



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

November 15, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Ottosen'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 December 31, 2017.

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 three of the sixteen findings reported in the Periodic Examination Report dated July 13, 2016 were corrected, two were partially corrected and one is no longer valid, ten of the findings are reported as "not corrected". Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Ottosen'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/>.

###

CITY OF OTTOSEN

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

**FOR THE PERIOD
JUNE 1, 2017 THROUGH DECEMBER 31, 2017**

Table of Contents

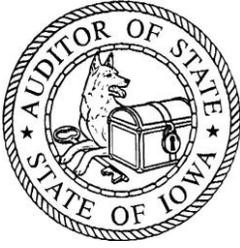
		<u>Page</u>
Officials		3
Independent Accountant’s Report on the Status of Periodic Examination Findings and Recommendations		5
Status of Findings and Recommendations Previously Reported in the City’s Periodic Examination Report:	<u>Finding</u>	
Segregation of Duties	A	7
Accounting Policies and Procedures Manual	B	7
Timesheets	C	8
City Council Meeting Minutes	D	8
Questionable Disbursements	E	8-9
Official Depositories	F	9
Chart of Accounts	G	9
Monthly City Clerk Reports	H	9
Business Transactions	I	10
Employee Benefits	J	10
Bank Reconciliations	K	10
Electronic Check Retention	L	10
Loan Agreement	M	11
Certified Budget	N	11
Annual Financial Report	O	11
Change Fund	P	12
Additional Findings Identified During Follow-up Procedures:		
Review of Timesheets	Q	12
Emergency Levy	R	12
Staff		13

City of Ottosen

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Monte Newton	Mayor	Jan 2016	Jan 2018
Dan Bennett	Council Member	Jan 2016	Jan 2018
Jan Brown	Council Member	Jan 2016	Jan 2018
Jason Fowler	Council Member	Jan 2016	Jan 2018
Veronica Fowler	Council Member	Jan 2016	Jan 2018
Frank Hacker	Council Member	Jan 2016	Jan 2018
Megan Kampen	City Clerk		Indefinite
Nevin Conrad	Attorney		Indefinite

City of Ottosen



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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Ottosen, 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 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 through December 31, 2017.

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 Ottosen during the course of our follow-up procedures engagement. 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 30, 2018

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

City of Ottosen

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

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) Long-term debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (5) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – record keeping, preparing, posting and distributing.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.

In addition, the monthly utility reconciliations and billings were not reviewed by an independent person.

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) 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.

City of Ottosen

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

- (C) Timesheets – Timesheets were not prepared by salaried employees.

Recommendation – Timesheets should be prepared by all City employees to support hours worked and taken as leave time. The timesheets should be reviewed and approved by the employee’s supervisor prior to the preparation of payroll. Supervisory review/approval should be documented by the supervisor’s initials and the date approved.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (Q).

- (D) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include total disbursements from each fund and a summary of all receipts. In cities with a population less than 200, the publication requirements can be met by posting the minutes in three public places permanently designated by city ordinance. The City Council has not adopted an ordinance to permanently designate three public places at which to post the City Council meeting minutes. The minutes reviewed were posted in only one location and the postings were not within 15 days, as required. In addition, the minutes postings did not include total disbursements by fund or a summary of receipts.

Recommendation – The City Council should adopt an ordinance to permanently designate three public places at which to post meeting minutes, as required. The minutes should be posted within 15 days and the postings should include total disbursements for each fund and a summary of all receipts.

Current Status – Partially corrected. During the period reviewed, the minutes were posted within 15 days at three public places. However, the postings did not include total disbursements for each fund and a summary of all receipts. Also, the City has not adopted an ordinance to permanently designate three public places at which to post meeting minutes. The recommendation is partially repeated.

- (E) 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:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Bank Iowa – Humboldt	Two \$500 gift cards for Mayor Kinseth’s retirement, including a service fee	\$ 1,003
Ottosen Community Center	Santa Claus Day	30

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such disbursements 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 Ottosen

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

Recommendation – The City should consult legal counsel to determine the disposition of the gift cards and related service fee purchased for the retiring City Mayor, including seeking reimbursement, if appropriate. The City Council should consider and document the public purpose and propriety of the Santa Claus Day disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

Current Status – Not corrected. In December 2017, the City disbursed \$35 from the petty cash fund to the Ottosen Community Center for Santa Claus Day. The recommendation is repeated.

- (F) Official Depositories – 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 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 – Corrected. The City has adopted a resolution approving amounts at all approved depositories in compliance with Chapter 12C.2 of the Code of Iowa.

