



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ August 3, 2016 _____

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Albion, Iowa for the period August 1, 2014 through July 31, 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 establish procedures to ensure bank and utility reconciliations are performed monthly and the Annual Financial Report is accurate.

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 <https://auditor.iowa.gov/reports/1522-0603-EP0P>.

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CITY OF ALBION

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

**FOR THE PERIOD
AUGUST 1, 2014 THROUGH JULY 31, 2015**

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City of Albion

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------------------------|----------------------|---------------------|
| Keith Balvanz | Mayor | Jan 2016 |
| Todd Kelley | Council Member | Jan 2016 |
| Pat Hemming | Council Member | Jan 2016 |
| Travis Bittner | Council Member | Jan 2016 |
| David Waterhouse | Council Member | Jan 2016 |
| Jenna Juchins | Council Member | Jan 2016 |
| Karen Betts | City Clerk/Treasurer | (Resigned Jan 2015) |
| Lynne Borton (Appointed April 2015) | City Clerk/Treasurer | (Resigned Jun 2015) |
| Karen Hermann (Appointed Dec 2015) | City Clerk/Treasurer | (Resigned Jun 2016) |
| Jody Wallen (Appointed Jun 2016) | City Clerk/Treasurer | Indefinite |
| Barry Kaplan | Attorney | Indefinite |

City of Albion



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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 Albion for the period August 1, 2014 through July 31, 2015. The City of Albion'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 2014 Annual Financial Report (AFR) 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 and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. We reviewed the annual certified budget for proper authorization and certification.


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 Albion, 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 Albion and other parties to whom the City of Albion 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 Albion 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 2, 2015

Detailed Recommendations

City of Albion

Detailed Recommendations

For the period August 1, 2014 through July 31, 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) Cash – handling, reconciling and recording.
 - (2) Receipts – depositing, journalizing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (5) Payroll – record keeping and preparing.
 - (6) Financial reporting – preparing and reconciling.
 - (7) Accounting system – performing all general accounting functions and having custody of assets.

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 book balances monthly. At June 30, 2015, the City’s general ledger was \$34,777 less than the reconciled bank and investment balance.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (C) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” We noted the following regarding the City’s 2014 AFR:

- Certain receipts and disbursements did not agree with the City’s records.
- The beginning balances reported did not agree to the ending balances reported in the City’s audit for the year ended June 30, 2013. The governmental fund total beginning balance was overstated by \$64,661 and the proprietary fund total beginning balance was understated by \$64,912.
- We were unable to determine the accuracy of disbursements reported since the City’s financial records do not classify disbursements by function and information supporting the amounts reported was not retained.

City of Albion

Detailed Recommendations

For the period August 1, 2014 through July 31, 2015

- The City's outstanding debt was not reported in the AFR.
- The City Council did not approve the AFR.

Recommendation – The City should ensure the AFR beginning balances and financial activity, including outstanding debt, is properly supported and reported. The AFR should be approved by the City Council.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – A reconciliation of utility billings, collections and delinquent accounts is not prepared. In addition, delinquent account listings were not maintained.

Recommendation – 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, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts. Delinquent account listings should be prepared monthly and retained.

- (E) Improper Reimbursement – In March 2015, the City reimbursed the City Clerk (now former City Clerk) \$110 for a registration fee for the 2015 IMFOA Spring Conference. Documentation supporting the reimbursement included a note indicating the City Clerk had paid the registration fee using her personal credit card. However, the reimbursement appears improper since the registration fee of \$110 was charged to the City's credit card and was subsequently paid by the City.

Recommendation – The City should seek reimbursement for the improper payment.

- (F) Insurance Stipend – During the period reviewed, the City paid an employee \$8,000 representing a retroactive adjustment to the employee's insurance stipend. The 2010 City Council Resolution approving the stipend provides for a \$500 per month payment to the employee in lieu of City insurance coverage. However, since the payments were made through payroll, the employee netted less than \$500 each month. In March 2015, the City Council approved the \$8,000 payment to compensate the employee for the difference between the gross amount of \$500 per month and the net amount paid.

The City did not retain documentation to support how the retroactive payment amount was determined and accordingly, we were unable to determine the propriety of the amount paid. In addition, the payment was made through accounts payable rather than payroll. Accordingly, the proper state and federal taxes were not withheld from the payment and the City did not report the payment on Internal Revenue Service Form W-2.

Recommendation – The City should document how the retroactive adjustment amount was determined and should contact the Iowa Department of Revenue and the Internal Revenue Service to determine the disposition of the unreported compensation.

- (G) Dual 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."

City of Albion

Detailed Recommendations

For the period August 1, 2014 through July 31, 2015

During the period November 5, 2014 through February 26, 2015, the Mayor was compensated \$10,877 for performing the City Clerk's duties while the City Clerk was on leave. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits the Mayor from receiving compensation as a City employee while serving as Mayor.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$10,877 improperly paid to the Mayor.

- (H) Disbursements – Invoices and other supporting documentation are not reviewed by the person responsible for co-signing checks and certain checks were signed in advance by the co-signer. Also, three disbursements tested were not approved by the City Council and supporting documentation was not cancelled to prevent reuse.

Recommendation – Supporting documentation for all disbursements should be reviewed by the person responsible for co-signing checks prior to signing the checks. Under no circumstances should checks be signed in advance. All disbursements should be approved by the City Council and supporting documentation should be cancelled to prevent reuse.

