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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 18, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Soldier, Iowa for the period January 1, 2016 through December 31, 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. Specifically, the City should ensure bank reconciliations and utility reconciliations are prepared timely, are reviewed by an independent person, and variances, if any, are resolved. The City should also ensure sufficient utility records are maintained to support billings, collections, delinquent accounts and deposits. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the amounts budgeted.

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/1622-0637-EPOP>.

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CITY OF SOLDIER

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

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City of Soldier

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Walker Carrigan	Mayor	Jan 2016	Jan 2018
John Larson	Council Member	Jan 2014	Jan 2018
John McAndrews	Council Member	Jan 2014	Jan 2018
Josh Gran	Council Member	Jan 2016	Jan 2020
Sandra Harris	Council Member	Jan 2016	Jan 2020
Diane Owens	Council Member	Jan 2016	Jan 2020
Melanie McAndrews	City Clerk/Treasurer		Indefinite
Gary Taylor	Attorney		Indefinite

City of Soldier



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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 Soldier for the period January 1, 2016 through December 31, 2016. The City of Soldier'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 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, 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 Soldier, 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 Soldier and other parties to whom the City of Soldier 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 Soldier 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

February 23, 2017

Detailed Recommendations

City of Soldier

Detailed Recommendations

For the period January 1, 2016 through December 31, 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 and having custody of assets.
 - (2) Cash – preparing bank account reconciliations, initiating cash receipt and disbursement transactions and recording.
 - (3) Investments – record keeping, custody of investments and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, recording, and reconciling.
 - (5) Disbursements – purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
 - (6) Payroll – recordkeeping, preparing and distributing.
 - (7) Utilities – billing, collecting, depositing and posting.
 - (8) Financial reporting – preparing and reconciling.
 - (9) Journal entries – preparing and recording.
 - (10) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

In addition, although dual signatures are required on all City checks, the City Clerk has access to the Mayor's signature stamp.

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. In addition, the Mayor's signature stamp should not be accessible by the individual applying the countersignature on City checks.

- (B) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances for the period January 2016 through June 2016. In addition, the bank reconciliations for the period July 2016 through December 2016 did not include the City's investment accounts and the reconciliations were not reviewed by an independent person. For the month reviewed, the bank balances exceeded the book balances by \$4,482. Also, a list of outstanding checks was not maintained throughout the year.

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. Monthly listings of outstanding checks should be prepared and retained.

City of Soldier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (C) General Ledger – The fiscal year 2016 general ledger was maintained by the former City Clerk on a computer which was not the property of the City. Upon termination of the former City Clerk, the City was unable to retrieve the fiscal year 2016 general ledger. Certain local option sales tax (LOST) receipts totaling \$1,304 were recorded in the fiscal year 2017 general ledger as road use tax receipts. In addition, certain road use tax receipts totaling \$3,550 were recorded twice in the fiscal year 2017 general ledger. Also, certain miscellaneous receipts totaling \$210 were incorrectly recorded as LOST in the fiscal year 2017 general ledger.

Recommendation – The City should maintain all accounting software and electronic accounting records on computers which are the property of the City. In addition, the accounting software should be backed up periodically at an off-site location to allow the City to recover lost information, if any. The City should also establish procedures to ensure all receipts are properly recorded in the general ledger and reconciled to the bank statement each month.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly. In addition, utility collections per the bank statements were less than estimated billings by approximately \$8,700.

Recommendation – A listing of delinquent accounts should be prepared monthly and 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.

- (E) Utility Rates and Records – Chapter 384.84 of the Code of Iowa requires utility rates be established by City ordinance. The City was unable to locate an ordinance supporting the current utility rates. In addition, the City was unable to provide utility records documenting the utility billings, collections and delinquent accounts for the year.

Recommendation – The City should ensure all utility rates are established by ordinance, as required. In addition, utility records should be maintained and retained to document detailed records of utility billings, collections and delinquent accounts.

- (F) Monthly City Clerk's Report – The City Clerk's financial reports to the City Council included total monthly receipts and disbursements, but did not include a year-to-date comparison of total disbursements for all funds to the certified budget by function or a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk's monthly financial reports to the City Council should include comparisons of total disbursements for all funds to the certified budget by function. Also, for better financial information, the monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

City of Soldier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (G) Investments – An accounting record/register is not maintained for each investment.

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

- (H) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published (or posted if the City’s population is less than 200) within fifteen days of the meeting and include total disbursements from each fund, a list of all claims allowed and a summary of all receipts. Four of four monthly minutes reviewed did not include total disbursements for each fund or a summary of all receipts. Two of four monthly minutes reviewed did not include a list of all claims allowed (including the reason for the claim).

In addition, no meeting minutes could be located for five City Council meetings, and meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and ensure the minutes postings include total disbursements for each fund, a list of all claims allowed (including the reason for the claim) and a summary of all receipts. Also, the minutes record should be signed to authenticate the actions taken, as required.

- (I) Certified Budget – As of December 31, 2016, disbursements exceeded the amount budgeted in the public safety function for fiscal year 2017, but the budget had not been amended. 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.

