



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

March 14, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Joice, 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 an independent review of reconciliations. In addition, the City should comply with the Code of Iowa requirements for budget amendments, publishing City Council meeting minutes and electronic check retention.

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/1622-0944-BLOF>.

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CITY OF JOICE

**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 Joice

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark Thoma	Mayor	Jan 2016
Ron Miller	Mayor Pro-Tem/Council Member	Jan 2016
Barry Anonson	Council Member	Jan 2016
Jon Heintzman	Council Member	Jan 2016
Dan Martinson	Council Member	Jan 2018
Allen Sterrenberg	Council Member	(Resigned Aug 2015)
Kevin Jessen (Appointed Oct 2015)	Council Member	Nov 2017
Marilyn Holt	City Treasurer	Indefinite
Mardene Lien	City Clerk	Indefinite
John Greve	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark Thoma	Mayor	Jan 2020
Ron Miller	Mayor Pro-Tem/Council Member	Jan 2020
Kevin Jessen	Council Member	Nov 2017
Dan Martinson	Council Member	Jan 2018
Chad Heagel	Council Member	Jan 2020
Debra Potter	Council Member	Jan 2020
Marilyn Holt	City Treasurer	Indefinite
Mardene Lien	City Clerk	Indefinite
John Greve	Attorney	Indefinite

City of Joice



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Independent Accountant's Report on Applying Agreed-Up 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 Joice for the period July 1, 2015 through June 30, 2016. The City of Joice'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 2016 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 Joice, 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 Joice and other parties to whom the City of Joice 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 Joice 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

January 20, 2017

Detailed Recommendations

City of Joice

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) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Long-term debt – recording, 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 system, recordkeeping, preparing and distributing.
- (8) Utilities – billing, collecting, depositing, posting and entering rates into 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.

For the City Fire Department and Library accounts, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements - preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

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 – Although monthly bank reconciliations were prepared for individual accounts, a complete reconciliation, including investments, was not done and a detailed list of outstanding checks was not maintained. At June 30, 2016, the reconciliations did not agree to the City's general ledger fund balances. Variances of \$3,468 for the Enterprise, Water Fund account and \$3,148 for the operating account were noted. In both cases, the book balance was higher than the bank balance. In addition, the reconciliations were not reviewed by an independent person.

City of Joice

Detailed Recommendations

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

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank balances should be investigated and resolved timely. A detailed list of outstanding checks should be maintained. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

- (C) 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.

- (D) Separately Maintained Records – The City Fire Department and Library maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (E) Monthly City Treasurer’s Report – Total fund balances reported in the October 2015 City Treasurer’s report did not agree to the general ledger by \$1,253. Also, one certificate of deposit (CD) balance reported did not agree to the actual CD by \$474.

Recommendation – Fund balances reported in the monthly City Treasurer’s report should agree with the general ledger.

- (F) Annual Financial Report – Transfers on the fiscal year 2016 Annual Financial Report (AFR) did not agree with the City’s financial records. In addition, the City incorrectly classified \$423,000 of revenue bonds as “general obligation debt” in the AFR rather than “revenue debt.” \$1,047,420 in sewer revenue bonds was not reported as a debt obligation in the AFR.

Recommendation – The City should ensure transfers reported in the AFR are supported by the City’s records. In addition, the City should correctly classify and report revenue bonds in the AFR as revenue debt.

- (G) Certified Budget – Disbursements during the year ended June 30, 2016 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.

City of Joice

Detailed Recommendations

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

- (H) Transfers – Transfers between funds were not approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all interfund transfers prior to the actual transfer and document approval and transfer amounts as part of the City Council meeting minutes.

- (I) 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 and include total disbursements from each fund and a summary of receipts. Minutes for two meetings tested were not published within fifteen days and did not include a summary of receipts. The minutes for all meetings tested did not include total disbursements from each fund.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. The published minutes should include total disbursements by fund and a summary of receipts, as required.

- (J) Local Option Sales Tax – The Local Option Sales Tax (LOST) ballot requires LOST receipts be used 50% for property tax relief and 50% for infrastructure improvements. Documentation was not maintained to demonstrate the tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate LOST collections are disbursed in compliance with the provisions of the referendum.

- (K) Payroll – Documentation of City Council approval of wage rates for two of seven employees tested was not available.

Recommendation – The City should establish procedures to ensure City Council approval is documented and available to support all City employee wages.

- (L) 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, Library and Fire Department do not receive an image of the back of each cancelled check for all bank accounts.

Recommendation – The City, Library and Fire Department should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (M) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

City of Joice

Detailed Recommendations

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

- (N) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, 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 should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (O) 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.

- (P) Water Revenue Bonds – The City’s water revenue bond resolution requires the City “produce and maintain Net Revenues at a level not less than 110% of the amount of principal and interest on the Revenue Bond and any other obligations secured by a pledge of the Net Revenues falling due in the same year.” The City’s fiscal year 2016 net operating receipts of \$22,692 were less than 110% of the required bond principal and interest payment of \$29,422.

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.

- (Q) Sewer Revenue Notes – The City entered into an agreement for a sewer revenue loan agreement anticipation project note in which money held by the bank would be advanced to the City as needed to pay for project costs for the municipal sanitary sewer utility system. The City did not record one loan advance of \$8,775 in the general ledger.

Recommendation – The City should record all loan advances in the general ledger.

- (R) Financial Condition – At June 30, 2016, the City had deficit balances of \$23,193 and \$17,636 in the Enterprise, Water and Sewer Funds, respectively.

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

City of Joice

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Cole L. Hocker, Staff Auditor
Michael Holowinski, Staff Auditor


Marlys K. Gaston, CPA
Director