- (G) 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. The City has updated their manual ledger and has implemented the recommended Uniform Chart of Account (COA) for Iowa City Governments approved by the City Finance Committee.

- (H) 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 – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, 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. Also, although the monthly City Clerk's reports list receipts and disbursements, the reports do not include the activity by fund or beginning and ending balances by fund. The City should also establish policies to require the monthly City Clerk's reports include a summary of receipts, disbursements and ending balances by fund. These reports should be prepared and provided to the City Council for review and approval.

City of Ottosen

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

- (I) Business Transactions – Business transactions between the City and City officials or employees for fiscal year 2015 are as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dan Bennett, Council Member, Owner of Bennett Recycling and Sanitation, LLC	Garbage and recycling services	\$ 3,876

These transactions may represent a conflict of interest as defined in Chapter 362.5(3)(k) of the Code of Iowa since the total transactions exceeded \$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 – Not corrected. During the period reviewed, the City did business with Dan Bennett, Council Member, Owner of Bennett Recycling and Sanitation, LLC, for garbage and recycling services. The transactions paid to Bennett Recycling and Sanitation, LLC during the fiscal year ended June 30, 2017 totaled \$3,324 which exceeds the \$2,500 threshold discussed above. The recommendation is repeated.

- (J) Employee Benefits – The City accounted for the employee benefits levy in the General Fund rather than a Special Revenue Fund. In accordance with budget forms prescribed by the Iowa Department of Management, the employee benefits levy is a Special Revenue Fund levy.

Recommendation – The City should establish a Special Revenue Fund to account for the employee benefits levy.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (R).

- (K) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year, however, an independent review of the bank reconciliations was not performed.

Recommendation – The bank 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 – Not corrected. The recommendation is repeated.

- (L) 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 for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

City of Ottosen

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

- (M) Loan Agreement – On November 15, 2013, the City entered into a loan agreement with a City resident for \$40,000 at 5% per annum for a building. The City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed before entering into a loan agreement, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

Current Status – No longer valid. During the period reviewed, the City did not enter into any such agreements.

- (N) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety and general government 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.”

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.

Current Status – Not corrected. For the year ended June 30, 2017, the City exceeded the amounts budgeted in the public safety, community and economic development, and business type activities functions. In addition, the City exceeded the amounts budgeted in four functions prior to the May 2017 budget amendment. The recommendation is repeated.

- (O) Annual Financial Report – The fiscal year 2015 Annual Financial Report (AFR) beginning balances for governmental and proprietary funds did not agree with the prior year ending balances. Also, debt reported on the AFR was incorrectly reported as other short-term debt rather than other long-term debt.

Recommendation – The City should ensure the Annual Financial Report beginning balances agree with the prior year ending balances and debt is properly reported.

Current Status – Partially corrected. Debt was properly reported on the fiscal year 2017 Annual Financial Report (AFR). However, the beginning balances for governmental and proprietary funds did not agree with the prior year ending balances. In addition, the budget section on the AFR incorrectly reported the original budget amounts rather than the amended budget amounts. Also, business type activities receipts were reported in the General Fund rather than the proprietary fund. The recommendation is partially repeated. In addition, the City should ensure the final amended budget amounts are included in the AFR budget column and the proprietary receipts are reported in the proprietary column.

City of Ottosen

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

- (P) Change Fund – The City maintains between \$1 and \$5 in cash to make change as necessary or to pay for postage or money orders, as needed. The City Council has not approved a change fund and this change fund is not maintained on an imprest basis.

Recommendation – If the City Council determines a change fund is necessary, a specific amount should be approved and established. This change fund should be maintained on an imprest basis to improve the accountability for cash and provide for the reconciliation of receipts and deposits.

Current Status – Corrected. The City Council approved a change fund of \$50 during the December 2015 City Council meeting and during the period reviewed, the change fund was maintained on an imprest basis.

Additional Findings as a Result of Follow-up Procedures:

- (Q) Review of Timesheets – Timesheets for hourly employees were not reviewed.

Recommendation – All timesheets should be reviewed and approved by the employee's supervisor prior to the preparation of payroll. Supervisory review and approval should be documented by the supervisor's initials and the date approved.

- (R) Emergency Levy – The City accounted for the emergency levy in the General Fund rather than a Special Revenue Fund. In accordance with budget forms prescribed by the Iowa Department of Management, the emergency levy is a Special Revenue Fund levy.

Recommendation – The City should establish a Special Revenue Fund to account for the emergency levy.

City of Ottosen

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Premnarayan Gobin, Senior Auditor



Marlys K. Gaston, CPA
Director