



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

NEWS RELEASE

FOR RELEASE _____ March 22, 2016 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Ainsworth, Iowa for the period July 1, 2014 through June 30, 2015. 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 in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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/1522-0882-BLOF.pdf>.

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CITY OF AINSWORTH
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

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City of Ainsworth

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Teresa Hazelett	Mayor	Jan 2016
Troy McCarthy	Council Member	Jan 2016
Dawn Stewart	Council Member	Jan 2016
Trenton Stout	Council Member	(Resigned Dec 2014)
Michael Cavin (Appointed Jan 2015)	Council Member	Nov 2017
Virginia Schuerman	Council Member	Jan 2018
Jared Waters	Council Member	Jan 2018
Cheryl A. Smith	City Clerk/Treasurer	Indefinite
Craig Davis	Attorney	Indefinite

City of Ainsworth



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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 Ainsworth for the period July 1, 2014 through June 30, 2015. The City of Ainsworth'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 2015 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.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Ainsworth, 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 Ainsworth and other parties to whom the City of Ainsworth 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 Ainsworth 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

January 21, 2016

Detailed Recommendations

City of Ainsworth

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
 - (2) Cash - handling, reconciling and recording.
 - (3) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (6) Debt – recordkeeping, compliance and debt payment processing.
 - (7) Journal entries – preparing and journalizing.
 - (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (9) Payroll – recordkeeping, preparing, signing and distributing.
 - (10) Computer system – performing all general accounting functions and controlling all data input and output.
 - (11) Financial reporting – preparing and reconciling.
 - (12) Bank reconciliations – Although prepared monthly, the review of the bank reconciliations was not documented by an independent person.
 - (13) City Clerk’s financial reports – Although prepared monthly, the review of the City Clerk’s financial reports was not documented by an independent person.

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.

City of Ainsworth

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (B) Payroll – Timesheets were not prepared for all pay periods. Also, available timesheets did not include evidence of supervisory review. Additionally, salary increases were based upon a dollar increase per month and the actual approved salaries were not documented in the City Council minutes.

Recommendation – Timesheets should be prepared by all employees for each pay period and should be reviewed and approved by supervisory personnel. Additionally, procedures should be established to ensure all pay increases are adequately documented in the City Council minutes by recording the new, approved rate or salary, not just the dollar increase.

- (C) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies over the computer system for:

- Password privacy and confidentiality and requiring passwords to be changed every 60 to 90 days.
- Requiring backups be performed daily and stored off site.

Also, the City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation – The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (E) Sewer Utility Rate Ordinance – Chapter 384.84 of the Code of Iowa requires utility rates be established by ordinance of the City Council. Chapter 372.13(5) of the Code of Iowa requires City records and documents be retained. The ordinance establishing the City’s sewer utility rates could not be located and was unavailable for review during the performance of our procedures.

Recommendation – The City should ensure utility rates are established by ordinance and ensure all ordinances are retained, as required.

- (F) Deposits and Investments – Although a resolution naming official depositories has been approved by the City, the City did not approve a new resolution when the depository’s name changed. Also, the City has adopted a written investment policy. However, the policy refers to an outdated Chapter of the Code of Iowa rather than to Chapter 12B.10B of the Code of Iowa.

City of Ainsworth

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

Recommendation – The City Council should adopt a new depository resolution to correct the depository name. Also, the City should modify the written investment policy to reference current Code of Iowa provisions.

- (G) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, health and social services, community and economic development and debt service 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 in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (H) Annual Financial Report – The beginning balances reported in the fiscal year 2015 Annual Financial Report (AFR) do not agree with the ending balances reported in the prior year AFR. Also, fund balances reported in the fiscal year 2015 AFR did not agree with the City’s records and receipts and disbursements included \$11,500 of transfers.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances. The City should also ensure receipts and disbursements reported in the AFR exclude transfers and fund balances agree with the City’s records.

- (I) Journal Entry Documentation – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (J) Disbursements – Two transactions tested were not properly supported by invoices or other supporting documentation. Also, the City has not adopted an approved mileage reimbursement rate.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Also, the City should adopt an approved mileage reimbursement rate.

- (K) Petty Cash and Change Fund – The petty cash and change fund are not maintained at an authorized amount.

Recommendation – The City Council should approve an authorized amount to be maintained in the petty cash and change fund.

City of Ainsworth

Staff

This agreed-upon procedures engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Daniel S. Nilsen, Staff Auditor
Kristen R. Finke, Assistant Auditor


Marlys K. Gaston, CPA
Director