



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 19, 2019

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Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Dexter's Periodic Examination Report dated March 21, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 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 the City corrected three of the twenty-one findings reported in the Periodic Examination Report dated March 21, 2016 and partially corrected five of the findings, thirteen of the findings are reported as "not corrected." Eight additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Dexter'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/>.

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CITY OF DEXTER

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

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

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City of Dexter

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Christine Huff	Mayor	Jan 2016	Jan 2020
T.J. Morehouse (Elected)	Council Member	Apr 2014	Jan 2018
Melvin Stodden (Elected)	Council Member	Apr 2014	Jan 2018
Brad Jensen	Council Member	Jan 2016	Jan 2020
Dave Minturn	Council Member	Jan 2016	Jan 2020
Thomas Stiles	Council Member	Nov 2017	Jan 2022
Carolyn Bond	City Clerk/Treasurer		Indefinite
Breanna Young	Attorney		Indefinite

City of Dexter



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Rob Sand
Auditor of State

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 March 21, 2016 on the City of Dexter, 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 21, 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 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 March 21, 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 Dexter 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.

A handwritten signature in black ink that reads "Rob Sand".

ROB SAND
Auditor of State

January 14, 2019

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

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

Findings Reported in the Periodic Examination Report dated March 21, 2016:

- (A) Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one individual has control over the following areas:
- (1) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (3) Investments – record keeping, investing, custody of investments and reconciling earnings.
 - (4) Utilities – billing, collecting, depositing and posting.
 - (5) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
 - (6) Payroll – preparation, recording and distributing.
 - (7) Long-term debt – recordkeeping, compliance and payment processing.
 - (8) Journal entries – preparing and journalizing.
 - (9) Financial reporting – preparing and reconciling.
 - (10) Computer system – performing all general accounting functions and controlling all data input and output.

For the Community House Board (separately maintained account), one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, recording, depositing and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Community House Board should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected and other 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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared and maintained. A reconciliation is designed to ensure the proper recording of utility receipts and the propriety of adjustments, write-offs and delinquent account balances.

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

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 and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Partially Corrected. While utility reconciliations were not prepared during the period reviewed, delinquent account listings were prepared each month.

- (C) Bank Reconciliations – Bank reconciliations are not reviewed by an independent person.

Recommendation – The bank reconciliations should be reviewed by an independent person. The independent 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) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all receipts.

Current Status – Not corrected. The recommendation is repeated.

- (E) Treasurer's Financial Reports – In March 2001, the City was named trustee for a Hoy Trust Museum certificate of deposit (CD) and properly recorded the CD in the City's financial records. However, in October 2014, the City resigned as trustee and the Iowa District Court appointed the Dexter Community Foundation (Foundation) as trustee. In October 2014, the City turned the CD over to the Foundation. However, as of December 31, 2015, the CD, valued at \$59,080, is still recorded in the City's general ledger and Treasurer's monthly financial reports.

Recommendation – Since the City is no longer trustee for the Hoy Trust Museum CD, the CD should be removed from the City's financial records and reports.

Current Status – Not corrected. The recommendation is repeated.

- (F) Credit Cards/Charge Accounts – The City has credit cards and a Casey's charge account for use by employees and firefighters while on City business, including the purchase of fuel for City vehicles. The City has not adopted a formal policy to regulate the use of credit cards or charge accounts and has not established procedures for the proper accounting of fuel charges. Supporting documentation was not available to support one \$50 credit card charge tested. Additionally, mileage logs are not maintained for each City vehicle and completed each time a vehicle is fueled. Late fees and penalties totaling \$8 were paid during the year.

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards and the Casey’s charge account. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and the charge account and for what purposes, as well as the types of supporting documentation required to substantiate charges. Policies should require mileage logs be maintained for all City vehicles. The logs should be reviewed periodically and reconciled to purchases. Procedures should be established to ensure timely payment of credit card/charge account bills to avoid late fees and penalties.

Current Status – Partially corrected. In May 2016, the City Council cancelled the City’s credit card. During the period reviewed, we did not identify any credit card purchases or disbursements for payment of a credit card bill. However, the City still has a Casey’s charge account and the recommendation related to the charge account is repeated.

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

The City does not have written policies for:

- (1) Requiring the use of a user name or password.
- (2) Requiring the maintenance of password privacy and confidentiality.
- (3) Requiring passwords be changed at least every 60 to 90 days.
- (4) Requiring password history be maintained to prevent employees from reusing the same password.
- (5) Personal use of equipment and software.
- (6) Usage of the internet.

