

**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

October 16, 2018

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Aredale, Iowa for the period April 1, 2017 through March 31, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible and establish procedures to ensure all receipts are accurately recorded in the City's general ledger. In addition, the City should establish procedures to ensure local option sales tax receipts are used in accordance with ballot provisions.

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/audit-reports/>.

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**CITY OF AREDALE**

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

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

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**City of Aredale**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Rodney McKinney	Mayor	Nov 2017	Jan 2020
Deb Homer	Council Member	Jan 2018	Jan 2020
Virgil Homer	Council Member	Jan 2018	Jan 2020
Mardee Johnson	Council Member	Jan 2018	Jan 2020
Deana Hanson	City Clerk/Treasurer	July 2017	Indefinite
Brian Miller	City Attorney		Indefinite

**City of Aredale**



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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 Aredale for the period April 1, 2017 through March 31, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Aredale'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 2017 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 and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Aredale 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 23, 2018



## **Detailed Recommendations**

City of Aredale

Detailed Recommendations

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

(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, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, posting and recordkeeping for accounts receivable.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(B) Investments – An accounting record/register is not maintained for certificates of deposits (CD) which include the cost, description, date purchased, interest rate, identifying number or maturity date. In addition, there is no reconciliation or verification of investment earnings/income.

Recommendation – An accounting record/register should be maintained for each CD which includes the cost, description, date purchased, interest rate, maturity date and identifying number. Interest earned on investments should be verified and reconciled to interest recorded in the general ledger by someone independent of recording investments and related earnings.

(C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The “Reconciliation Summary” reports generated from the City’s financial system included the City’s general checking account and Fire Department account, however, the certificates of deposit were excluded. In addition for the two months reviewed, the bank and book balances did not properly reconcile. For the two months, the bank balances were \$1,488 and \$575, respectively, more than the book balance. Also, bank reconciliations are not independently reviewed.

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

City of Aredale

Detailed Recommendations

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

- (D) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within fifteen days of the meeting and include total disbursements by fund. Minutes publications for four of four meetings tested did not include total disbursements by fund, as required. In addition, minutes for four of four meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements by fund, as required. In addition, minutes for all meetings should be signed to authenticate the actions taken.

- (E) 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 as required by 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.

- (F) Monthly City Clerk's Report – Monthly City Clerk's reports, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund, were prepared. However, the reports did not include a comparison of actual disbursements to the certified budget by function. In addition, for one month reviewed, the fund balances on the City Clerk's monthly report totaled \$1,063 more than the general ledger.

Recommendation – The City should ensure the City Clerk's reports agree with the accounting records and include comparisons of total disbursements for all funds to the certified budget by function. In addition, the reports should be reviewed by an independent person.

- (G) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt by the City or the Fire Department.

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

- (H) Prenumbered Receipts – Prenumbered receipts were not issued for all receipts by the Fire Department.

Recommendation – Prenumbered receipts should be issued for all receipts. These receipts should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

City of Aredale

Detailed Recommendations

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

- (I) Reconciliation of Garbage Billings, Collections and Delinquent Accounts – Garbage billings, collections and delinquent accounts were not reconciled throughout the year and delinquent account listings were not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile garbage billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations, document the review by signing or initialing and dating the reconciliations and monitor delinquent accounts.

- (J) Debit Card – The City has a debit card available for use by employees while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. Debit cards 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.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures..." The fiscal year 2017 Annual Financial Report (AFR) did not accurately report the beginning and ending fund balances. The June 30, 2017 ending balance was \$16,238 less than the bank balance. In addition, certain receipts tested did not agree to the City's general ledger.

Recommendation – The City should establish procedures to ensure the AFR, including the beginning and ending fund balances, is accurate and supported. In addition, the City should ensure all receipts and disbursements included in future AFRs are supported by the City's records.

- (L) Disbursements – Supporting documentation for four of thirty-five transactions tested could not be located. Also, one of thirty-five transactions tested was not properly authorized by the City Council.

In addition nine of nine transactions tested for the Aredale Fire Department were not properly authorized by the City Council.

Recommendation – The City should ensure all disbursements are properly supported by invoice or other supporting documentation. All disbursements should be approved by the City Council and the approval should be documented in the meeting minutes.

- (M) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the public safety 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.

City of Aredale

Detailed Recommendations

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

- (N) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 20% for equipment, training and operations for the Aredale Fire Department, 10% for operations of the Butler County Economic Development Corporation, 20% for City park improvements, operations and recreational programs, 25% for solid waste recycling for construction, renovation and/or operations and 25% for street and infrastructure improvements. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

- (O) Mayor Compensation and Payroll Taxes – The City Clerk’s compensation was not reduced by the required Iowa Public Employees’ Retirement System (IPERS) contribution for five months. In addition, documentation of City Council approval of compensation for the Mayor was not available.

Recommendation – The City should contact IPERS to determine the disposition of the IPERS withholding issue. In addition, the Mayor compensations should be established by City ordinance, as required.

- (P) Receipts – During the period reviewed, we identified several receipts posted to incorrect account codes, including road use tax and local option sales tax (LOST).

Recommendation – The City should establish procedures to ensure all receipts are recorded accurately in the City’s general ledger.

- (Q) 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.

City of Aredale

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager  
Luke M. Bormann, CPA, Staff Auditor

  
Marlys K. Gaston, CPA  
Director