



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

January 25, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Steamboat Rock's Periodic Examination Report dated June 22, 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 the City corrected two of the thirteen findings reported in the Periodic Examination Report dated June 22, 2016 and partially corrected four of the findings, seven of the findings are reported as "not corrected." Three additional findings identified during the follow-up procedures are included in this report.

A copy of the City of Steamboat Rock's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

###

CITY OF STEAMBOAT ROCK

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

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

Table of Contents

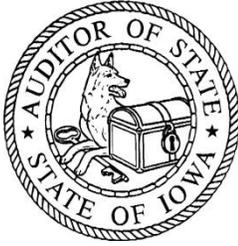
		<u>Page</u>
Officials		3
Auditor of State’s Independent Report on the Status of Periodic Examination Findings and Recommendations		5
Status of Findings and Recommendations Previously Reported in the City’s Periodic Examination Report:	<u>Finding</u>	
Segregation of Duties	A	7
City Financial Management Information	B	7
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C	8
Local Option Sales Tax (LOST)	D	8
Separately Maintained Records	E	8
Bank Reconciliations	F	9
City Council Meeting Minutes	G	9
Disbursements	H	9
Payroll	I	9
Electronic Check Retention	J	9
Certified Budget	K	10
Deposits and Investments	L	10
Investments	M	10
Additional Findings Identified During Follow-up Procedures:		
Timesheets	N	10
Library Board	O	10
Basis of Accounting	P	11
Staff		12

City of Steamboat Rock

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Marvin Veld	Mayor	Jan 2018	Jan 2020
Adam Blackburn	Council Member	Jan 2016	Jan 2020
Eric Nielsen	Council Member	Jan 2016	Jan 2020
Carol Williams	Council Member	Jan 2016	Jan 2020
Kevin Pieters	Council Member	Jan 2018	Jan 2022
Cory Schurman	Council Member	Jan 2018	Jan 2022
Marcia Frerichs	City Clerk		Indefinite
Taylor Nederhoff	Attorney		Indefinite

City of Steamboat Rock



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Auditor of State's Independent 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 22, 2016 on the City of Steamboat Rock, 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 date June 22, 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 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 June 22, 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 Steamboat Rock 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.


ROB SAND
Auditor of State

December 18, 2018

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

City of Steamboat Rock

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 June 22, 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. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Investments – recordkeeping, custody and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, 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) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (7) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
 - (8) Financial Reporting – preparing and reconciling.

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 evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) City Financial Management Information – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and local option sales tax.

In addition, the monthly financial reports prepared and provided to the City Council did not include individual fund balances. At June 30, 2015, the City’s Annual Financial Report reported a General Fund deficit of \$250,044 and a Special Revenue Fund balance of \$296,627. The balances were reviewed and corrected when the City implemented new software in fiscal year 2017. Once adjusted the General and Special Fund balances were \$13,551 and \$61,892 respectively. The adjusted balances were reviewed and approved by the City Council.

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. Monthly reports provided to the City Council should include beginning and ending balances by fund.

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

City of Steamboat Rock

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.

Recommendation – 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.

Current Status – Partially Corrected. For the period reviewed, delinquent account listings were provided to the City Council for review. However, utility billings, collections and delinquent accounts were not reconciled and reviewed by an independent person. The recommendation is partially repeated.

- (D) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 75% for capital improvements and equipment and 25% for City maintenance. The City is not adequately tracking the use of LOST receipts or the unspent balances held for the specified purposes. In addition, the City recorded \$591 less LOST receipts in the City’s general ledger (ledger card) than was actually received for the period of April 1, 2015 through March 31, 2016. The variance was due to a LOST receipt incorrectly posted as a road use tax receipt and another LOST receipt posted at an incorrect amount.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST balance provisions. The City should also ensure LOST receipts are properly recorded in the City’s general ledger and should correct the fund balances for the LOST receipt incorrectly recorded as a road use tax receipt.

Current Status – Partially Corrected. During the period reviewed, the City properly tracked the use of LOST receipts and unspent balances. However, the City recorded one \$2,967 LOST receipt as a road use tax receipt. The recommendation is partially repeated.

