



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 4, 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 Coppock's Periodic Examination Report dated March 9, 2017. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2018 through December 31, 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 seven of the seventeen findings reported in the Periodic Examination Report dated October 3, 2017 and partially corrected five, five of the findings are reported as "not corrected." Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Coppock'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 COPPOCK

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

**FOR THE PERIOD
JUNE 1, 2018 THROUGH DECEMBER 31, 2018**

City of Coppock



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Rob Sand
Auditor of State

May 7, 2019

Officials of the City of Coppock
Coppock, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report on the Status of Periodic Examination Findings and Recommendations for the City of Coppock, Iowa for the seven-month period ending December 31, 2018.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Coppock 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,

Rob Sand
Auditor of State

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City of Coppock

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Bob Schoolen	Mayor	Jan 2016	Jan 2020
Frank Nupp	Mayor Pro Term	Jan 2016	Jan 2020
Tracie Sedlacek	Council Member	Jan 2016	Jan 2020
Dustin Palmer	Council Member	Jan 2016	Jan 2020
Kelly Hartzler	City Clerk/Treasurer		Indefinite
Lucas Helling	Attorney		Indefinite

City of Coppock



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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 9, 2017 on the City of Coppock, Iowa covering the period January 1, 2016 through December 31, 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 March 9, 2017 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 December 31, 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 March 9, 2017. 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 Coppock during the course of our follow-up procedures. 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

May 7, 2019

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

City of Coppock

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through December 31, 2018

Findings Reported in the Periodic Examination Report dated October 3, 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) Receipts – opening mail, collecting, depositing, reconciling and recording.
- (2) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (3) Payroll – recordkeeping, preparing and distributing.
- (4) 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 – Partially corrected. The City has implemented limited independent reviews to strengthen internal controls. The City Council now reviews the Annual Financial report. However, given the limited number of employees, segregation of duties findings still remain. The recommendation is repeated for items (1) through (3). In addition see finding (R).

(B) Bank Reconciliations – Monthly bank reconciliations, including a list of outstanding checks, are not prepared.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be prepared and independently reviewed.

Current Status – Partially corrected. During the period reviewed, bank reconciliations, including listings of outstanding checks, were prepared. However, the bank reconciliations were not completed within the following month. Additionally, there is no evidence of review of the bank reconciliations. The recommendation is partially repeated.

(C) Financial Reporting – 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.

In addition, the City records disbursements in its general ledger when the check clears rather than when the check is issued.

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. Disbursements should be recorded in the general ledger when the check is issued by the City.

City of Coppock

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through December 31, 2018

Current Status – Partially corrected. For the period reviewed, disbursements were properly recorded to the general ledger when checks were issued. The City has acquired Quick Books to help facilitate the transition to fund accounting. However, funds and account numbers have not been established to allow the required fund accounting. The recommendation is partially repeated.

- (D) Annual Financial Report – The City incorrectly reported \$3,700 of disbursements in the fiscal year 2016 Annual Financial Report (AFR) in the business type activities function rather than the general government function. Also, the amounts included in the fiscal year 2016 AFR budget column do not agree with the fiscal year 2016 certified budget amounts.

Recommendation – The City should establish procedures to ensure the amounts reported in the AFR are accurate.

Current Status – Partially corrected. Disbursements in the fiscal year 2018 AFR were properly reported in the correct functions. However, the amounts included in the budget column do not agree with the fiscal year 2018 certified budget amounts. The recommendation is partially repeated.

- (E) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in 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 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 budget.

Current Status – Not corrected. Disbursements during the year ended June 30, 2018 exceeded amounts budgeted in culture and recreation and general government functions. The recommendation is repeated.

- (F) 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.

Current Status - Corrected. The City has adopted an investment policy and a depository resolution, as required.

- (G) City Council Meeting Minutes – Minutes for one of four meetings tested were not properly signed as required by Chapter 380.7 of the Code of Iowa. In addition, the minutes publications tested did not include total disbursements from each fund, a list of all claims allowed, the reason for the claim or a summary of receipts as required by Chapter 372.13(16) of the Code of Iowa.

City of Coppock

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through December 31, 2018

Recommendation – The City should comply with the Code of Iowa and ensure all minutes are signed, as required. Also, the City Council minutes publications should include total disbursements from each fund, a list of all claims allowed, the reason for the claims and a summary of receipts.

Current Status – Partially corrected. For the period reviewed, all four meeting minutes tested were properly signed by the Mayor and City Clerk. However, the minutes postings did not include total disbursements from each fund, a list of claims allowed, including the reason for the claim, or a summary of receipts. The recommendation is partially repeated.

