



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

September 19, 2018

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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Coulter's Periodic Examination Report dated April 27, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period April 1, 2017 through March 31, 2018.

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. While two of the thirteen findings in the Periodic Examination Report dated April 27, 2016 have been corrected and three have been partially corrected, eight of the findings are reported as "not corrected". An additional finding identified during the follow-up procedures is also included in this report.

A copy of the City of Coulter'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/audit-reports/>.

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CITY OF COULTER

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

**FOR THE PERIOD
APRIL 1, 2017 THROUGH MARCH 31, 2018**

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City of Coulter

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Joel Lohrbach	Mayor	Jan 2018	Jan 2020
Michele Raska	Council Member	Jan 2018	Jan 2020
Anthony Stadtlander	Council Member	Jan 2016	Jan 2020
Dan Tilkes	Council Member	Jan 2016	Jan 2020
Lon Allan	Council Member	Jan 2018	Jan 2022
Christie Larsen	Council Member	Jan 2018	Jan 2022
LaDonna Jorges	City Clerk/Treasurer		Indefinite
Gary Berkland	Attorney		Indefinite

City of Coulter



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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 April 27, 2016 on the City of Coulter, 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 April 27, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for another issue identified during our follow-up procedures. This report covers the period April 1, 2017 through March 31, 2018.

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 April 27, 2016. 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 Coulter during the course of our follow-up procedures. 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

August 16, 2018

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

City of Coulter

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

Findings Reported in the Periodic Examination Report dated April 27, 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) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparing, distributing, entering rates and adding/removing employees from the system.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
 - (6) Investments – recording and custody of investment documents.
 - (7) Long-term debt – recording and reconciling.

For the Coulter 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 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 – Although monthly bank reconciliations were prepared for individual accounts, they were not always reviewed by an independent person. Also, the June 30, 2015 reconciliations did not include certificates of deposit or other accounts for the community center, cemetery and fire department.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should include all certificates of deposit and other accounts. The reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Partially corrected. A reconciliation is prepared and reviewed monthly by an independent person. However, the February 2018 reconciliation did not include accounts for the fire department and library. The recommendation is partially repeated.

City of Coulter

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

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

Recommendation – 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 – Not corrected. The recommendation is repeated.

- (D) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

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

Current Status – Corrected. During the period reviewed, receipts and disbursements were coded to match the Uniform Chart of Accounts.

- (E) City Clerk's Monthly Reports – The City Clerk's monthly reports to the City Council included cash and investment balances and year-to-date receipts and disbursements, but did not include a summary of beginning balances, receipts, disbursements and ending balances by fund.

Recommendation – To provide better financial information, the City Clerk's monthly reports should include the beginning balances, receipts, disbursements and ending balances for each fund.

Current Status – Not corrected. The recommendation is repeated.

- (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 – Partially corrected. During the period reviewed, a written investment policy was adopted. However, a resolution naming official depositories has not been adopted by the City Council. The recommendation is partially repeated.

City of Coulter

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

- (G) Certified Budget – Disbursements for the year ended June 30, 2015 exceeded the amounts budgeted in the public works, health and social services, culture and recreation, community and economic development, general government and debt service functions. Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works and health and social services functions prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budgets should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Current Status – Not corrected. Fiscal year 2017 disbursements exceeded the amount budgeted in the debt service function. As of March 31, 2018, disbursements exceeded the amount budgeted in the culture and recreation function. The recommendation is repeated.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Nole Erickson, Council Member's son	Mowing (through March 2016)	\$4,400

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.

Current Status – Corrected. During the period reviewed, business transactions between the City and City officials and employees were below \$2,500 or were competitively bid.

City of Coulter

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

- (I) Questionable Disbursements – Certain disbursements 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Sam’s Club	Food for retirement party	\$ 623
Hometown Pizza	Food for retirement party	260
Field Fire	Retirement gift	265
Michael and Brandy Frie	Wedding donation	100
Thomas Craighton	Items for retirement party	238

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

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

Current Status – Not corrected. During the period reviewed, certain disbursements 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Fareway	Food for retirement party	\$ 135
Ned Erickson	Gift card for new baby	50
Alan Wharton	Food for meeting	34
Blair Elphie	Pop for firefighters	31

The recommendation is repeated.

- (J) Payroll – Employees do not prepare and submit timesheets to support hours worked and taken as leave. In addition, actual approved salaries were not noted and approved in the City Council meeting minutes.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and the employee’s immediate supervisor prior to submission. The timesheets should support all hours worked and taken as leave. In addition, employee approved salaries should be adequately documented in the City Council meeting minutes.

Current Status – Not corrected. As of March 31, 2018, one of two employees prepared timesheets, but these were not signed by the employee and were not approved or signed by the employee’s immediate supervisor. In addition, the fiscal year 2018 salaries were not noted and approved in the City Council meeting minutes. The recommendation is repeated.

City of Coulter

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

- (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.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The City is only able to access the front and back of check images online for up to 6 months. The recommendation is repeated.

- (L) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” At June 30, 2015 the total ending balance reported on the AFR was \$146,826, \$7,708 more than the \$139,118 reported on the City’s monthly Treasurer’s report. Also, because the City’s monthly Treasurer’s report does not report ending cash balances by fund, we were unable to determine the accuracy of the individual fund balances reported on the AFR. In addition, at June 30, 2015, the City held a \$6,560 perpetual care cemetery certificate of deposit which was incorrectly classified on the AFR as a General Fund rather than a Permanent Fund. The City also incorrectly reported a \$5,000 general obligation bond payment in the public safety function rather than the debt service function.

Recommendation – The City should ensure future Annual Financial Reports are accurate and agree with City’s records.

Current Status – Partially corrected. The ending balance on the Fiscal Year 2017 AFR was \$211,067, \$107 less than the \$211,174 reported on the City’s monthly Treasurer’s report. During the period reviewed, the City’s monthly Treasurer’s report did not report ending cash balances by fund, so we were unable to determine the accuracy of individual fund balances reported on the AFR. The Fiscal Year 2017 AFR properly reported the perpetual care cemetery certificate of deposit as held in a Private Purpose Trust Fund. The recommendation is partially repeated.

- (M) Separately Maintained Accounts – The Fire Department maintains separate accounting records for certain operations. The transactions and the resulting balances were not always included in the City’s annual budget, monthly financial reports or Annual Financial Reports. Also, invoices and other supporting documentation were not always available to support disbursements from this account.

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. Also, all disbursements should be supported by invoices or other supporting documentation.

Current Status – Not corrected. The recommendation is repeated. Also, see finding (N) below.

City of Coulter

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

Additional Finding as a Result of Follow-up Procedures:

- (N) Separately Maintained Accounts (Library) – 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.”

In addition to the City Fire Department (as noted in (M) above), the Coulter Public Library also maintains separate accounting records for certain operations. While these Departments are part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department and Library separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

City of Coulter

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Manager
Alex N. Kawamura, CPA, Staff Auditor


Marlys K. Gaston, CPA
Director