



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Churdan, Iowa for the period July 1, 2016 through June 30, 2017. 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 take steps to improve financial reporting. In addition, the City should establish procedures to ensure bank and investment accounts are reconciled to the general ledger monthly and to reconcile utility billings, collections and delinquent accounts for each billing period.

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 CHURDAN**

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

**FOR THE PERIOD  
JULY 1, 2016 THROUGH JUNE 30, 2017**

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**City of Churdan**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Joleen Killeen	Mayor	Jan 2016	Jan 2018
Nick Christianson	Council Member	Jan 2016	Jan 2018
Heidi Geisler	Council Member	Jan 2016	Jan 2018
Jason Minnehan	Council Member	Jan 2016	Jan 2018
Steve Killeen	Council Member	Jan 2016	Jan 2020
Roger Olson	Council Member	Jan 2016	Jan 2020
Colleen Mackey	City Clerk/Treasurer		(Terminated May 2017)
Toresa Riggs (Appointed Jul 2017)	City Clerk/Treasurer		Indefinite
Michael D. Tungesvik	Attorney		Indefinite

**City of Churdan**



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Independent Accountant's Report on Applying Agreed-Up 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 Churdan for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Churdan'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 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. 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.

8. 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.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Churdan 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

December 3, 2018

## **Detailed Recommendations**

City of Churdan

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
  - (2) Receipts – collecting, depositing, recording, reconciling and posting.
  - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
  - (4) Payroll – entering rates in the system, recordkeeping, preparing and distributing. Vacation and sick leave balances are not maintained and tracked.
  - (5) Utilities – entering rates into the system, billing, collecting, depositing and posting.
  - (6) Debt – recordkeeping, compliance and debt payment processing. Debt records are not periodically reconciled to general ledger controls.
  - (7) Financial reporting – preparing and reconciling.
  - (8) 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) Fire Department and Library – All accounting functions for the Fire Department are handled by one individual without adequate compensating controls. Bank reconciliations are not prepared. In addition, an invoice or other supporting documentation was not retained for one disbursement tested. For the Library, one individual collects the mail, records receipts, prepares deposits and takes the deposits to the bank without adequate compensating controls. Also, although monthly bank reconciliations were prepared, they were not prepared for all savings accounts held by the Library.

Recommendation – The Fire Department should segregate accounting duties to the extent possible. The Fire Department should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. The Library should segregate accounting duties to the extent possible for receipts. An independent person should review the Library bank statements and reconciliations and document their review by signing or initialing and dating the monthly reconciliations. Library bank reconciliations should include all activity and balances. Invoices or other supporting documentation should be retained.

City of Churdan

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For the month reviewed, bank and book balances did not properly reconcile. Based on additional review we found debt payments and electronic deposits such as property tax, local option sales tax and road use tax collections posted to the bank account but not recorded to the general ledger and certain certificates of deposit were not included in the general ledger. Also, for the month of December 2016, we were unable to trace all deposits in the bank statement to the General Ledger. The City recently installed new accounting software making adjustments to the reported June 30, 2017 balances, however the City was unable to provide us with documentation on how those balances were determined.

In addition, the City does not maintain controls to safeguard blank and voided checks, cash and checks received from customers, certificates of deposit and undistributed payroll checks.

Recommendation – The City should document the determination of the June 30, 2017 general ledger balances. The City should ensure all receipts and disbursements are recorded timely to the general ledger. The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Bank to book reconciliations are an essential internal control function and the City should give priority to ensuring the reconciliations are completed monthly and are independently reviewed.

In addition, the City should implement procedures to maintain controls over blank and voided checks, cash and checks received from customers, certificates of deposit and payroll checks.

- (D) Journal Entries – Supporting documentation is not maintained for journal entries and journal entries are not reviewed and approved by an independent person. Also, it was determined that duplicate journal entries were made and certain other journal entries were not posted.

Recommendation – The City Council or designated independent person should review and approve all journal entries to ensure they are reasonable and supported and not duplicated.

City of Churdan

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (E) 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. Also meter readings are self-reported by the customer and are not independently verified.

The following were also noted regarding the City's utilities:

- We were unable to trace all utility receipts to bank deposits because receipts were included as lump sum deposits and were not detailed on the receipts.
- The City Clerk was six months past due on their utility bill. We subsequently traced a deposit on October 18, 2016 to the bank for a payment on the City Clerk's utility account.
- Water usage was not included in the billing for the City Clerk for one month, only sewer and garbage was billed. We were unable to determine why this occurred, however we noted a correction in the self-reported ending meter reading.
- Late payment penalties are not applied to utility billings in accordance with the City's ordinance 2015-0309.

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. Receipts should be in sufficient detail to determine utility payments were received and deposited. Also, per ordinance 2015-0309, penalties should be applied to utility billings when payments are delinquent. Additionally, the City should periodically independently verify meter readings.

- (F) Monthly City Clerk's Report – Although the monthly report provided to the City Council included receipts, disbursements and a comparison of total disbursements for all funds to the certified budget, the report does not include beginning and ending fund balances. Additionally the comparison reports do not agree with the City's detail general ledger.

