



**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

May 8, 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 Delmar's Periodic Examination Report dated August 18, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2018 through February 28, 2019.

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 two of the sixteen findings reported in the Periodic Examination Report dated August 18, 2016 have been corrected and two have been partially corrected, twelve of the findings are reported as "not corrected." Four additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Delmar'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/>.

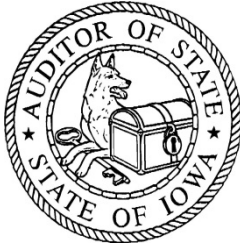
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CITY OF DELMAR

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

**FOR THE PERIOD
JUNE 1, 2018 THROUGH FEBRUARY 28, 2019**

City of Delmar



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April 17, 2019

Officials of the City of Delmar
Delmar, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report for the City of Delmar, Iowa for the nine-month period ended February 28, 2019.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Delmar throughout the follow-up engagement. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

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

Rob Sand
Auditor of State

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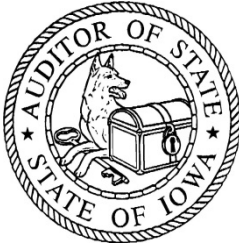
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City of Delmar

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Patty Hardin	Mayor	Jan 2018	Jan 2020
Steve Jebsen	Mayor Pro Tem	Jan 2016	Jan 2022
Doug Goodall	Council Member	Jan 2016	Jan 2020
Dawn McDermott	Council Member	Aug 2018	Jan 2020
Dan Simmons	Council Member	Jan 2018	Jan 2020
David Frett	Council Member	Jan 2016	Jan 2022
Laurie Ganzer	City Clerk/Treasurer		Indefinite
Billy Coakley	Attorney		Indefinite

City of Delmar



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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 August 18, 2016 on the City of Delmar, Iowa covering the period July 1, 2015 through June 30, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included 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 dated August 18, 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, 2018 through February 28, 2019.

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 August 18, 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 Delmar 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.

MARLYS K. GASTON, CPA
Deputy Auditor of State

April 17, 2019

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

City of Delmar

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

Findings Reported in the Periodic Examination Report dated January 17, 2017:

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. 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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Journal entries – preparing and journalizing.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (10) Computer system – performing all general accounting functions and controlling all data input and output.
- (11) 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 documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

City of Delmar

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

(B) Computer System – The City does not have written policies for:

- Requiring password changes because the City’s software does not require the user to change log-ins or passwords and does not prevent employees from reusing the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.

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.

Current Status – Not corrected. The recommendation is repeated.

(C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year. However, for one month reviewed, bank and book balances did not properly reconcile. A variance of \$100 was not resolved. In addition, bank reconciliations are not independently reviewed.

Recommendation – 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.

Current Status – Not corrected. Although the City attempted to perform bank reconciliations during the period reviewed, the reconciliations did not include all bank and investment accounts. Therefore, bank balances were not reconciled to the general ledger balance during the period reviewed. Also, although an individual without access to the accounting system is reviewing bank reconciliations, the individual is not independent as they are able to sign checks for disbursements.

(D) Annual Financial Report – The current year Annual Financial Report (AFR) beginning balances for the governmental and proprietary activities did not agree to the prior year ending balances reported in the June 30, 2014 AFR.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances.

Current Status – Not corrected. The beginning balances reported in the fiscal year 2017 AFR for the governmental and proprietary activities was \$503,242 higher than the prior year ending balances. In addition, see finding (R).

(E) Petty Cash – Petty cash at City Hall is not maintained on an imprest basis and included receipts from copy fees. An imprest system is one in which petty cash is maintained at a fixed, authorized, amount and all distributions from the petty cash fund are supported/documented with a vendor receipt. The copy fees were not deposited or recorded in the financial system.

Recommendation – The City Council should approve an authorized amount to be maintained in the petty cash fund. The fund should be maintained on an imprest basis to provide additional control over the fund. Procedures should be established to ensure all receipts, including copy fees, are deposited intact and are recorded in the financial system.

Current Status – Not corrected. The recommendation is repeated.

City of Delmar

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (F) 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. The review should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (G) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections.