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

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

Current Status – Not corrected. The recommendation is repeated.

(H) Payroll – Three of five time cards reviewed were not approved and initialed by the employee’s supervisor before the payroll was prepared. Vacation and sick leave records are not reviewed by an independent person. Also, approved hourly rates could not be located for four employees.

Recommendation – Time cards should be approved and initialed by a responsible official before payroll checks are prepared. Records for vacation and sick leave earned and used by each employee should be reviewed and approved by an independent person. Also, the City Council should approve hourly rates for all employees. The approval should be documented in the City Council meeting minutes.

Report on the Status of Periodic Examination Findings and Recommendations

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

Current Status – Partially Corrected. The Mayor approves all timecards before payroll is processed and initials the timecards to evidence approval. However, a resolution approving the hourly pay rate for one employee of five tested could not be located. The recommendation is partially repeated.

- (I) Community House Board Bank Reconciliations – Monthly reconciliations of book and bank balances for the Community House Board were not prepared and a list of outstanding checks was not always prepared for each month and retained.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved timely. A listing of outstanding checks should be prepared each month and retained. An independent review of the reconciliation should be performed periodically. The independent review should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Partially corrected. Bank reconciliations were prepared during the period reviewed. However, there is no evidence the reconciliations were independently reviewed. The recommendation is partially repeated.

- (J) Annual Financial Report – The Annual Financial Report (AFR) for the year ended June 30, 2015 did not include the separately maintained Community House Board account activities for the year as required by Chapter 384.22 of the Code of Iowa. In addition, restricted funds on hand totaling \$2,743 for support of the public library were not reported as restricted in the General Fund column on page 12 of the AFR. The AFR was not signed and dated by the preparer.

Recommendation – The AFR should include activity for all City accounts. In addition, the portion of the General Fund ending balance levied, collected and held for support of the public library should be reported as restricted. Also, the AFR should be signed and dated by the preparer to authenticate the record.

Current Status – Not corrected. The recommendation is repeated.

- (K) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works, culture and recreation and debt service functions prior to the budget amendment. At June 30, 2015, disbursements exceeded the amount budgeted in the business type activities function. 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. The recommendation is repeated.

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

- (L) City Council Meeting Minutes – Minutes publications do not include total disbursements by fund or a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, one of five City Council meeting minutes reviewed were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City Council should publish total disbursements by fund and a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. All minutes should be signed to authenticate the actions taken, as required.

Current Status – Corrected. During the period reviewed, minutes publications tested included total disbursements by fund and a summary of receipts. In addition, all minutes were properly signed.

- (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, while the City has adopted a resolution naming official depositories, the maximum amount that may be kept on deposit has not been specified as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. Also, a resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (N) Revenue Notes – The following were noted:

- (1) The City's sewer revenue note resolution requires the books and accounts of the sewer utility to be audited annually. The City has not had an annual audit of the sewer utility since fiscal year 2013.
- (2) The City has established the sewer revenue note reserve account required by the sewer revenue note resolutions. However, no transfers were made to the account during fiscal year 2015 and the account balance was not sufficient to meet the reserve account requirements.
- (3) During fiscal year 2015, sewer revenue note principal and interest totaling \$57,177 was paid from the Enterprise, Sewer Sinking Fund. However, transfers from the Enterprise, Sewer Fund to the Enterprise, Sewer Sinking Fund to cover the debt payment totaled only \$52,413 during the year, resulting in a deficit Enterprise, Sewer Sinking Fund balance of \$4,764.

Recommendation – The City should comply with the sewer revenue note provisions and have an annual audit performed on the sewer system. The City should also make the necessary transfers to the sewer revenue note sinking and reserve account, as required.

Current Status – Partially corrected. During fiscal year 2017, \$57,180 was transferred from the Enterprise, Sewer Fund to the Enterprise, Sewer Sinking Fund which was sufficient to cover the sewer revenue note principal and interest paid during fiscal year 2017. However, the recommendations relating to the annual audit and sewer revenue note reserve account are repeated.

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

- (O) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available tax increment financing (TIF) incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

Chapter 403.19(2) of the Code of Iowa states, in part, “That portion of the taxes each year...shall be allocated to and when collected be paid into a special fund of the municipality to pay the principal of and interest on loans, moneys advanced to, or indebtedness, whether funded, refunded, assumed, or otherwise, including bonds issued under the authority of section 403.9, subsection 1, incurred by the municipality to finance or refinance, in whole or in part, an urban renewal project within the area.” Chapter 403.19(10)(6) of the Code of Iowa prohibits borrowing from this “special fund”.