Recommendation – The City Clerk should prepare and provide the City Council with monthly City Clerk's reports which include a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements to the certified budget by function for all funds. Procedures should be established to ensure the City Clerk's monthly reports reconcile to the general ledger and that fund balances are correct.

- (G) 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.

City of Churdan

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (H) 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, including a summary of receipts and total disbursements by fund. Minutes for three meetings tested did not have evidence of publication. Also, publications did not always include a summary of receipts and total disbursements by fund.

In addition, for one meeting tested, minutes did not include sufficient information to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa. Also two meeting minutes tested did not include signature of the City Clerk as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required. The published minutes should include a list of claims allowed, a summary of receipts and total disbursements by fund, as required. All City Council meeting minutes and proofs of publication should be retained. Minutes should include sufficient information to indicate the vote of each member present. Minutes should be signed as required.

- (I) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works, general government, debt service, business type activities, public works 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.

- (J) Questionable Disbursements – Certain IPERS payroll tax withholdings were submitted late resulting in late fee charges.

Recommendation – The City should establish procedures to ensure all payroll taxes are submitted timely to avoid late charges.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary of the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report (AFR) reported receipts, disbursements and beginning and ending fund balances that did not agree with the City’s records. Also, the total ending balance reported on the AFR is a deficit \$1,045,623 which does not agree to the general ledger ending balance of \$453,337.

In addition, although the City Council approved the AFR prepared by the City Clerk, there is no evidence the report was independently reviewed for accuracy.

Recommendation – The City should ensure receipts, disbursements, beginning and ending fund balances are reported correctly on the AFR and agree with the City’s general ledger. An independent person should review the AFR for accuracy and the review should be documented by the signature or initials of the reviewer and the date of the review.

City of Churdan

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (L) Debt Payments – The December 1, 2016 principal and the June 1, 2017 principal and interest payments for the State Revolving Fund (SRF) water revenue capital loan note were paid but the payments were not recorded in the general ledger. Also, certain capital lease payments were made but were not posted to the general ledger. Additionally, two monthly capital lease payments were not paid timely incurring additional charges.

Recommendation – The City should establish procedures to ensure all debt payments are posted to the general ledger and are paid timely.

- (M) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City Fire Department and the City Library maintain bank accounts for activity separate from the City Clerk’s accounting records. While these Departments are part of the City, detailed transactions were not included in the City’s accounting records. The City includes the activity of Departments through journal entries to record summarized monthly totals which does not include detailed receipt sources.

In addition, the detailed transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire and Library Department separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (N) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the retention of 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 Library and the Fireman Department do not receive an image of both the front and back of each cancelled check.

Recommendation – The Library and the Fireman Department 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.

- (O) Payroll – Wage increases were approved based upon a percentage and the actual approved wages and the effective date were not documented in the City Council meeting minutes. Additionally, vacation and sick leave balances are not maintained and tracked.

City of Churdan

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

Recommendation – Procedures should be established to ensure all pay increases and the actual wages to be paid to employees and the effective date are adequately documented in the City Council meeting minutes. Additionally, procedures should be established to maintain and track vacation and sick leave balances.

- (P) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

- (Q) Investments – An accounting record/register is not maintained for each investment.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

- (R) Employee Benefits Levy – Tax collections were properly recorded to the Special Revenue, Employee Benefits Fund. Certain transactions for employee tax withholdings appeared to be incorrectly recorded to and paid from the Special Revenue, Employee Benefits Fund.

Recommendation – The City should only pay FICA and IPERS for employees paid from the General Fund and the Special Revenue, Road Use Tax Fund. Also, the City should review current and past payments from the Special Revenue, Employee Benefits Fund to ensure the levy was only used for the City share of FICA and IPERS. Any past payments determined to be paid incorrectly from the Special Revenue, Employee Benefits Fund should be reimbursed to the Special Revenue, Employee Benefits Fund from the appropriate fund to be charged.

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

The City does not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Allowing only authorized personnel to reset passwords.

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

Recommendation – The City should develop written policies and procedures to address the above items to improve the City’s internal control over its computer system.

- (T) Credit Cards – The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

City of Churdan

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (U) Lease Purchase Agreement – The City did not hold a public hearing prior to entering into a lease purchase agreement for a backhoe as required by Chapter 364.4(4)(e) of the Code of Iowa.

Recommendation – The City should comply with public hearing requirements prior to entering into lease purchase agreements.

- (V) Financial Condition – At June 30, 2017, the City had deficit balances of \$7,472 and \$23,167 in the Special Revenue, Road Use Tax Fund and Enterprise, Water Fund, respectively.

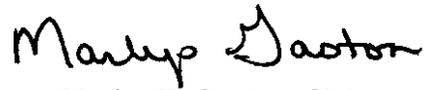
Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

City of Churdan

Staff

This engagement was performed by:

Ernest H. Ruben Jr., CPA, Manager  
Janet K. Mortvedt, CPA, Senior Auditor II  
Darrin D. Dafney, 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