



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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE

November 21, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Springville, Iowa for the period July 1, 2017 through June 30, 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 bank reconciliations include investment accounts. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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 SPRINGVILLE

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

**FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018**

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City of Springville

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Shebetka	Mayor	Jan 2018
Mareta Ralston	Mayor Pro Tem	Jan 2020
Patrick Hoyt Sr.	Council Member	Jan 2018
Penny Sindelar	Council Member	(Resigned Aug 2017)
Brad Merrit	Council Member	Jan 2020
Dennis Thies	Council Member	Jan 2020
Lyle Anderson (Elected Nov 2017)	Council Member	Jan 2022
Mark Bloom	City Clerk	Jan 2020
Mark Parmenter	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Shebetka	Mayor	Jan 2022
Mareta Ralston	Mayor Pro Tem	Jan 2020
Brad Merrit	Council Member	Jan 2020
Dennis Thies	Council Member	Jan 2020
Lyle Anderson	Council Member	Jan 2022
Jeff Grimley	Council Member	Jan 2022
Mark Bloom	City Clerk	(Resigned Jun 2018)
Dee Wagaman (Appointed Sep 2018)	City Clerk	Jan 2021
Mark Parmenter	Attorney	Indefinite

City of Springville



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Independent Accountant's Report on Applying Agreed-Upon 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 Springville for the period July 1, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Springville'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 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 Springville 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

October 31, 2018

Detailed Recommendations

City of Springville

Detailed Recommendations

For the period July 1, 2017 through June 30, 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 or two individuals has control over each of the following areas for the City:

- (1) Accounting system – performing all general account functions and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investing – recordkeeping, custody of investments and reconciling earnings.
- (4) Receipts – collecting, depositing, recording and reconciling.
- (5) Utility receipts – billing, collecting, depositing and posting.
- (6) Disbursements – invoice processing, check writing, reconciling and recording.
- (7) Payroll – recordkeeping, preparing and distributing.
- (8) Long-term debt – recordkeeping and debt payment processing.
- (9) Journal entries – preparing 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.

(B) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual bank accounts, reconciliations are not compiled to show a complete reconciliation of all bank accounts and investments to the general ledger. For one month reviewed, June 30, 2018, the City's general ledger was \$266 more than the bank and investment balances. However, amounts reported as reconciling items included uncleared transactions which do not represent deposits in transit or outstanding checks. Also, the bank reconciliations did not include evidence of independent review.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the independent reviewer and the date of the review.

(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.

City of Springville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(D) Financial Reporting – During the fiscal year ending June 30, 2018, the following conditions were noted:

- Investment interest of \$11,481 for certificates of deposit, savings accounts, and money market accounts were not recorded in the City's general ledger.
- \$314,365 of interfund transfers were not properly coded in the City's general ledger. Amounts were recorded as payables rather than transfers in and out.

Recommendation – The City should establish procedures to ensure all transactions are properly reported in the City's general ledger.

(E) Monthly City Clerk's Report – A monthly City Clerk's report including receipts, disbursements, transfers and balances for each fund and a comparison of total disbursements to the certified budget by function is not prepared and provided to the City Council monthly.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes receipts, disbursements, transfers and balances for each fund and a comparison of total disbursements by function to the certified budget. The monthly reports should be reviewed and approved by the City Council.

(F) Timesheets – Although timesheets are prepared, for three timesheets tested, there was no evidence of approval by supervisory personnel.

Recommendation – Timesheets should be submitted to an appropriate supervisor for approval prior to the preparation of payroll. The supervisor approval should be documented by the signature of the reviewer and the date of the review.

(G) Transfers – Multiple transfers throughout the year ending June 30, 2018 were not approved by the City Council prior to making the transfer.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record.

(H) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the general government function. In addition, disbursements exceeded the amounts budgeted in general government and capital project 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 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 Springville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (I) 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. Minutes for two meetings tested were not published. In addition, the City did not publish total disbursements by fund or a summary of receipts, as required.

Recommendation – The City should comply with the Code of Iowa by publishing City Council minutes within fifteen days of the meeting, including total disbursements from each fund and a summary of receipts, as required.

- (J) Journal Entry Documentation – Supporting documentation was not maintained for journal entries. In addition, journal entries were not properly approved.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Additionally, journal entries should be approved by an independent person and evidence of the approval should be documented.

- (K) 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 these obligations, as required.

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

- (L) 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.

- (M) Computer System – The following weaknesses in the City's computer system were noted:

The City does not have written policies and procedures for:

- Requiring a time out/log off function or screen saver passwords to protect computer terminals when not in use.
- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Requiring password history to be maintained to prevent employees from reusing the same password.
- Restricting access to the computer system through the use of unique user IDs.
- Requiring password length to be at least 8 characters.

City of Springville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- Requiring a computer lockout function if passwords are incorrectly entered more than three times.
- Personal use of computer equipment and software.

Also, the City does not have a written disaster recovery plan.

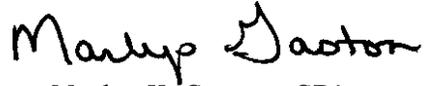
Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer-based system. A written disaster recovery plan should be developed and back-ups should be performed.

City of Springville

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager
Jesse J. Harthan, Senior Auditor II
Steve D. Rater, Assistant 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