



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE

November 21, 2016

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Low Moor's Periodic Examination Report dated November 13, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period November 1, 2015 through July 31, 2016.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While six of the fifteen findings reported in the Periodic Examination Report dated November 13, 2014 have been corrected and one is no longer valid, eight of the fifteen findings are repeated in this report and are reported as "not corrected". The City Council has not yet taken action to implement the recommendations pertaining to these remaining eight findings.

A copy of the City of Low Moor's Report on the Status of Periodic Examination Findings and Recommendations 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/1422-0211-EPFP>.

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CITY OF LOW MOOR

INDEPENDENT ACCOUNTANT'S
REPORT ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS

FOR THE PERIOD
NOVEMBER 1, 2015 THROUGH JULY 31, 2016

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City of Low Moor

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Tom Goldensoph	Mayor	Jan 2016	Jan 2018
Derek Hoenig	Council Member	Jan 2016	Jan 2018
Heather Hoeing	Council Member	Jan 2016	Jan 2018
Bevan Paarmann	Council Member	Jan 2016	Jan 2018
Karna Rehr	Council Member	Jan 2016	Jan 2018
Brandi Smith Pray	Council Member	Jan 2016	Jan 2018
Ileen Goldensoph	Treasurer		Indefinite
Joyce Lanning	City Clerk		Indefinite
Robert McGee	Attorney		Indefinite

City of Low Moor



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Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

A Periodic Examination Report dated November 13, 2014 was prepared by the firm Martin P. Brown, CPA, on the City of Low Moor, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date November 13, 2014 and the current status of the City's implementation of the recommendations included in that report.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

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 Low Moor and other parties to whom the City of Low Moor 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 Low Moor during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

August 3, 2016

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Low Moor

Report on the Status of Periodic Examination Findings and Recommendations

For the Period November 1, 2015 through July 31, 2016

Findings Reported in the Periodic Examination Report dated November 13, 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, preparation, authorization of hours and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – 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 evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

(B) Payroll Tax Filings – Due to staff turnover, at least one Form 941 was not filed on time. A penalty of \$735.83 was incurred. This expense would not have been incurred if the form had been filed on time.

Recommendation – Procedures should be implemented to ensure all payroll tax returns are filed on time. Procedures should be in writing to allow any new staff to be properly trained on the City's tax filings.

Current Status – Corrected. During our follow-up procedures it was noted the City filed Internal Revenue Service Form 941 Federal Quarterly Report for the first and second quarters of 2016 timely.

(C) City Council Meeting Minutes – None of the City Council meeting minutes tested were signed by the City Clerk.

Recommendation – Iowa Code Chapter 380.7 requires the City Clerk to sign minutes of all City Council meetings.

Current Status – Corrected. The minutes reviewed during our follow-up procedures were properly signed by the City Clerk.

City of Low Moor

Report on the Status of Periodic Examination Findings and Recommendations

For the Period November 1, 2015 through July 31, 2016

- (D) 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 any of its five checking accounts.

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.

Current Status – Not corrected. At the time of our follow-up procedures, the City had requested the bank provide images of the front and back of each cancelled check but had not yet started receiving the images. The recommendation is repeated.

- (E) Deposits and Investments – Depository Resolution – 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 Council should, by resolution, approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (F) Deposits and Investments – 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 Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (G) Certified Budget – Disbursements during the year ending June 30, 2014 exceeded the amounts budgeted in public works, community and economic development and general government functions. Chapter 384.20 states in part: “Public monies may not be expended or encumbered except under an annual or continuing appropriation”.

Recommendation – The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Current Status – Not corrected. Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the general government and capital projects functions prior to the budget amendment. The recommendation is repeated.

- (H) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled during 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 reconciliations and monitor delinquent accounts.

Current Status – Not corrected. The recommendation is repeated.

City of Low Moor

Report on the Status of Periodic Examination Findings and Recommendations

For the Period November 1, 2015 through July 31, 2016

- (I) Utility Billings – Per discussion with City officials, it was noted that between January 2011 and September 2014 utilities were billed at an incorrect rate of \$2/1000 gallon, while the current ordinance stated a billing rate of \$3/1000 gallon. This was due to an inaccurate spreadsheet calculation.