- (H) Monthly City Clerk’s Report – A monthly City Clerk’s report, including a summary of receipts, disbursements, transfers and ending balances by fund, is not prepared and provided to the City Council. In addition, the City Council does not receive a comparison of disbursements to the certified budget by function.

Recommendation – The City Clerk should prepare monthly City Clerk’s reports which include a summary of receipts, disbursements, transfers and balances by fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk’s reports should include comparisons to the certified budget by function. The City Council should review and approve the City Clerk’s report monthly.

Current Status – Not corrected. During the period of review, monthly City Clerk’s reports were completed and given to the City Council for review. However, the reports did not include receipts, disbursements, transfers, and ending balances by fund. Additionally the reports did not include a comparison of disbursements to the certified budget by function. The recommendation is repeated.

- (I) Timely Deposits – Three State of Iowa warrants paid to the City for road use tax receipts were not deposited timely. Two of the three warrants were out dated and were cancelled by the State.

Recommendation – The City should establish procedures to ensure receipts are deposited timely.

Current Status – Corrected. For the period reviewed, all warrants from the State of Iowa were deposited within 10 business days.

- (J) Questionable Disbursement – A disbursement we believe 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 was noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Wolf Floral, Inc.	Flowers for death of former Mayor	\$ 54

City of Coppock

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through December 31, 2018

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.

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

Current Status – Corrected. During the period of review, the disbursements tested met the test of serving a public purpose.

- (K) Disbursements – Six of twenty-six disbursements tested were not supported by invoice or other supporting documentation. Also, two transactions tested included late fees totaling \$55.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. The City should establish procedures to ensure all payments are made timely to avoid late fees.

Current Status – Not corrected. During the period reviewed, one of fifteen disbursements tested was not properly supported by an invoice or other supporting documentation. Also, one transaction tested included late fees totaling \$35. The recommendation is repeated.

- (L) Disbursement Approval – Eight of twenty-six disbursements tested were not included on the monthly claims listing provided to the City Council and, accordingly, were not approved by the City Council.

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

Current Status – Not corrected. During the period reviewed, one of fifteen disbursements tested was not properly included in the monthly claims listing provided to the City Council and, accordingly, was not approved by the City Council. The recommendation is repeated.

- (M) 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 images of both the fronts and backs each cancelled check.

City of Coppock

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through December 31, 2018

- (N) Property Tax Receipts – The City did not receive monthly tax orders supporting the tax apportionments from Jefferson County.

Recommendation – The City should request Jefferson County provide monthly tax orders to support tax apportionments and to facilitate the City's proper recording of tax receipts.

Current Status – Corrected. For the period reviewed, the City maintained all monthly tax orders to support tax apportionments.

- (O) Debit Card – The City uses a debit card for certain City disbursements.

Recommendation – The City Council should prohibit the use of a debit card for City purchases. The function of a debit card is to provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Current Status – Corrected. Per discussion with Clerk, the City disposed of the City debit card. During the period reviewed, we noted no debit card purchases.

- (P) Payroll – Wages were not reported on IRS Forms W-2 and 941. Additionally, IRS Form 1099 was not prepared for contract labor paid in excess of \$600.

Recommendation – The City should ensure IRS Forms W-2, 941 and 1099 are properly completed and filed.

Current Status – Not corrected. The recommendation is repeated.

- (Q) City Council Pay – A City Council member was over paid \$16 because the number of City Council meetings attended was miscalculated.

Recommendation – The City should make a correction for the over payment.

Current Status – Corrected. During the period reviewed, all City Council Members received payment for only the meetings they attended. Additionally, the City Council Member's wages were reduced in the following year to reimburse the previous over payments.

Additional Findings as a Result of Follow-up Procedures:

- (R) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an employee from handling duties which are incompatible . Generally, one individual has control over cash handling, recording and reconciling.

Recommendation – Segregation of duties is difficult with a limited number of employees. However, the City should periodically review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. The City should establish independent review procedures and the Mayor and the City Council should monitor the procedures to ensure continued compliance.

City of Coppock

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through December 31, 2018

- (S) Advance Payment – One disbursement tested was for telephone and internet services of \$40; however, the check was written for \$450. The additional amounts will be used as future payments.

Recommendation – Disbursements should not be paid in advance. The City should seek reimbursement for the \$410 overpayments.

City of Coppock

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Katherine L. Rupp, CPA, Manager
Jesse J. Harthan, Senior Auditor II