



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 14, 2018

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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Crawfordsville's Periodic Examination Report dated March 23, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2017 through February 28, 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. While four of the thirteen findings reported in the Periodic Examination Report dated March 23, 2016 have been corrected and one has been partially corrected, eight of the findings are reported as "not corrected". One additional finding identified during the follow-up procedures is also included in this report.

A copy of the City of Crawfordsville'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 CRAWFORDSVILLE

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

**FOR THE PERIOD
JUNE 1, 2017 THROUGH FEBRUARY 28, 2018**

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City of Crawfordsville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Craig Davey	Mayor	Jan 2018	Jan 2022
John Burroughs	Council Member	Jan 2016	Jan 2020
Billie Jo Rose	Council Member	Jan 2016	Jan 2020
Sheila Baker	Council Member	Jan 2018	Jan 2022
Cory Hogue	Council Member	Jan 2018	Jan 2022
Gene Miller	Council Member	Jan 2018	Jan 2022
Carolyn Love	City Clerk		Indefinite
Katie Lujan	Attorney		Indefinite

City of Crawfordsville



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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 March 23, 2016 on the City of Crawfordsville, Iowa covering the period January 1, 2015 through December 31, 2015 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 date March 23, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for an issue identified during our follow-up procedures. This report covers the period June 1, 2017 through February 28, 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 March 23, 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 Crawfordsville 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

November 15, 2018

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

City of Crawfordsville

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through February 28, 2018

Findings Reported in the Periodic Examination Report dated March 23, 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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Debt – recordkeeping, compliance and debt payment processing.
- (6) Journal entries – preparing and journalizing.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (9) Financial reporting – preparing and reconciling.
- (10) Computer system – performing all general accounting functions and controlling all data input and output.

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 – Cash and investment balances were not reconciled to bank and investment account balances throughout the year.

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 of the review.

Current Status – Not corrected. The reconciliation reports generated from the City's financial system include the City's main checking account, but exclude the savings and investment accounts. A complete bank reconciliation is not performed. The recommendation is repeated.

City of Crawfordsville

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through February 28, 2018

- (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.

- (D) Financial Reporting – A monthly City Clerk’s report, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of total disbursements for all funds to the certified budget by function, is not prepared. In addition, ending fund balances reported on the Annual Financial Report (AFR) did not agree with the City’s general ledger by \$14,500 and the budget amounts reported on the AFR did not agree with the certified budget.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a summary of beginning balances, receipts, disbursements transfers and ending balances by fund and comparisons of total disbursements for all funds by function. In addition, the City should establish procedures to ensure the AFR reconciles to the general ledger and the budget column on the AFR agrees with the City’s certified budget.

Current Status – Not corrected. Trial balances and profit and loss statements are prepared monthly. However, the reports do not include balances or activity by fund and do not include a comparison of total disbursements for all funds to the certified budget by function. In addition, ending balances reported on the AFR did not agree with the City’s general ledger balance by \$34,659. See additional finding (N).

- (E) Financial Condition – The Enterprise, Water Fund had a deficit balance of \$629 at June 30, 2015.

Recommendation – The City should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

Current Status – Corrected. The City had no deficit balances at June 30, 2017.

- (F) Water Revenue Capital Loan Note – The provisions of the water revenue note resolution require sufficient monthly transfers be made to a separate water revenue note sinking account for the purpose of making the note principal and interest payments when due. The City has not established a separate water revenue note sinking account.

Also, the water revenue note resolution requires the City to maintain user rates at a level to ensure net receipts are equal to at least 110% of the principal and interest due each year. The City’s Enterprise, Water Fund is in a deficit position, accordingly, the City has not maintained sufficient user rates.

City of Crawfordsville

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through February 28, 2018

In addition, the provisions of the water revenue note resolution require the City to pay for water usage. For the period reviewed, the City did not pay for water usage.

Recommendation – The City should adjust user rates or reduce other expenses to ensure net receipts equal at least 110% of the principal and interest due each year. The required sinking account should be established. The City should establish procedures to ensure all City departments are charged for water usage, as required.

Current Status – Partially corrected. The City has established a separate water revenue note sinking account and, during the period reviewed, monthly transfers were made to the account for the purpose of making the note principal and interest payments when due. The City’s Water Fund is no longer in a deficit position. However, during the period reviewed, the City did not pay for water usage as required by provisions of the water revenue note resolution.

- (G) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works, culture and recreation and business type activities 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. Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the culture and recreation function.

- (H) Payroll – Timesheets did not include evidence of supervisory review. In addition, annual wage increases for City employees were approved as a dollar increase and the actual approved wages and hourly rates were not documented in the City Council meeting minutes.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, 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.

Current Status – Corrected. During the period reviewed, annual wage increases for City employees were approved as an hourly/monthly rate. Also, timesheets tested were reviewed and approved by supervisory personnel.

- (I) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Additionally, the publications should include total disbursements by fund and a summary of receipts. Minutes for three meetings tested were not published within fifteen days and the minutes publications for all meetings tested did not include total disbursements by fund or a summary of receipts, as required.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days of the meeting. In addition, the publications should include total disbursements by fund and summary of receipts.

City of Crawfordsville

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through February 28, 2018

Current Status – Not corrected. For six of the seven meetings tested, the minutes were not published within 15 days. Also, the minutes publications did not include total disbursement for each fund or a summary of all receipts.

- (J) Transfers – Transfers between funds were not properly coded as “transfers” in the general ledger and were not always approved by the City Council prior to the actual transfer.

Recommendation – The City should ensure transfers are properly coded in the general ledger. In addition, the City Council should approve all transfers prior to the actual transfer and document approval and the transfer amounts as part of the minutes record.

Current Status – Corrected. During the period reviewed, the City’s only transfers were monthly intrafund transfers to the City’s water revenue note sinking account as required by the City’s water revenue capital loan note.

- (K) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Corrected. While account numbers are not used, the City followed the COA and monthly financial information was easily traceable to the Annual Financial Report.

- (L) Computer System Policies – The City does not have written policies and procedures to require a timeout or lockout function or to require password privacy and confidentiality and password changes every 60 to 90 days. In addition, the City does not have a written disaster recovery plan.

Recommendation – The City should develop policies and procedures addressing the above items to improve the City’s internal control over its computer system. A written disaster recovery plan should be developed and tested periodically.

Current Status – Not corrected. The recommendation is repeated.

- (M) 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 which complies with the provisions of 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.

Current Status – Not corrected. The recommendation is repeated.

City of Crawfordsville

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through February 28, 2018

Additional Finding as a Result of Follow-up Procedures:

- (N) Financial Reporting – Although the City reports on the cash basis of accounting, certain receipts and disbursements are posted using the accrual basis of accounting, evidenced by receivables and liabilities remaining in the fund “Trial Balance” report each month. Also, debt principal payments of \$18,756 were not reported on the “Profit and Loss” report. Additionally, garbage disbursements of \$16,606 were reported twice on the AFR.

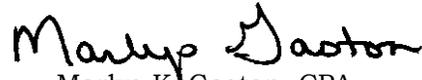
Recommendation – The City should establish procedures to ensure financial transactions are properly recorded and are reported using the cash basis of accounting. Receivable and liability accounts in the “Trial Balance” report should be zeroed out each month. The City should also ensure disbursements reported in the Annual Financial Report agree with the City’s records.

City of Crawfordsville

Staff

This engagement was performed by:

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Brandon J. Vogel, Senior Auditor II


Marlys K. Gaston, CPA
Director