Recommendation – The City should set procedures to ensure utility rates are charged per the current ordinance. Rate testing should be completed periodically to ensure proper calculations are made.

Current Status – Corrected. The correct billing rate was charged to the residents tested during our follow-up procedures

- (J) Business Transactions – City Council Approval – Seven tested expenditures were not approved by the City Council in the minutes. The most common expenditures were for office supplies and stamps. In addition, one expenditure had no supporting documentation.

Recommendation – The City should ensure all expenditures are submitted to the City Council for approval.

Current Status – Corrected. The transactions tested during the period reviewed were approved by the City Council in the meeting minutes.

- (K) Business Transactions – Supporting Documentation – Three tested expenditures did not have supporting documentation. Only two of these expenditures were approved by the City Council in the minutes.

Recommendation – The City should ensure it retains all supporting documentation for all expenditures.

Current Status – Corrected. The transactions tested during the period reviewed included supporting documentation.

- (L) Transfers of Funds – Transfers between checking accounts were not approved by the City Council. In addition, per the general ledger, one transfer between accounts was noted as a revenue to one account and a subtraction to revenue in another.

Recommendation – The City should ensure transfers are independently approved and recorded properly.

Current Status – Corrected. The transfers tested during the period reviewed were approved by City Council and were properly recorded.

- (M) Fund Balance – Debt Service – The City is not using the Debt Service Fund to record general obligation debt payments.

Recommendation – Iowa Code Chapter 380.4 requires general obligation debt payments to be recorded in the Debt Service Fund. The City has established procedures to ensure debt payments are budgeted and recorded in the fund effective with the fiscal year 2016 budget.

Current Status – No longer valid. During our follow up procedures, there was no general obligation debt outstanding.

City of Low Moor

Report on the Status of Periodic Examination Findings and Recommendations

For the Period November 1, 2015 through July 31, 2016

- (N) Fund Balance Reconciliation – Total Fund Balance as recorded on the City’s Annual Financial Report at June 30, 2014 does not reconcile to the funds held by the City on that date. The Annual Financial Report indicates balances of \$803,981, while funds in possession of the City at that date were \$836,820, a difference of \$32,839.

Recommendation – The City should establish procedures to ensure reports are accurate and should take action to correct the reports.

Current Status – Not corrected. The ending fund balance reported on the City’s June 30, 2015 Annual Financial Report was \$840,256 while the balance in the City’s records was \$870,816, a difference of \$30,560. The recommendation is repeated.

- (O) General Ledger – Various journal entries were sighted in QuickBooks which were indicated as “reconciling entries”. These entries are summarized below:

General Checking:

<u>Date</u>	<u>Amount</u>
8/31/2013	\$270.28
9/30/2013	(14,990.38)
10/31/2013	(52.57)
11/30/2013	114.38
12/31/2013	7.00
2/28/2014	0.15
3/31/2014	10.00

Sewer Fund Checking:

<u>Date</u>	<u>Amount</u>
3/31/2014	\$1,965.74

Water Fund Checking:

<u>Date</u>	<u>Amount</u>
9/30/2013	\$107,847.81
3/31/2014	26.51

In years prior to the period reviewed, QuickBooks was used to write checks only, and not all transactions were recorded. The larger amounts were made to reconcile QuickBooks to actual amounts in the bank.

Smaller amounts were reconciling adjustments made each month. None have been made since March 31, 2014.

There is no evidence these journal entries were approved by the City Council.

Recommendation – The City should establish procedures to ensure computer generated reports are accurate and should ensure all transactions conducted by the City are accounted for. Immediate action should be taken if it is determined transactions are not being properly accounted for in the computer system.

Current Status – Not corrected. During our follow-up procedures we noted a reconciling entry of \$11,529 made on November 30, 2015. The entry was made to balance the book and bank balances and was not approved by the City Council. The recommendation is repeated.

City of Low Moor

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Joshua W. Ostrander, Senior Auditor


Marlys K. Gaston, CPA
Director