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STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

October 29, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Kimballton, Iowa for the period July 1, 2013 through June 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. The City should establish procedures to track the proper use of local option sales tax collections as well as procedures to ensure the proper use of various property tax levies. The City should also retain proper documentation for all disbursements. In addition, the City should comply with Code of Iowa requirements for publishing City Council meeting minutes and adopting budget amendments.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1422-0031-EPOP.pdf>.

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CITY OF KIMBALLTON

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014

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City of Kimballton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
Randy Poldberg	Mayor	Jan 2014
Yvonne Jensen	Council Member	Jan 2014
Jim McClain	Council Member	Jan 2014
Tony Petersen	Council Member	Jan 2014
Jeff Albert	Council Member	Jan 2016
Mike Jensen	Council Member	Jan 2016
Sarah Kunik	City Clerk/Treasurer	Indefinite
Lance Levis	Attorney	Indefinite
<u>(After January 2014)</u>		
Randy Poldberg	Mayor	Jan 2016
Jeff Albert	Council Member	Jan 2016
Mike Jensen	Council Member	Jan 2016
Aaron Hoegh	Council Member	Jan 2018
Jim McClain	Council Member	Jan 2018
Tony Petersen	Council Member	Jan 2018
Sarah Kunik	City Clerk/Treasurer	(Resigned May 2014)
Tammy Thompson (Appointed)	City Clerk/Treasurer	Indefinite
Lance Levis	Attorney	Indefinite

City of Kimballton



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Mary Mosiman, CPA
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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

We have performed an agreed-upon procedures engagement of the City of Kimballton pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Kimballton for the period July 1, 2013 through June 30, 2014. 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 procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.


10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Kimballton, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Kimballton, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Kimballton and other parties to whom the City of Kimballton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Kimballton 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 11, 2014

Detailed Recommendations

City of Kimballton

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (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) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparing and distributing.
 - (5) Utilities – billing, collecting, depositing and posting.
 - (6) 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 – Although monthly bank reconciliations were prepared, variances existed between the bank balance and the general ledger balance. In addition, the reconciliation did not include all accounts or include support for outstanding checks. Also, the reconciliations were not reviewed by an independent person. Variances for the three months reviewed ranged from \$1,138 to \$2,530.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, a listing of outstanding checks should be maintained. Also, the reconciliation should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (C) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the recommended COA should be followed.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts each month. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts each month. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

City of Kimballton

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

(E) Payroll – The following items were identified:

- Time cards are not prepared. Therefore, no independent approval of time worked can be provided.
- Although pay checks are approved in the City Council meeting minutes, the minutes do not include the approved pay rates.
- A cost of living increase was approved in the City Council meeting minutes for 2 full time employees. However, neither the percentage increase nor the dollar amount of the increase was documented in the minutes.
- Written policies and procedures have not been prepared for employee sick leave, vacation and/or compensatory time.
- For 2 months tested, payroll checks were pre-dated and distributed in advance of the payroll date.

Recommendation – Time cards should be prepared to support the hours worked and should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll. In addition, all pay rates should be approved by the City Council and documented in the minutes record. Also, the City should develop written policies and procedures for sick leave, vacation and compensatory time.

(F) Supporting Documentation – Invoices and other supporting documentation were not initially available to support 8 of 30 disbursements tested. Invoices for these disbursements were subsequently obtained from the vendor. In addition, for 1 of 30 disbursements tested, the amount approved by the City Council for a credit card payment was \$128.87 less than the amount of the actual disbursement.

Recommendation – All disbursements should be supported by invoices or other supporting documentation and the supporting documentation should be maintained. In addition, all payments must be approved by the City Council.

(G) Intergovernmental Receipt Coding – The State of Iowa provides funds to the City. The following receipts were recorded improperly:

- \$22,552 of local option sales tax (LOST) was credited to the Debt Service Fund,
- \$64,037 of economic development grant funds and \$24,335 of road use tax receipts were recorded as miscellaneous receipts rather than as intergovernmental receipts.

Recommendation – The City should record all receipts correctly in its accounting system.

(H) Local Option Sales Tax (LOST) – The City's LOST ballot requires 50% of the receipts to be used for equipment and 50% of the receipts to be used for infrastructure. The City does not deposit LOST receipts into a separate Special Revenue, Local Option Sales Tax (LOST) Fund. In addition, documentation supporting total LOST receipts and LOST disbursements was not made available.

City of Kimballton

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

Recommendation – The City should establish procedures to ensure LOST disbursements comply with the ballot referendum provisions. The City should document LOST receipts and disbursements since inception (January 2003) to determine whether receipts were spent as required.

- (I) Debt Service Levy – The City levied debt service property tax for a street loan and received sufficient tax receipts for debt payments during the year. However, the debt service tax levy receipts of \$11,906 were deposited into the General Fund rather than the Debt Service Fund as required.