- (I) 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:

| Paid to | Purpose | Amount |
|--|---|--------|
| Theisens | Candy and tea | \$ 19 |
| Walmart | Candy | 23 |
| Haley's Deli | Lunch for Summit training | 33 |
| Pizza Ranch | Lunch for Summit training | 67 |
| Business Management Daily | Electronic newsletter subscriptions (not located on the City's computer) | 185 |
| National Notary Association (NNA) | Membership dues, insurance and newsletter subscription (not located on the City's computer) | 220 |
| Southeastern Iowa Synod Evangelical Lutheran Church in America | Poverty workshop registration fee | 45 |

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 determine and document the public purpose served before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation. The City should seek reimbursement for purchases, if any, determined to be personal in nature.

City of Albion

Detailed Recommendations

For the period August 1, 2014 through July 31, 2015

- (J) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety 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.”

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.

- (K) Monthly City Clerk’s Report – Monthly City Clerk’s reports, including a summary of receipts, disbursements and ending balances by fund, were not always prepared and provided to the City Council for review and approval. In addition, the City Council is not provided a monthly bank reconciliation or a comparison of disbursements to the certified budget by function.

Recommendation – Monthly City Clerk’s reports, including a summary of receipts, disbursements and ending balances by fund, should be prepared and provided to the City Council for approval. Monthly reporting to the City Council should also include bank reconciliations and comparisons of actual disbursements to the certified budget by function.

- (L) Financial Condition – At June 2015, the City had deficit balances of \$29,055 and \$5,910 in the General Fund and the Enterprise, Water Fund, respectively.

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

- (M) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 25% for property tax relief and 75% for capital improvements. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

- (N) 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. The minutes for the December 15, 2014 meeting were not published within fifteen days. Also, the City Council meeting minutes for the March 3, 2015 meeting were not available and the minutes publication for the June 4, 2015 City Council meeting could not be located.

In addition, City Council meetings were not preceded by proper notice in accordance with Chapter 21.4 of the Code of Iowa and the minutes record for one meeting tested was not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. All City Council meeting minutes and proofs of publications should be retained. In addition, the City should post proper notice prior to each City Council meeting and all City Council meeting minutes should be signed to authenticate the actions taken.

City of Albion

Detailed Recommendations

For the period August 1, 2014 through July 31, 2015

- (O) Purchasing Policy – The City has not established a written purchasing policy.

Recommendation – The City should establish a written purchasing policy establishing guidelines for the City Clerk and City departments. At a minimum, the policy should establish a dollar threshold for purchases requiring pre authorization by the City Council.

- (P) Payroll – The approved salary and wage rate increases for the City’s maintenance worker, City Clerk and library personnel were not included in the City Council meeting minutes. Also, time cards were not always reviewed and approved by supervisory personnel or City officials prior to preparation of the payroll and employees did not sign their time cards.

Recommendation – Approved salary and wage rates for employees should be documented in the City Council meeting minutes. Time cards should be signed by employees and should be reviewed and approved by appropriate supervisory personnel or City officials prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review.

- (Q) Credit Card Disbursements – Invoices or other supporting documentation were not always available to support credit card charges. In addition, the credit card statements tested included finance charges and late fees totaling \$174.

Recommendation – The City should retain original invoices to support all credit card charges. An independent person should reconcile the invoices to the credit card statements monthly. The City should establish procedures to ensure credit card payments are timely to avoid finance charges and late fees.

- (R) Payroll Taxes – The first quarter 2015 State and Federal payroll reports were not filed timely. The reports were due in April 2015 but were not filed until July 2015. As a result, the City incurred penalty and interest charges.

Recommendation – The City should ensure all quarterly payroll reports are filed timely.

- (S) Receipts – During the period reviewed, we identified several receipts posted to incorrect funds and account codes, including property tax, road use tax, local option sales tax (LOST) and a library grant. In addition, during May and June 2015, road use tax and LOST receipts were not posted to the general ledger. The City subsequently made adjustments to correct the errors.

Recommendation – The City should establish procedures to ensure all receipts are recorded accurately and timely in the City’s general ledger.

- (T) Deposits and Investments – 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.

Recommendation – The City should modify the written investment policy to reference current Code of Iowa provisions.

City of Albion

Detailed Recommendations

For the period August 1, 2014 through July 31, 2015

- (U) Transfers – For the year ended June 30, 2015, transfers in did not agree to transfers out by \$7,815. The City did not record both sides of each transfer to the proper account code. In addition, one transfer for \$5,597 was not approved by the City Council.

Recommendation - Interfund transfers should be balanced monthly to ensure transfers in agree to transfers out and transfers should be reviewed to ensure transfers are posted to the proper account codes. The City Council should approve all interfund transfers and document the approval as part of the City Council meeting minutes.

- (V) 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.

- (W) Journal Entries – 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.

- (X) Utility Billing Register – Based on a review of the utility billing register, we noted several customers with unusually high utility bills which appeared to be caused by the use of incorrect consumption amounts in calculating the bill. While the customers did not pay for the incorrect usage, there were no corrections noted in the billing register to indicate the correct billing amount. The utility billing register is not independently reviewed monthly to ensure the accuracy of utility billings.

Recommendation – The utility billing register should be reviewed monthly by an independent person to ensure billings are accurate and appear reasonable.

- (Y) Change Fund – During our review of the City's change fund, we noted the fund was \$18 short of the \$50 established amount.

Recommendation – To provide better control and accountability over the change fund, the change fund should be reconciled daily to an established amount.

- (Z) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Albion

Staff

This agreed-upon procedures engagement was performed by:

Donna Kruger, CPA, Manager
Steven O. Fuqua, CPA, Senior Auditor II
Alison C. Anker, Assistant Auditor


Marlys K. Gaston, CPA
Director