- (E) Separately Maintained Records – The Library and the Schoolhouse Committee maintain bank accounts for activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Report.

Recommendation – 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.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

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

City of Steamboat Rock

Report on the Status of Periodic Examination Findings and Recommendations

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

- (F) Bank Reconciliations – Although bank reconciliations were prepared for the checking account, a reconciliation of all bank and investment account balances to the City’s total general ledger balance was not prepared.

Recommendation – The City should establish procedures to ensure all bank and investment account balances are reconciled to the City’s general ledger balance monthly.

Current Status – Not Corrected. The recommendation is repeated.

- (G) 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. Two of four monthly minutes reviewed were not published within fifteen days. In addition, although the claims approved were published, the reason for the claims was not published as required.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. In addition, the publication of claims approved should include the reason for the claim, as required.

Current Status – Partially Corrected. For the period reviewed, all published minutes reviewed included the reason for the claims. However, the minutes for one monthly meeting were not published within fifteen days. The recommendation is partially repeated.

- (H) Disbursements – Four of thirty disbursements tested were not approved by the City Council.

Recommendation – The City should ensure all disbursements are properly approved in the City Council minutes.

Current Status – Corrected. During the period reviewed, all disbursements tested were properly approved by the City Council.

- (I) Payroll – Timesheets did not include evidence of supervisory review.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Supervisory approval should be documented by the signature or initials of the supervisor and the date of approval.

Current Status – Not Corrected. The recommendation is repeated. In addition, see Finding (N).

- (J) 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 as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Corrected. During the period reviewed, the City received copies of both the front and back of cancelled checks with the bank statements.

City of Steamboat Rock

Report on the Status of Periodic Examination Findings and Recommendations

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

- (K) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount 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, disbursements exceeded the amounts budgeted in the public works, community and economic development and general government functions. The recommendation is repeated.

- (L) Deposits and Investments – The City does not have 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 approved 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 should adopt a resolution naming official depositories and the maximum deposit amount as required by Chapter 12C.2 of the Code of Iowa.

Current Status – Partially corrected. For the period reviewed, the City adopted a depository resolution. However, the City has not adopted a written investment policy. The recommendation is partially repeated.

- (M) 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.

Current Status – Not corrected. The recommendation is repeated.

Additional Findings as a Result of Follow-Up Procedures:

- (N) Timesheets – Timesheets are not completed by all City staff.

Recommendation – Timesheets should be completed by all employees and signed by the employee and the Mayor.

- (O) Library Board – The Library Board of Trustees for the Steamboat Rock Public Library was established by City ordinance. According to the ordinance, members of the Library Board of Trustees are appointed by the Mayor and approved by the City Council. According to the Mayor and the City Clerk, the City writes monthly checks to the Library Board which the Board deposits to a separate checking account for use by the Library. According to the Mayor, this has been done because the Library has been considered a separate entity, not a department of the City.

Recommendation – Because the Library Board was established by City ordinance, the Library is a department of the City. The City Council should appropriate moneys to the Library in the same manner as all other City departments, not to a separate checking account. Invoices approved by the Library Board should be paid directly by the City.

City of Steamboat Rock

Report on the Status of Periodic Examination Findings and Recommendations

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

- (P) Basis of Accounting – The City accounting system records information using the accrual basis of accounting which includes accounts receivable and accounts payable. However, the City budgets on a cash basis. Also, the City’s Annual Financial Report (AFR) indicates the City reports on a GAAP, or full accrual basis, when the City reports on a cash basis, the same basis as the budget.

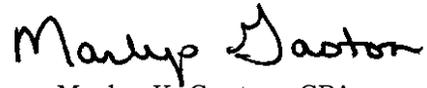
Recommendation – The City should prepare financial reports on the cash basis of accounting. Receipts should be recorded when received and disbursements should be recorded when a check is written. The City should work with the software vendor to ensure reports are produced using the cash basis of accounting.

City of Steamboat Rock

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Preston R Grygiel, Staff Auditor

Handwritten signature of Marlys K. Gaston in black ink.

Marlys K. Gaston, CPA
Deputy Auditor of State