



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 29, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Maxwell, Iowa for the period April 1, 2016 through March 31, 2017. 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 payroll processing. 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/1621-0818-EPOP>.

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CITY OF MAXWELL

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

**FOR THE PERIOD
APRIL 1, 2016 THROUGH MARCH 31, 2017**

Table of Contents

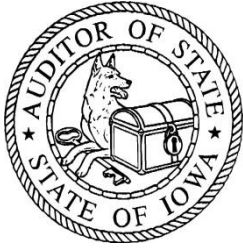
		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	B	8
City Council Meeting Minutes	C	8
Certified Budget	D	9
Business Transactions	E	9
Computer System	F	9
Accounting Policies and Procedures Manual	G	10
Receipts	H	10
Tax Increment Financing	I	10
Local Option Sales Tax	J	10-11
Unclaimed Property	K	11
Restrictive Endorsement	L	11
Financial Condition	M	11
Annual Financial Report	N	11
IRS Form 1099 MISC	O	11
Payroll	P	12
Sinking Account	Q	12
Chart of Accounts	R	12
Disbursement Approval	S	12
Financial Reporting	T	12
Staff		13

City of Maxwell

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Steven Gast	Mayor	Jan 2016	Jan 2018
Megan DeHaven	Council Member	Jan 2014	Jan 2018
Mike Gustafson	Council Member	Jan 2014	Jan 2018
Nicole Hudson	Council Member	Jan 2016	Jan 2020
Susan Livesay	Council Member	Jan 2016	Jan 2020
Doug Miller	Council Member	Jan 2016	Jan 2020
Deb Hayes	City Clerk/Treasurer		Indefinite
Randal B. Caldwell	Attorney		Indefinite

City of Maxwell



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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 Maxwell for the period April 1, 2016 through March 31, 2017. The City of Maxwell'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 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.
8. 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.


9. 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.
10. 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.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. 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.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
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 Maxwell, 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 Maxwell and other parties to whom the City of Maxwell 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 Maxwell 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

April 20, 2017

Detailed Recommendations

City of Maxwell

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

(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, recording, reconciling and custody of the change fund.
- (2) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (3) Utilities – billing, collecting, depositing, posting, maintaining detailed accounts receivable and write-off records and reconciling.
- (4) Disbursements – purchasing, check preparation, signing, access to credit cards, recording and reconciling.
- (5) Payroll – preparing checks, recording transactions, signing and distributing checks and monitoring compensated absences.
- (6) Long-term debt – recording and reconciling.
- (7) Journal entries – preparing and recording.
- (8) Accounting system – performing of all general accounting functions and having custody of assets.

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) 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, the City does not have a formal policy to approve write-offs of uncollectible accounts and account write-offs are not periodically reviewed for subsequent collectability.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or a City Council designated independent person should review the reconciliations and monitor delinquent accounts. The independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

(C) 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 all receipts. Minutes for three of four meetings tested were not published within fifteen days. Minutes of the special meeting held on July 21, 2016 were not published. Minutes publications did not include total disbursements from each fund or a summary of all receipts.

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

City of Maxwell

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (D) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works, health and social services, community and economic development and business type activities functions prior to the budget amendment. At June 30, 2016, disbursements exceeded the amount budgeted in the general government 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.

- (E) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tony Ness, Public Works employee, father owns Ness Farm Supply	Supplies & parts	\$ 3,025

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (F) Computer System –

The following weaknesses in the City’s computer system were noted:

- Software does not require the user to change logins/passwords periodically.
- Employee passwords are not set to a recommended minimum of eight characters.
- Password history is not used to prevent re-use of passwords.
- No policy exists instructing users to log off computer terminals prior to leaving them unattended for extended periods of time and the terminals do not use a time out/log off function to protect them if left unattended.
- 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 control over its computer system. A written disaster recovery plan should be developed.

City of Maxwell

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (G) 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 personnel and act as a quick reference for staff members and officials.
2. Help streamline accounting operations by achieving 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 similar situation arises.
4. Help preserve the key elements in the City's internal control.
5. Increase effectiveness and efficiency.

- (H) Receipts – Pre-numbered receipts are not issued for all collections. In addition, receipts are not reviewed by an independent person to ensure proper deposit and coding in the accounting records.

Recommendation – Pre-numbered receipts should be issued for all collections. The receipts should be reconciled by an independent person to the general ledger and deposit records to ensure they are properly recorded in the City's records.

