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STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

May 2, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Runnells, 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. In addition, the City should ensure the bank reconciliations include all City bank accounts and investments and are reviewed by an independent person.

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/1622-0724-EPOP>.

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CITY OF RUNNELLS

**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 Runnells

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Gerald Lane	Mayor	Jan 2016	Jan 2020
Todd Downing	Council Member	Mar 2016	Nov 2017
Skip Dunbar	Council Member	Jan 2014	Jan 2018
Bill Schall	Council Member	Mar 2016	Nov 2017
Bob Borg	Council Member	Jan 2016	Jan 2020
Sheila Miller	Council Member	Jan 2016	Jan 2020
Stephanie Herbold	City Clerk		Indefinite
Geri Huser	Attorney		Indefinite

City of Runnels



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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 Runnells for the period July 1, 2015 through June 30, 2016. The City of Runnells' 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 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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. 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 Runnells, 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 Runnells and other parties to whom the City of Runnells 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 Runnells 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 10, 2016

Detailed Recommendations

City of Runnells

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) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.

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, the reconciliations included only the checking accounts and did not include investments necessary to reconcile with the monthly financial reports. The bank reconciliations generated and provided to the Mayor for review only include the bank statement activity and do not include outstanding items or the book balance. In addition, the June bank reconciliation could not be located. All other monthly bank reconciliations for the period reviewed were available.

Recommendation – To provide better control over financial transactions and overall accountability, monthly bank reconciliations should be prepared to include all bank accounts and investments. Monthly bank reconciliations should include the bank balance, outstanding items and book balance. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. All monthly bank reconciliations should be retained.

(C) Investments – An investment register was not maintained for each investment.

Recommendation – An investment register for each investment, which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

City of Runnells

Detailed Recommendations

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

- (D) Disbursements – One of thirty disbursements tested was not included on the listing of claims approved by the City Council and therefore, the disbursement was not approved.

Recommendation – All disbursements should be included on the listing of claims provided to the City Council for approval.

- (E) Payroll – Timesheets did not include evidence of supervisory review.

Recommendation – All timesheets should be reviewed and approved by appropriate supervisory personnel prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and date of the approval.

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

- (G) 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 City does not publish meeting minutes. In addition, minutes were 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 as required. The minutes should also be signed to authenticate the action taken.

- (H) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the public safety function. 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.

- (I) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1. The report was approved and certified on February 9, 2016.

Recommendation – The City should approve and file the AURR by December 1 as required.

- (J) Debit Card – The City has a debit card for use by City employees while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. Debit cards provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

City of Runnells

Detailed Recommendations

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

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

The City does not have written policies and procedures for:

- Logging off unattended computers.
- Passwords – including password privacy and confidentiality, requiring password changes every 60 to 90 days and requiring passwords to be a minimum of eight characters long.
- Ensuring only software licensed to the City is installed on computers.
- Internet usage.
- Personal use of computer equipment and software.

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

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

(L) Revenue Bonds – The City has not created a sewer bond sinking account and made the required monthly transfers to the account as required by the sewer revenue bond requirements.

Recommendation – The City should establish a sewer sinking account and make monthly transfers to the account, as required.

(M) 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 for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

(N) Credit Card Policy – The City has credit cards for use by employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

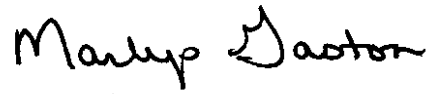
Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate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

City of Runnells

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor II
Anthony J. Mallie, CPA, Staff Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director