



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

January 17, 2017

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Delmar, Iowa for the period July 1, 2015 through June 30, 2016. 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, including independent review of reconciliations and journal entries. In addition, the City should establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period.

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/1622-0206-EP0P>.

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**CITY OF DELMAR**

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

**FOR THE PERIOD  
JULY 1, 2015 THROUGH JUNE 30, 2016**

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**City of Delmar**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Patty Hardin	Mayor	Jan 2016	Jan 2018
Daryl Eberhart	Council Member	Jan 2014	Jan 2018
David Frett	Council Member	Jan 2014	Jan 2018
Doug Goodall	Council Member	Jan 2016	Jan 2020
Steve Jebsen	Mayor Pro tem/Council Member	Jan 2016	Jan 2020
Dan Simmons	Council Member	Jan 2016	Jan 2020
Laurie Ganzer	City Clerk/Treasurer	Indefinite	
Steve Kahler	Attorney	Indefinite	

**City of Delmar**



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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 Delmar for the period July 1, 2015 through June 30, 2016. The City of Delmar'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 receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Delmar, 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 Delmar and other parties to whom the City of Delmar 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 Delmar 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

August 18, 2016



## **Detailed Recommendations**

City of Delmar

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

(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 – entering rates into the system, 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.

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 and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Computer System – The City does not have written policies for:

- Requiring password changes because the City’s software does not require the user to change log-ins or passwords and does not prevent employees from reusing the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer system.

(C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year. However, for one month reviewed, bank and book balances did not properly reconcile. A variance of \$100 was not resolved. In addition, bank reconciliations are not independently reviewed.

City of Delmar

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (D) Annual Financial Report – The current year Annual Financial Report (AFR) beginning balances for the governmental and proprietary activities did not agree to the prior year ending balances reported in the June 30, 2014 AFR.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances.

- (E) Petty Cash – Petty cash at City Hall is not maintained on an imprest basis and included receipts from copy fees. The copy fees were not deposited or recorded in the financial system.

Recommendation – The City Council should approve an authorized amount to be maintained in the petty cash fund. The fund should be maintained on an imprest basis to provide additional control over the fund. Procedures should be established to ensure all receipts, including copy fees, are deposited intact and are recorded in the financial system.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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 and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (G) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

- (H) Checks Signed in Advance – Certain checks are signed before the payee and amount are completed.

Recommendation – Checks should not be signed in advance.

- (I) Credit Cards – The City has bank credit cards and retail charge accounts for use by employees while on City business. The City has not adopted a formal policy to regulate the use of bank credit cards or retail charge accounts and has not established procedures for the proper accounting of credit card and retail charge account purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City's bank credit cards and retail charge accounts. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and the retail charge accounts and for what purposes, as well as the types of supporting documentation required to substantiate charges.

City of Delmar

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (J) 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.

- (K) 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.

- (L) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety and culture and recreation 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.

- (M) Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, an accounting register is not maintained for each investment.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. A register should be maintained for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number.

- (N) Transfers – Transfers were not always approved by the City Council prior to the actual transfer. Also, one transfer tested was approved by the City Council, but the transfer was not posted to the general ledger.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and amount(s) as part of the City Council meeting minutes. Approved transfers should be properly recorded in the general ledger.

- (O) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation water bonds were paid from the Enterprise, Water Fund. Principal and interest on the City’s general obligation fire station bond were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

City of Delmar

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

Recommendation – The City should transfer from the Enterprise, Water Fund and the General Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

- (P) Disbursements – Supporting documentation for claims is not cancelled at the time of payment to prevent reuse.

Recommendation – Supporting documentation for claims should be cancelled at the time of payment to prevent reuse.

City of Delmar

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager  
Sidot K. Shipley, Assistant Auditor  
Taylor I. Cook, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director