In addition, during the year ended June 30, 2014, the City paid a total of \$12,000 for debt service. The City paid \$9,000 from the Debt Service Fund, \$2,000 from the Special Revenue, Road Use Tax Fund and \$1,000 from the General Fund.

Recommendation – The City's debt service property tax levy receipts should be recorded in the Debt Service Fund as required. Payments on the street loan should then be made from the Debt Service Fund. As a result of using 6th Special Revenue, Road Use Tax Fund for debt service payments, a corrective transfer for \$2,000 should be made from the General Fund to the Special Revenue, Road Use Tax Fund.

- (J) Employee Benefits Levy – Although the City disburses FICA and IPERS from the Special Revenue, Employee Benefits Fund, tax receipts of \$7,578 were not recorded in the Special Revenue, Employee Benefits Fund. As a result, a deficit balance of \$6,851 was reported at June 30, 2014.

Recommendation – The City should record tax receipts in the Special Revenue, Employee Benefits Fund. In addition, the deficit fund balance should be resolved.

- (K) Emergency Fund Levy – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City levied property tax for the Emergency Fund, but recorded the property tax directly in the General Fund rather than establishing a separate fund for the property tax receipts.

Recommendation – The City should deposit the Emergency Fund tax levy receipts in the Special Revenue, Emergency Fund and then transfer the proceeds to the General Fund.

- (L) Computer Conversion – In May 2014, the City employed a company to computerize the manual accounting records. A variety of adjustments to the records were made in an effort to reconcile the fund activity to the bank accounts. The listing of adjustments with supporting documentation was not maintained or approved by the City Council.

Recommendation – The City Council should ensure all adjustments to the financial records are reviewed and approved and supporting documentation is maintained for all significant adjustments.

City of Kimballton

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

(M) City Council Meeting Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for two of four meetings tested were not published within fifteen days.
- The minutes were not signed as required by Chapter 380.7 of the Code of Iowa.
- The City did not publish annual gross salaries as required by an Attorney General’s opinion dated April 12, 1978.
- The minutes did not include a summary of receipts and total disbursements by fund.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days of the meeting, as required. The minutes record should be signed to authenticate the actions taken, as required. The City should publish annual gross salaries, as required. The published minutes should also include a summary of receipts and total disbursements by fund.

(N) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, culture and recreation and business type activities 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, the City amended the budget for the year ended June 30, 2014 on July 7, 2014. Chapter 384.18 of the Code of Iowa states, in part, “A city budget shall be amended by May 31 of the current fiscal year to allow time for a protest hearing to be held and a decision rendered before June 30.” Because the budget was not amended until July 7, 2014, a decision on any protest to the amendment could not have been rendered prior to June 30, 2014.

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. In addition, the budget should be amended before May 31 of the current fiscal year to allow time for a protest hearing to be held and a decision rendered before June 30.

(O) Separately Maintained Records – The Kimballton Fire Department maintains a bank account for 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, monthly financial reports or Annual 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.

City of Kimballton

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (P) Short Term Loan – Chapter 384.10 of the Code of Iowa allows cities to negotiate short-term loans. During the year ended June 30, 2014, the City obtained 5 short term loans totaling \$27,000 from a local non-profit entity to be used for a capital project. These short term loans were not approved in the City Council meeting minutes and the City did not complete or sign any written loan documents.

Recommendation – The City should establish policies and procedures to ensure short term loans are negotiated by the City as required by Chapter 384.10 of the Code of Iowa and all short term loans are approved by the City Council. Written documentation of short term loans received should be prepared and maintained.

- (Q) Financial Condition – At June 30, 2014, the City had deficit balances of \$40,219, \$6,851, \$34,136 and \$103,167 in the General Fund, the Special Revenue, Employee Benefits Fund and the Enterprise, Water and Sewer Funds, respectively.

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

- (R) Bank Loan Agreement – On August 9, 2012, the City entered into a bank loan for \$50,548 for street improvements. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting to approve the intended action.

Recommendation – The City should comply with Code of Iowa requirements before entering into future loan agreements.

- (S) Utility Rates – The City’s water and sewer rates were not approved by City ordinance as required by Chapter 384.84(1) of the Code of Iowa.

Recommendation – The City should establish all utility rates by ordinance as required by Chapter 384.84(1) of the Code of Iowa.

- (T) Questionable Disbursements – Certain disbursements 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 were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Harlan Flower Barn	Condolence flowers	\$ 64
EH-K Optimist Club	Summer programs donation	600

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 ensure all future disbursements meet the requirements of public purpose. In addition, the City should consult legal counsel to determine the proper disposition of the donation to EH-K Optimist Club.

City of Kimballton

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (U) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (V) 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.

City of Kimballton

Staff

This agreed-upon procedures engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Dorothy O. Stover, Senior Auditor
Kelsie K. Boyer, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State