supported by the City's records.

- (N) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

- (O) Payroll – The following were noted regarding payroll:

- (1) Timesheets were not approved and initialed by the employee's supervisor or other responsible official.
- (2) Salary increases are approved as percentage increases and the actual salaries or wages were not documented in the City Council meeting minutes.
- (3) Documentation could not be located to support the allocation of the City Clerk's payroll distribution between the Enterprise Funds and the General Fund.
- (4) Approval of the amount paid to firefighters to attend Fire Department meetings is not documented.

Recommendation – Timesheets should be approved and initialed by the employee's supervisor or other responsible official prior to the preparation of payroll. Actual approved wages and hourly rates should be documented in the City Council meeting minutes. Documentation should be maintained to support the allocation of the City Clerk's payroll distribution between the Enterprise Funds and the General Fund. Approval for the amount paid to firefighter to attend Fire Department meetings should be documented in the City Council meeting minutes.

- (P) Timely Deposits – During our procedures, we noted a large number of checks and cash, including certain checks over thirty days old, on hand and unrecorded. Receipts are not deposited or posted to the accounting system on a timely basis.

City of Clutier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

Recommendation – To safeguard cash, increase funds available for investment and properly account for receipts, receipts should be deposited intact and should be posted to the accounting system on a timely basis.

- (Q) Library Disbursements – The City Library Board reviews and approves claims for the City Library. Disbursements for the City Library are not presented to the City Council for final approval. For routine disbursements, such as utility bills, the City Clerk pays the claims with no independent review or approval. A policy does not exist allowing certain routine claims to be paid prior to City Council approval.

Recommendation – All disbursements should be presented to the City Council for approval and publication in the City Council meeting minutes. In addition, a resolution should be adopted to allow certain routine claims to be paid prior to City Council approval.

- (R) Written Policies – The City does not have a written travel reimbursement policy and a reimbursement rate for mileage has not been approved by the City Council.

Recommendation – The City should adopt a comprehensive travel reimbursement policy, including a mileage reimbursement rate.

- (S) Credit Cards – The City has credit cards for use by employees while on City business. The City has not adopted a formal policy to regulate the use and control of the City's credit cards and to establish procedures for the proper accounting of credit card purchases.

In addition, the City does not maintain monthly statements from the credit card issuer. Also, in January 2017, the City began paying the credit card vendor electronically. These payments were not approved by the City Council and have not been posted to the City's general ledger as of July 24, 2017.

Recommendation – The Mayor should work with the City Clerk to obtain copies of monthly credit card statements and supporting documentation for all monthly charges. The Mayor should review the documentation for propriety. The City should adopt a formal written policy regulating the use of the City's credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to support the purchases. Supporting documentation should include monthly statements and detailed vendor receipts. All disbursements, including electronic payments, should be approved by the City Council and posted to the City's general ledger timely. The City should retain credit card statements to support credit card vendor payments.

- (T) Uniform Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) recommended by the City Finance Committee. As a result, the City recorded special assessments and commercial/industrial replacement tax as property taxes rather than special assessments and intergovernmental receipts, respectively.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

City of Clutier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (U) Accounting Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (V) Computer System – The following weaknesses in the City's computer system were noted:

The City does not have written policies over the computer system for:

- Requiring backups be performed daily and stored off site.
- Password privacy and confidentiality. Employees and officials share the same password and user id to access computer financial software.
- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Requiring password length to be at least 8 characters.
- Requiring computers to have a log off function when not in use.
- Requiring a computer lockout function if passwords are incorrectly entered more than three times.

Also, the City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop written polices addressing the above items to improve the City's control over its computer system. A written disaster recovery plan should be developed and tested periodically.

- (W) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of the Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually.

- (X) Clutier Cemetery – The following instances of non-compliance were noted:

- (1) An annual report for the Clutier Perpetual Care Cemetery was not filed with the Insurance Commissioner as required by Chapter 523I.813 of the Code of Iowa.
- (2) Chapter 523I.807 of the Code of Iowa requires \$50 or 20%, whichever is greater, of the gross selling price for each interment right be set aside in a Perpetual Care Fund. However, the City deposits 100% of all interment rights sales to the General Fund.

City of Clutier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (3) In accordance with Chapter 523I.803 of the Code of Iowa, the Cemetery is required to maintain a registry of individuals who have purchased lots subject to the perpetual care requirements of Iowa law, including the amount deposited in trust for each interment right agreement entered into on or after July 1, 1995. The City is maintaining a registry, however, the registry does not include amounts deposited in trust, as required.

Recommendation – The City should submit annual reports to the Insurance Commissioner and comply with registry requirements. A Perpetual Care Fund should be established and all perpetual care receipts should be transferred to this fund in accordance with Chapter 523I.807 of the Code of Iowa.

- (Y) Separately Maintained Records – The Clutier Volunteer Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances were not included in the City’s accounting records, annual budget, monthly financial reports or Annual Financial Reports.

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.

City of Clutier

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Debora M. Copeland, Assistant Auditor


Marlys K. Gaston, CPA
Director