



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

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NEWS RELEASE

FOR RELEASE

February 15, 2019

Contact: Marlys Gaston
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Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Morrison, Iowa for the period April 1, 2017 through March 31, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain the maximum internal control possible and establish procedures to ensure accounting records are maintained to facilitate fund accounting. In addition, the City should comply with Chapter 384.18 of the Code of Iowa and amend the budget before disbursements are allowed to exceed budgeted amounts.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF MORRISON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2017 THROUGH MARCH 31, 2018

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City of Morrison

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
David Hach	Mayor	Jan 2018	Jan 2020
Louis Hartke	Council Member	Jan 2016	Jan 2020
Jeremy Wittgreve	Council Member	Jan 2016	Jan 2020
Betty Bownes	Council Member	Jan 2018	Jan 2022
Robin Folkerts	Council Member	Jan 2018	Jan 2022
Doug Buffington	Council Member	Jan 2018	Jan 2022
Peggy Husmann	City Clerk/Treasurer		Indefinite
Abby Wessel	City Attorney		Indefinite

City of Morrison



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Auditor of State's Independent 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 Morrison for the period April 1, 2017 through March 31, 2018 including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Morrison'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 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 and tested selected receipts for accurate accounting and consistency with the recommended COA.
9. 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.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. 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 Morrison 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.



ROB SAND
Auditor of State

January 3, 2019

Detailed Recommendations

City of Morrison

Detailed Recommendations

For the period April 1, 2017 through March 31, 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. 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 receipts and disbursements.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.

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) Financial Reporting – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. 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, but not limited to, road use tax and local option sales tax.

A monthly City Clerk’s report, including a summary of beginning balances, receipts, disbursements and ending balances by fund is not prepared. In addition, a comparison of total disbursements for all funds to the certified budget by function is not prepared.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. 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. The City Clerk should prepare a monthly City Clerk’s report which includes a summary of beginning balance, receipts, disbursements and ending balances by fund and a comparison of total disbursements for all funds to the certified budget by function.

(C) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” We were unable to determine the accuracy of receipts, disbursements and fund balances reported in the AFR since the city did not maintain financial records to classify receipts by source and fund, disbursements by function and fund or fund balances.

In addition, the ending fund balance reported on the AFR is \$605 lower than the City’s bank balance and the budget amounts reported on the AFR did not agree with the certified budget. Also, the City did not report bank loans on the AFR.

City of Morrison

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

Recommendation – The City should maintain adequate financial records for completing and supporting the AFR. In addition, the City should establish procedures to ensure the ending AFR balance reconciles to the bank balance, the budget column on the AFR agrees with the City’s certified budget and the City’s loans are reported in the debt section of the AFR.

- (D) 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.

- (E) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation 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.

- (F) Bank Loan – The City Council approved entering into a loan with a local bank for street improvements. The City did not comply with the provisions of Chapter 384.24A of the Code of Iowa which require certain authorization procedures to be followed, including notice, publication of intended action and time and place of meeting to approve the intended action.

Recommendation – The City should ensure the requirements of Chapter 384.24A of the Code of Iowa are followed when entering into a bank loan.

- (G) Questionable Disbursement – We believe the following disbursement may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Operation Threshold	Donation	\$ 250

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

City of Morrison

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

Recommendation – The City Council should determine and document the public purpose served before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

- (H) 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 for several bank accounts.

Recommendation – The City 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.

- (I) Internal Revenue Service Form 1099 – The City did not file Internal Revenue Service (IRS) Form 1099 for payments to a mowing contractor totaling \$600 for calendar year 2017, as required.

Recommendation – The City should complete and file IRS Form 1099, as required.

- (J) City Council Meetings Minutes – Chapter 372.13(6) of the Code of Iowa requires the publication minutes of City Council proceedings include total disbursements by fund. Although the City published a listing of approved disbursements, total disbursements by fund was not included in the publication.

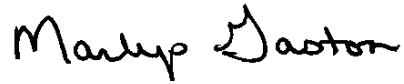
Recommendation – The City should comply with the Code of Iowa and include total disbursements by fund in the publication of City Council meetings minutes.

City of Morrison

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Taylor I. Cook, Staff 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
Deputy Auditor of State