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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

September 19, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Fertile, 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 City Officials review their control procedures to obtain the maximum internal control possible. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts and to track the use of local option sales tax receipts.

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://www.auditor.iowa.gov/reports/audit-reports/>.

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CITY OF FERTILE

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

**FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017**

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant’s Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Local Option Sales Tax	B 8
Bank Reconciliations	C 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D 9
Dual Compensation	E 9
Deposits and Investments	F 10
City Council Meeting Minutes	G 10
Certified Budget	H 10
Questionable Disbursement	I 10-11
Payroll	J 11
Electronic Check Retention	K 11
Debit Cards	L 11
Transfers	M 11
Library Petty Cash	N 11
Fire Department Disbursements	O 11
Staff	12

City of Fertile

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Joyce Russell	Mayor	Jan 2016	Jan 2018
Tad Miller	Council Member	Jan 2014	Jan 2018
Nick Bailey	Council Member	Jan 2014	Jan 2018
Holly Lovik-Hanna	Council Member	Jan 2014	Jan 2018
Cindy Peters	Council Member	Jan 2016	Jan 2020
Ron Rachut	Council Member	Jan 2016	Jan 2020
Wendy Lunning	City Clerk/Treasurer		Indefinite
John H. Greve	Attorney		Indefinite

City of Fertile



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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 Fertile 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 Fertile'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 transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Fertile 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

August 14, 2018

Detailed Recommendations

City of Fertile

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, custody of investments and reconciling earnings.
- (3) Receipts – collecting, depositing, recording, reconciling and posting.
- (4) Utilities – billing, depositing and posting.
- (5) Disbursements – purchasing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.

For the Fertile Fire Department, the Fertile Library, the Fertile Garden Club and the Fertile Days Committee:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City, the Fire Department, the Fertile Library, the Fertile Garden Club and the Fertile Days Committee 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) Local Options Sales Tax – Local option sales tax (LOST) collections were recorded in the General Fund. The ballot establishing the local options sales tax calls for 100% of the receipts to be used for infrastructure improvements. The City has not tracked the use of LOST receipts.

Recommendation – The City should document local option sales tax receipts and disbursements since inception to determine the unspent balance at June 30, 2017. A corrective transfer should be made from the General Fund to establish a Special Revenue Fund for the unspent balance of local option sales tax as of June 30, 2017.

The City should establish procedures to ensure local option sales tax is used in accordance with the provisions of the LOST ballot referendum.

City of Fertile

Detailed Recommendations

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

- (C) Bank Reconciliations – The City’s bank reconciliations were not reviewed in detail by an independent person.

In addition, bank reconciliations were not prepared for the Library, Fire Department, Garden Club and Fertile Days bank accounts. At June 30, 2017, unresolved variances existed between the amounts recorded on the City’s balance sheet for the Library, Fire Department and Garden Club accounts and the bank balances.

Recommendation – An independent person should review the City’s bank reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

The City should establish procedures to ensure bank reconciliations are prepared for the Library, Fire Department, Garden Club and Fertile Days accounts monthly and variances, if any, should be reviewed and resolved timely.

- (D) 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 and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (E) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.”

The City’s Mayor was appointed by the City Council to be the City Administrator in 2005 and receives a salary as Mayor and an hourly wage as City Administrator. This dual compensation violates Chapter 372.13(8) of the Code of Iowa.

In July 2017, the City Council received an opinion from the City’s Attorney regarding the Mayor also serving as City Administrator. The opinion cited the exception under Chapter 362.5(3)(a) of the Code of Iowa and opined there is no conflict of interest and the position as being Mayor and City Manager are not incompatible.

Recommendation – A recent Attorney General’s opinion dated August 15, 2018, clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8)(2018) bars city elected officers from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion. Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j)&(k) (2018), is retracted.”

Accordingly, the Mayor can no longer be compensated for duties as the City Administrator.

City of Fertile

Detailed Recommendations

For the period July 1, 2016 through June 30, 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. Also, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

In addition, the City has a Paypal account so customers can make electronic payments to the City. This does not appear to be a proper depository as defined in Chapter 12C.1(2)(c) of the Code of Iowa which states in part, “Depository means a bank, a savings and loan, or credit union in which public funds are deposited.”

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. The City should consult legal counsel regarding the Paypal account.

- (G) City Council Meeting Minutes – Chapter 380.7 of the Code of Iowa requires all minutes of City Council meetings be properly signed. None of the four meeting minutes tested were signed by the City Clerk or the Mayor. Additionally, the minutes for one meeting tested did not include a summary of ordinances or amendments passed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – City Council meeting minutes should be signed by the City Clerk and someone independent of the minutes preparation to authenticate the actions taken. When applicable, meeting minutes should include a brief summary of ordinances or amendments passed by the City Council.

- (H) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in public works, health and social services, culture and recreation and community and economic development functions prior to the May 30, 2017 budget amendment. Disbursements at June 30, 2017 exceeded the amount budgeted in the public works 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.

- (I) Questionable Disbursement – A disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented was noted as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Starboard Garden	Food for Garden Club Christmas party	\$ 158

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.

City of Fertile

Detailed Recommendations

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

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

- (J) Payroll – Approved wages for employees were not documented in the City Council meeting minutes.

Recommendation – Approval of pay rates for City employees should be documented in the City Council meeting minutes at the time of hiring and when raises occur.

- (K) 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.

- (L) Debit Cards – The City has debit cards for use by employees while on City business.

Recommendation – The City should prohibit the use of debit cards for City purchases. The function of a debit card is to provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (M) Transfers – The City makes transfers between various funds periodically. However, the transfers are not approved by the City Council.

Recommendation – The City Council should approve all fund transfers and document approval and transfer amounts as part of the City Council meeting minutes.

- (N) Library Petty Cash – Petty cash funds on hand at the Library are not maintained on an imprest basis.

Recommendation – Petty cash funds should be maintained on an imprest basis to provide additional control over these funds.

- (O) Fire Department Disbursements – Fire department disbursements are not specifically approved in the Fire Board minutes.

Recommendation – Approval of the disbursement listings should be documented in the Fire Board minutes.

City of Fertile

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Mark D. Newhall, Staff Auditor
Cody L. Mathews, Assistant Auditor


Marlys K. Gaston, CPA
Director