



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

November 1, 2018

Contact: Marlys Gaston  
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Royal's Periodic Examination Report dated July 13, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 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. Findings reported in the Periodic Examination Report dated July 13, 2016 are repeated in this report. While five of the sixteen have been corrected and one has been partially corrected, ten of the findings are reported as "not corrected". Three additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Royal'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 ROYAL**

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

**FOR THE PERIOD  
JUNE 1, 2017 TO MARCH 31, 2018**

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**City of Royal**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Florence Ihry	Mayor	Jan 2018	Jan 2020
Jim Ransom	Council Member	Jan 2016	Jan 2020
Josh Toft	Council Member	Jan 2016	Jan 2020
Jeff Van Westen	Council Member	Jan 2016	Jan 2020
Laef Lundbeck	Council Member	Jan 2018	Jan 2022
Arlene Wimmer	Council Member	Jan 2018	Jan 2022
Barbara Fletcher	City Clerk/Treasurer		Indefinite
Jill Davis	Attorney		Indefinite

**City of Royal**



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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 July 13, 2016 on the City of Royal, Iowa covering the period April 1, 2015 to 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 dated July 13, 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 June 1, 2017 to 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 July 13, 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 Royal 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*  
MARY MOSIMAN, CPA  
Auditor of State

October 17, 2018

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

City of Royal

Report on the Status of Periodic Examination Findings and Recommendations

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

**Findings Reported in the Periodic Examination Report dated July 13, 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) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing, posting and distributing.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.

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 – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances each month. However, the review by an independent person is not performed timely.

Recommendation – An independent person should review the reconciliations timely and document the review by signing or initialing and dating the monthly reconciliations.

**Current Status – Not corrected. The recommendation is repeated.**

(C) 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 – Not corrected. The recommendation is repeated.**

City of Royal

Report on the Status of Periodic Examination Findings and Recommendations

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

- (D) Monthly City Clerk's Report – The monthly City Clerk's reports do not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – The City should establish procedures to ensure monthly City Clerk's reports include a comparison of total disbursements for all funds to the certified budget by function.

**Current Status – Not corrected. The recommendation is repeated.**

- (E) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B 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.

**Current Status – Corrected. An investment policy was adopted in February 2017.**

- (F) Accounting Policies and Procedures Manual – The City does not have an 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.

**Current Status – Not corrected. The recommendation is repeated.**

- (G) City Council Meeting Minutes – For the four City Council meeting minutes tested, the minutes were only signed by the City Clerk.

Recommendation – City Council meeting minutes should be signed by the City Clerk and someone independent of the meeting minutes preparation.

**Current Status – Corrected. All four of the City Council meeting minutes tested during the period reviewed were signed by City Clerk and the Mayor.**

City of Royal

Report on the Status of Periodic Examination Findings and Recommendations

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

- (H) 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
Fredericks	Gift card for retirement	\$ 26
Lundbeck Service	Gift card for retirement	25
Royal Café	Gift card for retirement	25
Haggy’s	Gift card for retirement	25

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 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 requirements for proper public purpose documentation.

**Current Status – Corrected. No questionable disbursements were noted during the period reviewed.**

- (I) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation wastewater bonds were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required.

**Current Status – Not corrected. The recommendation is repeated.**

City of Royal

Report on the Status of Periodic Examination Findings and Recommendations

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

- (J) Annual Financial Report – The total ending balance reported on the City’s June 30, 2015 Annual Financial Report (AFR) did not agree with the June 30, 2015 City Clerk’s report by \$3,523. The AFR reported rents and royalties of \$2,007 which were not supported by the general ledger cards, \$6,017 of miscellaneous receipts which were incorrectly coded to state grant receipts and Road Use Tax Fund disbursements which did not agree with the general ledger cards. In addition, disbursements recorded in the general ledger cards for the public works department and the Road Use Tax Fund were totaled, divided by three and the result was reported in the AFR as one third Road Use Tax Fund disbursements and two thirds General Fund disbursements, divided equally between the street cleaning and snow removal line items within the public works function. We were unable to determine the accuracy of the disbursements reported on the AFR.