- (J) Local Option Sales Tax – The City imposed a local option sales tax (LOST) in the City with receipts to be allocated as follows: 10% for property tax relief, 10% for infrastructure, including sewer buildings and parks, 10% for economic development and 70% for water and streets. Documentation was not maintained to demonstrate the LOST collections were spent in accordance with the provisions of the LOST ballot referendum.

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

- (K) Disbursements – During our review of the City’s disbursements, the following were identified:

- (1) Fifteen of twenty-three disbursements tested were not approved by the City Council.
- (2) Ten of twenty-three disbursements tested in fiscal year 2016 could not be traced to the general ledger because the general ledger was not retrievable from the former City Clerk.
- (3) Nine of twenty-three disbursements tested were not supported by an invoice.

City of Soldier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (4) There were instances where checks were not written in numerical order and nine pre-numbered checks could not be located and were not recorded in the accounting system. The checks were not identified as voided and had not been redeemed.

Recommendation – All disbursements should be approved by the City Council and should be supported by original vendor invoices. The City should implement procedures to ensure all disbursements are properly recorded in the general ledger. In addition, the City should ensure checks are issued sequentially and the sequence is properly accounted for. Gaps in the numerical sequence should be identified and resolved to help prevent potential misuse.

- (L) Questionable Disbursements – One disbursement tested included the purchase of a universal cell phone holder for \$5. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion date April 25, 1979 since the public benefit to be derived has not been clearly documented. 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 proper and an improper purpose is very thin.

Also, there were numerous late payments of payroll taxes to the Iowa Department of Revenue and IPERS resulting in \$182 in fines, penalties and interest.

Recommendation – The City Council should determine and document the public purpose served by this disbursement 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.

Also, the City should establish procedures to ensure payroll taxes are submitted timely to avoid fines, penalties and interest for late payment.

- (M) Payroll – Timesheets were not maintained for all employees and hours worked were not reviewed and approved. Approved wages for employees were not documented in the City Council meeting minutes. An independent review of wages and withholding rates entered into the system is not performed and an independent person does not test wages and withholdings to ensure proper payroll calculations.

In addition, one payroll check tested was written three days in advance of the pay day, and two payroll checks included reimbursements for supplies which were incorrectly included in the calculation of withholdings. Also, the City does not document or monitor vacation, sick leave or compensatory time and the related balances.

Recommendation – Timesheets should be maintained and hours worked by City employees should be reviewed and approved by supervisory personnel prior to the preparation of payroll. Approval of pay rates for City employees should be documented in the City Council meeting minutes at the time of hiring and when raises occur. An independent person should periodically review wage and withholding rates entered in the system to ensure proper payroll calculations. The independent reviews should be documented by the signature or initials of the reviewer and the date of the review. Payroll checks should not be written in advance and should not include reimbursements for supplies. Also, the City should implement procedures to accurately document and account for vacation, sick leave and compensatory time and their related balances.

City of Soldier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (N) Mayor and Council Member Wages – According to the December 14, 2015 City Council meeting minutes, the City Council passed a motion to increase the City Council member pay to \$30 per meeting and increase the Mayor’s salary to \$1,000 annually.

Chapter 372.13(8) of the Code of Iowa states, in part:

“By ordinance, the council shall prescribe the compensation of the mayor, council members, and other elected city officers, but a change in the compensation of the mayor does not become effective during the term in which the change is adopted, and the council shall not adopt an ordinance changing the compensation of the mayor, council members, or other elected officers during the months of November and December in the year of a regular city election. A change in the compensation of council members becomes effective for all council members at the beginning of the term of the council members elected at the election next following the change in compensation.”

The City was unable to locate an ordinance to support the change to the Mayor and City Council Member compensation voted on at the December 14, 2015 City Council meeting. In addition, the change in compensation occurred in December 2015, the year of a regular City election, in violation of Chapter 372.13(8) of the Code of Iowa.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including corrective action to comply with Chapter 372.13(8) of the Code of Iowa.

- (O) Annual Financial Report – The beginning balances for the governmental and proprietary activities did not agree to the prior year ending balances reported in the June 30, 2015 Annual Financial Report (AFR). In addition, the ending balances reported in the June 30, 2016 AFR were understated by \$9,482, and the receipts and disbursements reported in the June 30, 2016 AFR could not be traced to City records because the fiscal year 2016 general ledger was not retrievable from the former City Clerk.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances and reported receipts, disbursements, and ending balances agree with City records.

- (P) Employee Benefits – The City levied and properly reported \$5,091 of employee benefit property tax receipts in the Special Revenue Fund column in the fiscal year 2016 AFR. However, based on the general ledger completed for the period July 1, 2016 through December 31, 2016, the City records the property tax receipts in the General Fund, rather than a Special Revenue Fund.

Recommendation – The City should establish a Special Revenue, Employee Benefits Fund in the general ledger to record the receipt and disbursement of property tax for employee benefits. Reporting between the AFR and general ledger should be consistent.

- (Q) 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.

City of Soldier

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

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.

- (R) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

City of Soldier

Staff

This engagement was performed by:

Jennifer Campbell, CPA, Manager
Ryan J. Pithan, CPA, Senior 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