



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ May 27, 2015 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Cambridge, Iowa for the period August 1, 2013 through July 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 maintain the maximum internal control possible. The City should also establish procedures to ensure bank and utility reconciliations are performed monthly and the Annual Financial Report is prepared accurately. The City should comply with Code of Iowa requirements for proper publishing of City Council minutes.

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/1421-0812-EPOP.pdf>.

###

CITY OF CAMBRIDGE

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
AUGUST 1, 2013 THROUGH JULY 31, 2014**

Table of Contents

		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Bank Reconciliations	B	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C	9
Annual Financial Report	D	9
Tax Increment Financing Activity	E	9
Business Transactions	F	9
Unclaimed Property	G	10
Investment Policy	H	10
Initial Receipt Listing	I	10
City Council Meeting Minutes	J	10
Electronic Check Retention	K	10
Credit Card	L	10
Timesheets	M	11
Payment of General Obligation Bonds	N	11
Financial Reports	O	11
Local Option Sales Tax (LOST)	P	11
Revenue Bonds	Q	11
Annual Urban Renewal Report (AURR)	R	12
Staff		13

City of Cambridge

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Scott DeYoung	Mayor	Jan 2014
Steve Kovarik	Council Member	Jan 2014
Dan Mortensen	Council Member	Jan 2014
David Thom	Council Member	Jan 2014
Michael Macki	Council Member	Jan 2016
Rhiannon Taylor	Council Member	Jan 2016
Debra Thompson	City Clerk	Indefinite
Michael Lewis	Attorney	Indefinite
(After January 2014)		
Scott DeYoung	Mayor	Jan 2018
Michael Macki	Council Member	Jan 2016
Rhiannon Taylor	Council Member	Jan 2016
Steve Kovarik	Council Member	Jan 2018
Dan Mortensen	Council Member	Jan 2018
David Thom	Council Member	Jan 2018
Debra Thompson	City Clerk	Indefinite
Michael Lewis	Attorney	Indefinite

City of Cambridge



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Cambridge for the period August 1, 2013 through July 31, 2014. The City of Cambridge'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 Cambridge, 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 Cambridge, 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 Cambridge and other parties to whom the City of Cambridge 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 Cambridge 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

September 5, 2014

Detailed Recommendations

City of Cambridge

Detailed Recommendations

For the period August 1, 2013 through July 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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Journal Entries – preparing and journalizing.
- (7) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (8) Utilities – billing, collecting, depositing, posting and entering rates into the system.
- (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.

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 – Bank and investment balances were not reconciled to the book balances recorded in the City’s accounting system for all months. For the months reconciliations were completed, there was no evidence the reconciliations were reviewed by an independent person. In addition, the outstanding check listings do not include the check number, payee and date written.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. The bank reconciliations should be reviewed by an independent person and the reviews should be documented by the signature or initials of the reviewer and the date of the review. In addition, the listings of outstanding checks should include the check number, payee and date written.

City of Cambridge

Detailed Recommendations

For the period August 1, 2013 through July 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) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s fiscal year 2013 Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records. In addition, the Annual Financial Report was not filed by December 1, as required.

Recommendation – The City should establish procedures to ensure the Annual Financial Report reconciles to the general ledger and bank balances. In addition, the City should ensure future Annual Financial Reports are filed by December 1.

- (E) Tax Increment Financing Activity – The City records tax increment financing (TIF) receipts in the Special Revenue, Urban Renewal Tax Increment Fund. However, TIF related disbursements are recorded in the General and the Enterprise, Water and Sewer Funds. As a result, at June 30, 2014, the Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$1,564,810 while the General and the Enterprise, Water Funds had negative cash balances of \$1,253,366 and \$289,464, respectively.

Recommendation – The City should reimburse the General and the Enterprise, Water and Sewer Funds from the Special Revenue, Urban Renewal Tax Increment Fund for TIF related payments made by these funds in the current and past years.

- (F) Business Transactions – Business transactions between the City and City officials or employees were noted, as follows:

On May 1, 2008, the City entered into an \$85,000 lease purchase agreement to sell a building to Lewis Law Firm, owned by the City Attorney. The initial term of the agreement was for five years with the final payment due May 1, 2013. In January 2014, the City extended the final payment to January 2015 and, as of the date of this report, the balance owed on the lease purchase agreement was \$21,100.

On October 3, 2013, the City entered into a \$50,000 loan agreement with MRD Properties, owned by the Mayor, to provide funds to repair the outside walls of the Water Street Bar and Grill. As of the date of this report, the balance of the loan was \$39,557.

In accordance with Chapter 362.5 of the Code of Iowa, these transactions may represent conflicts of interest.

Recommendation – The City should consult legal counsel, including the County Attorney, to determine the disposition of these matters.

City of Cambridge

Detailed Recommendations

For the period August 1, 2013 through July 31, 2014

- (G) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City Clerk to report and remit outstanding obligations, including checks held for more than two years, to the Office of Treasurer of State annually. The City has not remitted unclaimed property to the Office of Treasurer of State annually.

Recommendation – The City should implement procedures to ensure outstanding checks are reviewed annually and amounts over two years old are remitted to the Office of Treasurer of State annually, as required.

- (H) Investment Policy - 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 that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (I) Initial Receipt Listing – An initial listing of collections was not prepared.

Recommendation – An initial listing of collections should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented.

- (J) 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. Two of four monthly minutes reviewed were not published within fifteen days and two monthly minutes reviewed were not published.

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

- (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 by Chapter 554D.114 of the Code of Iowa.

- (L) Credit Card – The City has a credit card for use by the Library Director while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card purchases.

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

City of Cambridge

Detailed Recommendations

For the period August 1, 2013 through July 31, 2014

- (M) Timesheets – City employees are not required to complete timesheets to substantiate hours worked.

Recommendation – Timesheets should be prepared by all employees to support hours worked. Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be documented by the supervisor’s initials and the date approved.

- (N) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation bonds was paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part, “Money 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 – As of June 30, 2014, the City had not established a Debt Service Fund. General obligation bond payments should be recorded in a Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

- (O) Financial Reports – The City Clerk’s monthly financial reports to the City Council do not agree with the general ledger.

Recommendation – The City should establish procedures to ensure the City Clerk’s monthly reports reconcile to the general ledger.

- (P) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 50% for community betterment and 50% for property tax relief. The City’s LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for a specific purpose.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

- (Q) Revenue Bonds – The provisions of the water and sewer revenue bond resolutions require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they become due. The City’s fiscal year 2014 net water and sewer receipts were less than 110% of the water and sewer revenue bond principal and interest due during fiscal year 2014.

In addition, the water and sewer revenue bonds require the City to maintain water and sewer sinking and surplus accounts. The City has not established these accounts.

Recommendation – The City should adjust user rates or reduce other expenses to ensure net receipts equal at least 110% of the principal and interest due each year. The required sinking and surplus accounts should be established.

City of Cambridge

Detailed Recommendations

For the period August 1, 2013 through July 31, 2014

- (R) Annual Urban Renewal Report (AURR) – The AURR report was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1.

In addition, the disbursements and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's records.

Recommendation – The City should approve and file the AURR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City's records.

City of Cambridge

Staff

This agreed-upon procedures engagement was performed by:

Timothy D. Houlette, CPA, Manager
Ashley J. Moser, Staff Auditor
Jessica L. Roeding, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State