



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

January 17, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Millerton, Iowa for the period April 1, 2018 through March 31, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported thirteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank reconciliations, disbursements exceeding budgeted amounts, the City not fully implementing the recommended Uniform Chart of Accounts to facilitate financial reporting, the lack of documented approval of disbursements by the City Council and dual compensation of a City official in violation of Chapter 372.13(8) of the Code of Iowa. Sand provided the City with recommendations to address each of the findings.

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.

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 MILLERTON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2018 THROUGH MARCH 31, 2019

City of Millerton



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October 21, 2019

Officials of the City of Millerton
Millerton, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Millerton, Iowa for the period April 1, 2018 to March 31, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Millerton throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or 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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City of Millerton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Jim Fetters	Mayor	Jan 2016	Jan 2020
Dan Carpenter	Council Member	Jan 2016	Jan 2020
Ashley Carpenter	Council Member	Jan 2018	Jan 2022
Donny Stevens	Council Member	Jan 2018	Jan 2022
Renee Fetters	City Clerk/Treasurer		Indefinite



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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 performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Millerton for the period April 1, 2018 through March 31, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Millerton'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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City had no investments.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. The City had no debt.

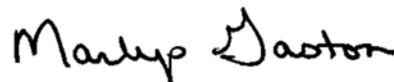
10. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. The City had no transfers.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 findings and 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 Millerton 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.



Marlys K. Gaston, CPA
Deputy Auditor of State

October 21, 2019

Detailed Findings and Recommendations

City of Millerton

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

(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) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (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.

(B) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to bank account balances throughout the year. For two months tested, the book and bank balances properly reconciled.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly, including preparation of an outstanding check list, 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.

(C) City Financial Management Information – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate preparation of monthly financial reports to be provided to the City Council and to support the Annual Financial Report (AFR) or to determine whether the City’s disbursements for fiscal year 2018 were within the budgeted amounts.

In addition, monthly financial reports, including a summary of receipts, disbursements and balances by fund and comparisons of actual disbursements to budget by function, were not provided to the City Council for review and approval.

City of Millerton

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate governmental accounting for financial reporting. To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Year-to-date totals of receipts by fund and source and disbursements by fund and function should be maintained to facilitate preparation of monthly financial reports for the City Council and to support the AFR. Monthly financial reports provided to the City Council should include a summary of receipts, disbursements and balances by fund and a comparison of disbursements by function to budgeted amounts.

- (D) 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...” The beginning fund balances for the governmental activities reported in the June 30, 2018 AFR did not agree to the prior year ending balances and ending fund balances did not agree with the City’s financial records. The City reported road use tax receipts as tax increment financing and reported certain disbursements as proprietary funds, although the City does not have proprietary funds.

In addition, we were unable to determine the accuracy of disbursements reported on the AFR as the City’s financial records do not classify disbursements by function and information supporting the amounts reported was not retained.

Recommendation – The City should ensure the beginning balances for the current year AFR match the ending balances from the prior year AFR. In addition, the City should ensure the AFR receipts, disbursements and fund balances agree with the City’s records and balances are accurately reported.

- (E) 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, including a list of all claims allowed and the reason for the claim, total disbursements from each fund and a summary of receipts. In cities with a population less than 200, the publication requirements can be met by posting the minutes in three public places permanently [PB1] designated by City ordinance. City Council meeting minutes tested were not posted.

In addition, the City Council meetings tested were not preceded by proper notice in accordance with Chapter 21.4 of the Code of Iowa.

Recommendation – City Council meeting minutes should be posted within fifteen days of each meeting, as required. The posted minutes should include a list of all claims allowed including the reason for each claim, total disbursements from each fund and a summary of receipts. In addition, the City should comply with the Code of Iowa and provide public notice of meetings by posting the agenda in three public places designated by City ordinance.

City of Millerton

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (F) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public works, 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.”

In addition, Chapter 384.16(3) of the Code of Iowa requires the City Council to set a time and place for a public hearing on the budget before the final certification date and to post, in three public places, notice of the hearing not less than ten nor more than twenty days before the hearing. The posted notice for the fiscal year 2019 budget was posted eight days before the public hearing which is two days late and the notice for the fiscal year 2020 budget was posted forty days before the public hearing which was twenty days early.

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. The City should also ensure the notice of public hearing on the budget is posted not less than ten nor more than twenty days before the public hearing is held, as required.

- (G) Local Option Sales Tax – The local option sales tax (LOST) ballot requires 50% of LOST collections be allocated for the payment of principal and interest on the jail construction bonds until December 31, 2027 or as long as principal and/or interest remains unpaid. The remaining 50% of LOST funds are deposited to the General Fund to be used for any lawful purpose. The City remits 50% of LOST receipts to Wayne County monthly for the jail construction bond payments. For the period April 1, 2018 to March 31, 2019 a total of \$3,896 of LOST receipts were collected. The City paid \$2,035 to Wayne County, \$87 more than 50% of the collections.

Recommendation – The City should review past LOST collections and payments to Wayne County for the City’s share of the jail bonds and adjust future payments to ensure LOST amounts are properly allocated.

- (H) Receipts – Two intergovernmental receipts totaling \$70 were not recorded in the proper fund, resulting in the Special Revenue, Road Use Tax Fund balance being overstated by \$70 and the General Fund balance being understated by the same amount.

Recommendation – The City should establish procedures to ensure receipts are recorded to the appropriate fund and source. The City should also approve corrective transfers to correct errors.

- (I) Disbursements – There was no evidence invoices tested were approved by the City Council prior to payment. In addition, invoices or other supporting documentation were not available to support disbursements for two transactions tested.

Recommendation – All invoices should be approved by the City Council and the approval documented in the City Council meeting minutes. Additionally, all disbursements should be supported by invoices or other supporting documentation.

City of Millerton

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (J) 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.

- (K) 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.

- (L) Internal Revenue Service Form 1099 – The City did not file Internal Revenue Service (IRS) Forms 1099 for payments to contractors of \$600 or more during the 2018 calendar year, as required.

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

- (M) Elected Official Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office but may be reimbursed for actual expenses incurred.”

During the period April 1, 2018 through March 31, 2019, the City paid the Mayor \$2,350 for mowing, street work and recordkeeping services. This compensation violates Chapter 372.13(8) of the Code of Iowa, which prohibits elected City officials from receiving compensation as a City employee.

A recent Attorney General’s opinion dated August 15, 2018, clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8) (2018) bars city elected officers from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion, Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j) and (k) (2018), is retracted.”

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$2,350 improperly paid to the Mayor.

City of Millerton

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Pamela J. Bormann, CPA, Manager
Karen J. Kibbe, Senior Auditor II