Prior TIF debt certifications to the County Auditor included unsupported obligations totaling \$263,000 for various projects.

During the year ended June 30, 2015, project costs totaling \$105 were paid from the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund). These costs do not represent a TIF obligation and, accordingly, are not an allowable use of TIF receipts. It appears costs for other projects have been paid from the TIF Fund in the past with no corresponding debt obligation to certify.

During the year ended June 30, 2015, the City transferred \$2,782 from the TIF Fund to the Debt Service Fund to cover the principal and interest due on the general obligation notes issued in 2005. However, the transfer was short of covering the required payment by \$62,783 and the debt service levy was not sufficient to cover this shortage. See item (P) below.

Recommendation – The City should consult TIF counsel to determine the disposition of the unsupported TIF debt certifications, including the amount of TIF debt to be decertified, if any, and the unallowable project costs paid from the TIF Fund. The City should review current and prior transfers from the TIF Fund to the Debt Service Fund to ensure transfers were sufficient or consider other available resources to cover the costs.

Current Status – Not corrected. The general obligation notes issued in 2005 were paid off during fiscal year 2016. However, as noted in the Periodic Examination Report dated March 21, 2016, several past transfers from the TIF Fund to the Debt Service Fund were not sufficient to cover principal and interest paid which has led to the negative balance in the Debt Service Fund. See finding (S) below. During the period reviewed, disbursements totaling \$280 for legal fees for the preparation of the LOSST Resolution were paid from the TIF Fund. These costs do not represent a TIF obligation and, accordingly, are not an allowable use of TIF receipts. The recommendation is repeated. In addition, the City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for the \$280 of legal fees in the current period plus any past legal or project costs paid from the TIF Fund. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

- (P) Debt Service Levy – The long term debt schedule in the City’s fiscal year 2015 budget reflects \$65,565 of principal and interest for general obligation capital loan notes to be “paid from funds other than current year property taxes.” However, during fiscal year 2015, principal and interest totaling \$65,565 for the general obligation capital loan notes was paid from the Debt Service Fund. Transfers from the TIF Fund to the Debt Service Fund for reimbursement only amounted to \$2,782, \$62,783 short of the amount needed.

The long term debt schedule in the City’s fiscal year 2015 budget also reflects a \$1,422 debt service levy for the South Dallas County Landfill settlement principal and interest. However, payment for this debt was made from the General Fund, not the Debt Service Fund.

The long term debt schedule in the City’s fiscal 2017 budget reflects a \$13,781 debt service levy for the total amount of principal and interest due on its fire truck loan. However, the fire truck was sold in November 2015 and proceeds of \$1,836 were transferred to the Debt Service Fund to help reduce the outstanding principal on the loan. However, the fiscal year 2017 debt service levy was not reduced to reflect the additional resources available to service the debt.

At December 31, 2015, the Debt Service Fund had a deficit balance of \$259,560. It appears this deficit occurred over time by using the Debt Service Fund for principal and interest payments for which there was no corresponding debt service levy or appropriate transfers from other available resources.

Recommendation – The City should immediately consult bond counsel to determine the disposition of these matters.

Current Status – Not corrected. During fiscal year 2016, the general obligation capital loan notes were paid off. However, a \$1,422 debt payment for the South Dallas County Landfill Settlement was paid from the General Fund, rather than the Debt Service Fund, even though the City levied a debt service levy to pay the debt. At June 30, 2017, the Debt Service Fund had a deficit balance of \$249,435. The recommendation is repeated.

- (Q) Annual Urban Renewal Report – The annual urban renewal report was not approved and certified to the Iowa Department of Management on or before December 1. The report was approved and filed on December 15, 2015.

In addition, the amount reported by the City as TIF debt outstanding on the Levy Authority Summary was overstated by \$93,983.

Recommendation – The City should approve and file the annual urban renewal report timely and should ensure the amounts reported on the Levy Authority Summary are accurate.

Current Status – Corrected. The Annual Urban Renewal Report for fiscal year 2017 activity was submitted on December 1, 2017 and TIF debt outstanding appears to be properly reported.

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

- (R) Separately Maintained Records – The Community House Board maintains a bank account for fundraiser and donation 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 or monthly financial reports.

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 annual budget and should be reported to the City Council on a monthly basis.

Current Status – Not corrected. The recommendation is repeated.