- (I) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from the fund as provided in Chapter 403.19 of the Code of Iowa. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such the County Auditor shall provide available incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

At June 30, 2016, the City had a cash balance of \$116,489 in the Special Revenue, Tax Increment Financing (TIF) Fund. However, the City had no outstanding TIF debt at year end. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the excess monies in the TIF Fund. If the City has no further TIF debt, the \$116,489 should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa.

- (J) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the Special Revenue, Local Option Sales Tax Fund. The LOST ballot requires the receipts to be allocated 100% for cultural and community betterment.

City of Maxwell

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

During the fiscal year, no disbursements were made directly from the Special Revenue, Local Option Sales Tax Fund. In addition, the City did not track eligible disbursements incurred in other funds which meet the specified criteria of cultural and community betterment as stated on the LOST ballot.

Recommendation – The City should track disbursements which may qualify as cultural and community betterment. These disbursements should be made from the Special Revenue, Local Option Sales Tax Fund, or monies should be transferred, subsequent to approval by the City Council, to the funds which made the qualifying disbursements.

- (K) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

- (L) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

- (M) Financial Condition – The Debt Service Fund had a deficit cash balance of \$96,734 at June 30, 2016. However, the cash balance at March 31, 2017 is in a positive position at \$15,293.

Recommendation – The City should continue to monitor fund balances and investigate alternatives to eliminate future deficit balances.

- (N) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report (AFR) to contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due to the City, and all expenditures..." The Capital Projects Fund reported a deficit balance of \$8,675 on the June 30, 2015 AFR. This balance was reported as part of the total Proprietary Fund beginning balance on the June 30, 2016 AFR. According to the City Clerk, this was to correct for an error in reporting the sewer line rehabilitation project. In addition, all Enterprise, Sewer Fund disbursements were reported as current operations, including debt and capital projects payments that should be reported separately. Also, the AFR fund balances at June 30, 2016 do not agree with the City's general ledger. The total AFR balance was understated \$42,945 when compared to the general ledger.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances. The City should also ensure receipts, disbursements and ending balances are reported correctly on the AFR and agree with the City's general ledger. An independent person should review the AFR for accuracy. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (O) Internal Revenue Service Form 1099 – The City did not file Internal Revenue Service (IRS) Forms 1099 for payments to contractors totaling \$600 or more during calendar year 2016, as required.

Recommendation – The City should complete and file IRS Forms 1099, as required.

City of Maxwell

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (P) Payroll – Timesheets were not approved and initialed by the employee’s supervisor or other responsible official.

Recommendation – Timesheets should be approved and initialed by the employee’s supervisor or other responsible official who is not involved with payroll.

- (Q) Sinking Account – The City has not established a sewer revenue sinking account as required by the provisions of the Sewer Revenue Capital Loan Notes, Series 2015.

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

- (R) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee. As a result, certain funds created in 2015 to set-aside excess funds for future Fire, EMS and Library capital purchases were not correctly classified. The funds were classified and reported as Special Revenue Funds on the 2016 Annual Financial Report (AFR). However, since the source of the funds is the General Fund, the monies are not legally restricted and can be used for other purposes by future City Councils. For this reason, these funds should be classified as part of the General Fund for budgeting and reporting purposes.

Recommendation – To provide better information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments. The set-aside funds should be classified as part of the General Fund for budgeting and reporting purposes.

- (S) Disbursement Approval – While the City Council notes approval of claims in the City Council meeting minutes, the claims list provided to the City Council is not signed to authenticate the record.

Recommendation – The City should establish procedures to authenticate a detailed list of claims or document approval on each invoice.

- (T) Financial Reporting – Although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting, evidenced by liabilities remaining in the fund “Balance Sheet” report at each month end reviewed. Also, other errors exist in the “Balance Sheet” report causing the “cash” balance to disagree with the “fund” balance in certain funds.

Recommendation – The City should establish procedures to ensure financial transactions are properly recorded and are reported using the cash basis of accounting. Liability accounts in the “Balance Sheet” report should be zeroed out each month. The City should also contact their software provider to obtain help in determining the other reasons for the variance between the “cash” balance and the “fund” balance in certain funds.

City of Maxwell

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Debra M. Copeland, Assistant Auditor


Marlys K. Gaston, CPA
Director