Recommendation – The City should ensure the Annual Financial Report is accurate and agrees with the general ledger cards.

**Current Status – Not corrected. Although the receipts and disbursements reported on the AFR were supported by the general ledger cards, the ending balance reported in the City’s June 30, 2017 AFR did not agree with the June 30, 2017 City Clerk’s report by \$9,543 and Road Use Tax Fund disbursements were calculated as an average of disbursements in the General Fund, the public works function and the Road Use Tax Fund. We were unable to determine the accuracy of the Road Use Tax Fund disbursements. In addition, see Finding (Q).**

- (K) City Change Fund – The City maintains a change fund to make change as necessary. The City Council has not approved a change fund for the City and this change fund is not included in the monthly City Clerk’s reports.

Recommendation – If the City Council determines a change fund is necessary, a specific amount should be approved and established and the balance should be included in the monthly City Clerk’s reports.

**Current Status – Not Corrected. The recommendation is repeated.**

- (L) Receipts – Checks received by the City are not restrictively endorsed upon receipt.

Recommendation – The City should restrictively endorse all checks immediately upon receipt.

**Current Status – Corrected. During the period reviewed, the City Clerk restrictively endorsed checks upon receipt.**

- (M) Disbursements – Supporting documentation for one transaction tested could not be located.

Recommendation – All disbursements should be supported by invoice or other supporting documentation.

**Current Status – Corrected. During the period reviewed, supporting documentation was provided for all disbursements selected for testing.**

City of Royal

Report on the Status of Periodic Examination Findings and Recommendations

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

- (N) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit those obligations as required.

Recommendation – The outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

**Current Status – Not corrected. The recommendation is repeated.**

- (O) Authorized Signatures – For five of the eight accounts reviewed, the City did not remove the former City Mayor as an authorized signer on the account.

Recommendation – The City should ensure authorized signers are updated on all accounts when necessary.

**Current Status – Not corrected. As of the date of the report, 1 of 8 accounts reviewed included the former City Mayor as an authorized signer.**

- (P) Separately Maintained Records – The City maintains a community building checking account and separate accounting records for the Library. The transactions and resulting balances of these accounts are not included in the City's accounting records. In addition, the Library records do not follow the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee and thirteen of fifteen Library disbursements selected for testing were not approved by the Library Board prior to payment.

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. To provide better financial information and control, the recommended COA, or its equivalent, should be followed. In addition, all disbursements should be approved by the Library Board prior to payment.

**Current Status – Partially Corrected. During the period reviewed, the Library and the Community Building accounts were not included in the accounting records. However, disbursements selected for testing were approved by the Library Board and the Library activity was recorded in accordance with COA.**

**Additional Findings as a Result of Follow-up Procedures:**

- (Q) Annual Financial Report – The fund balances by fund type reported on the AFR do not agree with the fund balances on the City Clerk's monthly report. The General and Special Revenue funds were overstated by \$150,701 and \$1,055, respectively. The Capital Projects and Proprietary Funds were understated by \$45,789 and \$115,510, respectively.

Recommendation – The City should establish procedures to ensure the AFR agrees with the accounting records and the City Clerk's monthly reports.

City of Royal

Report on the Status of Periodic Examination Findings and Recommendations

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

- (R) 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.

- (S) Payroll – While the Assistant City Clerk’s wage increase was approved at a dollar rate, other increases approved during the period were approved as a dollar increase and the actual approved wages and hourly rates were not documented in the City Council meeting minutes.

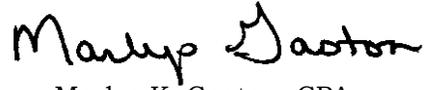
Recommendation – Procedures should be established to ensure all pay increases and the actual wages and hourly rates are adequately documented in the City Council meeting minutes.

City of Royal

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager  
Taylor I. Cook, Staff Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA  
Director