- (S) Financial Condition – The Capital Projects and Debt Service Funds had deficit balances of \$15,608 and \$259,560, respectively, at December 31, 2015.

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

Current Status – Not corrected. At December 31, 2017, the City had deficit balances in the Debt Service Fund of \$254,799, the Capital Projects, Sidewalk Project Fund, of \$11,707, the Capital Projects, Xenia Water Project Fund, of \$15,280, the Capital Projects, Community Building Fund of \$10,682, the Enterprise, Water Sinking Fund, of \$114,635 and the Enterprise, Sewer Sinking Fund, of \$17,861. The recommendation is repeated.

- (T) 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 Community House Board does not receive images of the back of each cancelled check.

Recommendation – The Community House Board 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 – Not corrected. The recommendation is repeated.

- (U) Disbursements – Five disbursements tested from July 2015 were not properly approved. An approved bills listings for July 2015 was not prepared for City Council approval.

Recommendation – All disbursements should be approved by the City Council.

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

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

Additional Findings as a Result of Follow-up Procedures:

- (V) Bank Reconciliations – Bank reconciliations for November and December 2017 were not completed timely.

Recommendation – The City should ensure that bank reconciliations are prepared timely.

- (W) Sewer Utility Rate – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. On June 12, 2017, the City Council approved resolution 2017-05 to increase sewer rates by 1.95%, effective July 2017.

Recommendation – The City should ensure the sewer utility rate is established by ordinance and at a specific dollar amount, not just a percentage increase.

- (X) 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. The minutes for two of four meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required.

- (Y) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” We noted the following regarding the City’s 2017 AFR:

- (1) Certain receipts and disbursements did not agree with the City’s records.
- (2) The total fund balance of \$713,820 reported in the fiscal year 2017 AFR was \$1,280 more than the total balance of the City’s general ledger.
- (3) The beginning total governmental and proprietary fund balances reported in the fiscal year 2017 AFR did not agree to the ending fund balances on the fiscal year 2016 AFR.
- (4) City Debt obligations reported in the AFR do not agree with City records. The City reported \$759,964 of debt outstanding in the AFR while City records show \$816,361 outstanding.

Recommendation – The City should establish procedures to ensure the Annual Financial Report reconciles to City records and the beginning fund balance agrees to the prior year ending balance.

- (Z) Monthly City Clerk’s Report – The monthly City Clerk’s Report presented to the City Council for approval does not include a comparison of actual disbursements to the certified budget by function.

Recommendation – The City should ensure the monthly City Clerk’s Reports presented to the City Council for approval include a comparison of actual disbursements to the certified budget by function.

City of Dexter

Report on the Status of Periodic Examination Findings and Recommendations

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

- (AA) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.
Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.
- (BB) Utility Billing Adjustments – An independent person does not review and approve adjustments made to utility billings.
Recommendation – Adjustments to utility billings should be reviewed and approved by an independent person.
- (CC) Dexter Museum – Pursuant to Chapter 24 of the City’s Code of Ordinances, the Dexter Museum (Museum) is a department of the City. In addition, according to Chapter 24.03(2) of the City’s Code of Ordinances, the Museum Board shall have exclusive control of the expenditure of all funds allocated for Museum purposes from moneys available from interest, gifts, donations and all other moneys received.

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 Museum Treasurer maintains a checking account for the Museum which is not included in the City’s accounting records. While the Museum is a department of the City, the transactions and resulting balance of this separate account are not included in the City’s accounting records and is not included in the City’s annual budget, monthly financial reports or Annual Financial Reports. In addition, the Museum’s separate checking account is currently held under the tax ID number of the Dexter Community Foundation, a separate non-profit corporation. Since the Museum is a department of the City, it is unclear why the Community Foundation’s Tax ID number was used for the checking account. The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, “... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly.”

In addition, the disbursements from this account were not reviewed and approved by the City Council. Also, a summary of the account’s receipts, total disbursements and the listing of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

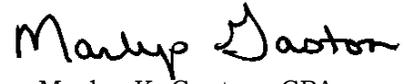
Recommendation – The City should seek to bring the Museum checking account under its own tax ID number. Also, in accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Museum checking account should 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 this account should be subject to City Council review and approval, after review and approval by the Museum Board, and should be included in the City’s budget process. Also, a summary of the account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

City of Dexter

Staff

This engagement was performed by:

Brian R. Brustkern, 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 style with a large, stylized initial "M".

Marlys K. Gaston, CPA
Deputy Auditor of State