



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ February 11, 2015 _____

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Stanwood, Iowa for the period November 1, 2013 through October 31, 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. In addition, the City should amend the budget as required by Chapter 384.18 of the Code of Iowa before disbursements exceed budgeted amounts.

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/1422-0140-EP0P.pdf>.

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CITY OF STANWOOD

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
NOVEMBER 1, 2013 THROUGH OCTOBER 30, 2014

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City of Stanwood

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
Greg Wagner	Mayor	Jan 2016
Amber Fields	Council Member	Jan 2014
Dee Ann Koberle	Council Member	Jan 2014
Al Robinson	Council Member	Jan 2014
Dusty McAtee	Council Member	Jan 2016
Todd Sawyer	Council Member	Jan 2016
Stephanie VonBehren	City Clerk	Indefinite
Megan R. Dimitt	Attorney	Indefinite
<u>(After January 2014)</u>		
Greg Wagner	Mayor	Jan 2016
Dusty McAtee	Council Member	Jan 2016
Todd Sawyer	Council Member	Jan 2016
Bob Burgess	Council Member	Jan 2018
Dee Ann Koberle	Council Member	Jan 2018
Al Robinson	Council Member	Jan 2018
Stephanie VonBehren	City Clerk	Indefinite
Megan R. Dimitt	Attorney	Indefinite

City of Stanwood



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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 the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Stanwood for the period November 1, 2013 through October 31, 2014. The City of Stanwood's management, which agreed to the performance of the procedures performed, is responsible 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 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 tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

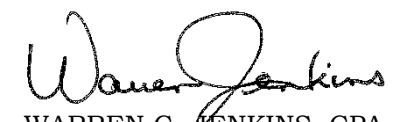
Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the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

We were not engaged to and did not conduct an audit of the City of Stanwood, 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 Stanwood, 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 Stanwood and other parties to whom the City of Stanwood 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 Stanwood 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

November 19, 2014

Detailed Recommendations

City of Stanwood

Detailed Recommendations

For the period November 1, 2013 through October 31, 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) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (5) Debt – recording, compliance and debt payment processing.
 - (6) Journal entries – preparing and journalizing.
 - (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (8) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
 - (9) Computer system – performing all general accounting functions, controlling all data input and output and having custody of assets.
 - (10) Financial reporting – preparing and reconciling.

For the Stanwood City Fire Department account, one individual has control over each of the following areas:

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

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) Monthly Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to the bank and investment account balances throughout the year.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger balances monthly and the reconciliations should subsequently be reviewed by an independent person. The reviews should be documented by the signature or initials of the reviewer and the date of the review. Variances, if any, should be reviewed and resolved timely.

City of Stanwood

Detailed Recommendations

For the period November 1, 2013 through October 31, 2014

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

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. 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.

- (D) Investments Records – An investment record/register is not maintained for each investment.

Recommendation – An investment record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

- (E) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

- (F) City Council 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. Minutes for two of the four monthly meetings reviewed were not published within fifteen days.

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

- (G) Annual Urban Renewal Report (AURR) – The beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the December 1, 2013 Levy Authority Summary of the AURR did not agree with the City's general ledger. The ending cash balance was reported as \$685 but the actual balance was \$2,625. Also, the receipts reported were understated and the disbursements reported were overstated. In addition, the FY13 Annual Urban Renewal Report was not approved by the City Council.

Recommendation – The City should ensure cash balances, receipts and disbursements reported on the AURR Levy Authority Summary agree with the City's records. Also, the AURR should be approved by City Council each year before submittal.

- (H) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government, capital projects 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."

Recommendation – The budget should have been amended as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Stanwood

Detailed Recommendations

For the period November 1, 2013 through October 31, 2014

- (I) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify 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. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. 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. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

During the current year, the City paid principal and interest on its 2012 general obligation bonds from the Special Revenue, Tax Increment Financing Fund through transfers to the Debt Service Fund. However, based on a review of the County Auditor’s “Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation” prepared in November 2012, the 2012 general obligation bond principal and interest had not been certified to the County Auditor as a TIF obligation. The City has one internal loan for \$65,000 certified for TIF purposes.

Recommendation – The City should certify the 2012 general obligation bond principal and interest and the internal loan, including past principal and interest, which are expected to be repaid with TIF collections to the County Auditor as TIF obligations. The amounts already paid should then be decertified.

- (J) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit card and for what purposes, as well as the types of supporting documentation required to support the purchase.

- (K) Other Long-Term Debt Issuances – The City filed Internal Revenue Service form 8038-G, Information Return for Tax-Exempt Governmental Obligations, indicating it has written procedures to monitor compliance with the arbitrage, yield restrictions and rebate agreements for tax-exempt bonds under Section 148 of the Internal Revenue Service rules. The City was unable to provide these written procedures.

Recommendation - The City should establish written procedures to comply with the Section 148 rules.

- (L) Financial Condition – The City had a deficit balance of \$738 in the Special Revenue, Emergency Fund at October 31, 2014.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

City of Stanwood

Detailed Recommendations

For the period November 1, 2013 through October 31, 2014

- (M) Transfer and Journal Entries – Transfers and journal entries occurring during the period reviewed were not approved.

Recommendation – All interfund transfers should be documented by approval in the City Council minutes or in the City’s budget, as applicable. Journal entries should be approved by an independent person and the approval should be documented by the signature or initials of the reviewer and the date of approval.

- (N) Payroll – Although time cards are maintained for all employees, there was no indication time cards for one of the four individuals had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.

Recommendation – Time cards should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of approval.

- (O) Petty Cash and Change Fund – The petty cash and change fund are not maintained at an authorized amount. The petty cash drawer included additional funds from garbage stickers. The receipts from garbage stickers were not deposited and recorded in the financial accounting system in timely manner.

Recommendation – The petty cash and change fund should be maintained at an authorized amount. All receipts, including garbage sticker sales, should be deposited intact and recorded timely in the financial accounting system.

- (P) Separately Maintained Records – The Stanwood 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 reported to the City Council on a monthly basis.

City of Stanwood

Staff

This agreed-upon procedures engagement was performed by:

Timothy D. Houlette, CPA, Manager
Zackary D. Kubik, CPA, Staff Auditor
Douglas A. Fiester, Auditor Intern



Andrew E. Nielsen, CPA
Deputy Auditor of State