



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

December 5, 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 Dows' Periodic Examination Report dated June 9, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period July 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 six of the fourteen findings reported in the Periodic Examination Report dated June 9, 2016 were corrected and two were partially corrected, six of the findings are reported as "not corrected."

A copy of the City of Dows' 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 DOWS

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

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

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City of Dows

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Larry Klatt	Mayor	Jan 2016	Jan 2018
Judy Gorder	Council Member	Jan 2014	Jan 2018
Don Lane	Council Member	Jan 2014	Jan 2018
Loren Lienemann	Council Member	Jan 2014	Jan 2018
Megan Hessler	Council Member	Jan 2016	Jan 2020
Margaret Worden	Council Member	Jan 2016	Jan 2020
Jeanette Wenzel	City Clerk/Treasurer		Indefinite
Art Cady	Attorney		Indefinite

City of Dows



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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 June 9, 2016 on the City of Dows, 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 June 9, 2016 and the current status of the City's implementation of the recommendations included in that report. This report covers the period July 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 June 9, 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 Dows 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

November 5, 2018

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

City of Dows

Report on the Status of Periodic Examination Findings and Recommendations

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

Findings Reported in the Periodic Examination Report dated June 9, 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) Investing – recordkeeping, investing, custody of investments and reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing, journalizing and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Journal entries – preparing and journalizing.

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 – Partially corrected. During the period reviewed, the City implemented independent reviews of reconciliations and documented their review by the initials of the reviewer and the date of review.

(B) 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.

(C) Financial Condition – At March 31, 2016, the Special Revenue, Road Use Tax and Enterprise, Waste Water Funds had deficit balances of \$144,316 and \$57,879, respectively.

Recommendation – The City should continue to investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

Current Status – Not corrected. For the period ending December 31, 2017, the Special Revenue, Road Use Tax and Enterprise, Waste Water Funds had deficit balances of \$169,750 and \$51,918, respectively. The recommendation is repeated.

City of Dows

Report on the Status of Periodic Examination Findings and Recommendations

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

- (D) Bank Reconciliations – The cash and investment balances in the monthly City Clerk’s Report were reconciled to bank and investment account balances throughout the year. However, the reconciliations were not reviewed by an independent person.

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

Current Status – Corrected. During the period reviewed, the City implemented independent reviews of reconciliations and documented their review by the initials of the reviewer and the date of review.

- (E) Local Option Sales Tax (LOST) – The City’s LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balance held for the purposes specified in the LOST ballot.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

Current Status – Corrected. During the period reviewed, the City established procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

- (F) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works and business type activities 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.

Current Status – Partially corrected. Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety and public works functions prior to the budget amendment.

- (G) Annual Financial Report – The fiscal year 2015 Annual Financial Report (AFR) beginning balances for the governmental and proprietary activities did not agree to the prior year ending balances reported in the fiscal year 2014 AFR. In addition, although the ending AFR balances agree to the monthly City Clerk’s report, individual receipt and disbursement line items do not agree with City records.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances. The City should also develop procedures to ensure the AFR receipts and disbursements agree to City records.

Current Status – Corrected. The June 30, 2017 AFR properly reported the beginning balances and the June 30, 2017 AFR receipts and disbursements agreed to City records.

City of Dows

Report on the Status of Periodic Examination Findings and Recommendations

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

- (H) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

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

Current Status – Not corrected. The recommendation is repeated.

- (I) Change Fund – The City maintains a change fund for which no authorization could be located.

Recommendation – The change fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

Current Status – Corrected. The City Council approved a change fund not to exceed \$50 on April 2, 2018.

- (J) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approvals should be documented by signing or initialing and dating the journal entries.

Current Status – Not corrected. The recommendation is repeated.

- (K) Monthly City Clerk's Report – The Monthly City Clerk's Report presented to the City Council for approval does not include certificate of deposit and savings account activity.

Recommendation – The Monthly City Clerk's Report presented to the City Council should include certificate of deposit and savings account activity.

Current Status – Not corrected. During the period reviewed, while the City included savings account activity on the Monthly City Clerk's Reports, the savings account activity was not included in the fund totals. In addition, the certificate of deposit activity for the Library was overstated by \$421 as of December 31, 2017.

- (L) Deposits and Investments – The City's written investment policy refers to outdated sections of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which refers to and complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Corrected. The City adopted a written investment policy on April 2, 2018 which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

City of Dows

Report on the Status of Periodic Examination Findings and Recommendations

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

- (M) Employee Benefits Fund – The Special Revenue, Employee Benefits Fund had a balance of approximately \$75,000 at March 31, 2016, more than double the amounts of Employee Benefit Levy collected in fiscal year 2016.

Recommendation – The City should consider lowering the Employee Benefits Levy in future years to reduce the excess balance in this fund.

Current Status – Corrected. The City reduced its Employee Benefits Levy for fiscal year 2017 and fiscal year 2018.

- (N) Mosquito Fee – In accordance with City ordinance number 186, section 41.13, the City charges a \$1.25 mosquito fee as part of each monthly residential utility billing. While Chapter 384.84 of the Code of Iowa allows the City Council to establish and charge rates sufficient to pay the expenses of operating and maintaining a City utility, we are not aware of any statutory authority for the City to establish and charge a fee for mosquito control.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Current Status – Not corrected. The recommendation is repeated.

City of Dows

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Tiffany M. Ainger, CPA, Senior Auditor II


Marlys K. Gaston, CPA
Director