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

Current Status – Not corrected. The recommendation is repeated.

- (H) Checks Signed in Advance – Certain checks are signed before the payee and amount are completed.

Recommendation – Checks should not be signed in advance.

Current Status – Not corrected. The recommendation is repeated.

- (I) Credit Cards – The City has bank credit cards and retail charge accounts for use by employees while on City business. The City has not adopted a formal policy to regulate the use of bank credit cards or retail charge accounts and has not established procedures for the proper accounting of credit card and retail charge account purchases.

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

Current Status – Corrected. In September 2016, the City adopted a formal written policy establishing who controls the credit cards, who is authorized to use the credit cards and retail charge accounts and for what purposes, as well as the types of supporting documentation required to substantiate charges.

City of Delmar

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (J) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Current Status – Corrected. In November 2016, the City adopted an accounting policies and procedures manual.

- (K) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Current Status – Not corrected. The recommendation is repeated.

- (L) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety and culture and recreation functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Current Status – Not Corrected. Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public safety and general government functions.

- (M) Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, an accounting register is not maintained for each investment.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. A register should be maintained for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number.

Current Status – Partially Corrected. In September 2016 the City adopted a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. An accounting register is not maintained for each investment.

City of Delmar

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (N) Transfers – Transfers were not always approved by the City Council prior to the actual transfer. Also, one transfer tested was approved by the City Council, but the transfer was not posted to the general ledger.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and amount(s) as part of the City Council meeting minutes. Approved transfers should be properly recorded in the general ledger.

Current Status – Partially corrected. During the period reviewed, there were no instances of the City Council approving a transfer which was not posted to the general ledger. However, transfers were not always approved by the City Council prior to the actual transfer.

- (O) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation water bonds were paid from the Enterprise, Water Fund. Principal and interest on the City’s general obligation fire station bond were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Water Fund and the General Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

Current Status – Not corrected. The recommendation is repeated.

- (P) Disbursements – Supporting documentation for claims is not cancelled at the time of payment to prevent reuse.

Recommendation – Supporting documentation for claims should be cancelled at the time of payment to prevent reuse.

Current Status – Not corrected. The recommendation is repeated.

Additional Findings as a Result of Follow-up Procedures:

- (Q) Investment Accounting – The City does not record interest earned on the certificate of deposit (CD) held for the Enterprise, Water Fund or for the savings accounts for the General Fund and the Enterprise, Water Fund at the time the interest is received. Instead interest is recorded annually into the accounting system.

Recommendation – The City should record interest at the time it is received to ensure the value of all investments is properly reflected in the accounting records, including interest earned and added to the CD and savings accounts balances.

- (R) Annual Financial Report – The total fund balance of \$763,386 reported in the fiscal year 2018 Annual Financial Report was \$28,575 less than the City’s general ledger balance at June 30, 2018.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

City of Delmar

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (S) Utility Rates – Water, sewer and garbage rates charged to customers did not agree with rates approved in the City’s ordinances. The garbage rate charged was \$0.41 more than the approved rate of \$15.34 a month. The water rate charged for the first 1,500 gallons of usage for households with usage over 1,911 gallons was \$3.15 less than the approved rate of \$37.23. The sewer rate charged for the first 3,000 gallons of usage for households with usage over 4,845 gallons was \$2.14 less than the approved rate of \$15.79.

Recommendation – The City should establish procedures to ensure the correct utility rates are charged to utility customers. An independent person should periodically review and test utility rates entered in the system and utility billings to ensure they are properly calculated and the correct rates are billed.

- (T) Financial Reporting – The December 2018 interest payment of \$4,725 on the General Obligation water bonds was not recorded into the City’s accounting system.

Recommendation – The City should establish procedures to ensure that all debt principal and interest payments are recorded into the City’s accounting system.

- (U) Monthly City Clerk’s Report – The monthly City Clerk’s reports do not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for amendments to the budget before disbursements exceed the budget, the City should establish procedures to ensure monthly City Clerk’s reports include a comparison of total disbursements for all funds to the certified budget by function.

City of Delmar

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Deborah J. Moser, CPA, Manager
Cole L. Hocker, CPA, Senior Auditor