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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

September 15, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Oto, 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. The City should also establish procedures to ensure adequate financial records are maintained, including utility records. In addition, the City should review its utility billing process and ensure all utility billings are accurate and timely and all billings are properly collected and recorded.

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/1622-0934-EPOP>.

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CITY OF OTO

**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
Bank Reconciliations	B	8
Accounting System	C	9
Annual Financial Report	D	9
Utility Collections	E	9-10
Utility Billings	F	10
Reconciliation of Utility Billings, Collections and Delinquent Accounts	G	10
Monthly City Clerk’s Report	H	10
Deposits and Investments	I	10-11
City Council Meeting Minutes	J	11
Certified Budget	K	11
Financial Condition	L	11
Investments	M	12
Disbursements	N	12
Revenue Bonds	O	12-13
Debt Service Levy	P	13
Compensation	Q	13
Payroll Rates	R	13
Local Option Sales Tax	S	13
Electronic Check Retention	T	14
Staff		15

City of Oto

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Kevin Rayevich	Mayor	Jan 2016	Jan 2018
Matt Mead	Council Member	Jan 2016	Jan 2018
Beth Swearingen	Council Member	Jan 2016	Jan 2018
Jennifer Weber	Council Member	Jan 2016	Jan 2018
Sherrie Yockey	City Clerk/Treasurer		(Resigned Feb 2017)
Deb Reynolds (Appointed Feb 2017)	City Clerk/Treasurer		Indefinite
Chad Thompson	Attorney		Indefinite

City of Oto



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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 Oto for the period April 1, 2016 through March 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Oto's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Oto 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 9, 2017

Detailed Recommendations

City of Oto

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) Accounting system – performing all general accounting functions, including having custody of assets.
 - (2) Cash – preparing bank account reconciliations, initiating cash receipt and disbursement transactions, handling and recording cash and control of petty cash.
 - (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
 - (4) Long-term debt – recording and reconciling.
 - (5) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (6) Utilities – billing, collecting, depositing and maintaining detailed accounts receivable records.
 - (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (8) Payroll – recordkeeping, preparing and distributing.
 - (9) Financial reporting – preparing and reconciling.
 - (10) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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 – The City was unable to provide monthly bank to book reconciliations prior to July 1, 2016. For the bank to book reconciliations completed after July 1, 2016, there was no evidence of review by an independent person. In addition, the reconciliations did not include all bank and investment accounts controlled by the City.

Also, the lists of outstanding checks included with the bank reconciliations did not include the date the check was written.

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. To increase financial accountability, the lists of outstanding checks should include the check number, amount and date written for each check.

City of Oto

Detailed Recommendations

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

- (C) Accounting System – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee and does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. The City was unable to provide current fund balances as of March 31, 2017 and does not record receipts by source or disbursements by fund and function. The City was unable to locate or provide a general ledger prior to July 1, 2016.

The general ledger for the period July 1, 2016 to March 31, 2017 does not include two certificates of deposit, two checking accounts and one savings account resulting in an understatement of the March 31, 2017 general ledger ending balance of approximately \$63,300.

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Receipts should be recorded by fund and source and disbursements by fund and function. Year-to-date totals should be maintained to facilitate preparation of and to support the Annual Financial Report (see (D) below). The City should also establish procedures to ensure financial records include all assets controlled by the City.

- (D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” Per City personnel, the City contracted for assistance to complete their AFR. For the year ended June 30, 2016 the following conditions were noted. The beginning fund balance for the proprietary funds did not agree with the ending fund balance on the AFR for the year ended June 30, 2015. The total ending fund balance did not agree to the bank and investment accounts and appears to be overstated by approximately \$17,319. We were unable to determine the accuracy of receipts and disbursements reported on the AFR due to the lack of a general ledger or other supporting information (see (C) above).

Recommendation – The City should ensure receipts, disbursement and fund balances included in future AFRs agree with the City’s records. Documentation supporting the AFR should be maintained.

- (E) Utility Collections – The City bills a flat rate for utility services which include water, sewer and garbage. Detailed utility records were not available for the period April 2016 through March 2017, and accordingly, we were unable to verify the accuracy of the amounts deposited in the City’s bank accounts for utility collections. As a result, we estimated the billings for the period by multiplying the utility rates by the estimated number of households billed and compared the estimated billings to the amounts deposited. The estimated amount which should have been billed for the period was approximately \$53,750. Utility collections deposited into the bank for the period April 2016 through March 2017 totaled approximately \$32,400, \$21,350 less than the estimated billings. The difference represents the amount of unbilled services, uncollected billings and/or undeposited utility collections. Per discussions with the former City Clerk, utility bills may not have been sent to customers every month. This was confirmed through discussions with the Mayor and a City Council Member.

City of Oto

Detailed Recommendations

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

In addition, there were no cash deposits for utility receipts during the months of April 2016 through October 2016, January 2017 and February 2017. Per discussion with the current City Clerk, utility cash deposits should average approximately \$170 per month.

Recommendation – The City should determine the amount of unbilled or uncollected utility billings and bring all accounts up-to-date.

- (F) Utility Billings – Chapter 384.84 of the Code of Iowa requires utility rates be established by ordinance of the City Council. The City bills a flat rate for utility services, which include \$40 for water, \$21.50 for sewer and \$20.35 for garbage. However, the City could not provide a City ordinance to support these utility rates.

Recommendation – The City should ensure all utility rates are established by ordinance as required by Chapter 384.84 of the Code of Iowa.

- (G) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. In addition, a delinquent account listing was not prepared monthly.

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

- (H) Monthly City Clerk's Report – The monthly City Clerk's reports presented to the City Council do not report receipts, disbursements, transfers or beginning and ending fund balances for each fund. Also, the monthly reports do not include a comparison of actual disbursements to budget by function.

In addition, for the one monthly City Clerk's report tested, a disbursement in the amount of \$19 was excluded from total disbursements.

Recommendation – To provide better financial accountability, the City should establish procedures to ensure monthly City Clerk's reports include receipts, disbursements, transfers and balances for each fund. Also, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City should establish procedures to ensure monthly City Clerk's reports include a comparison of total disbursements for all funds to the certified budget by function.

- (I) 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.

City of Oto

Detailed Recommendations

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

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.

- (J) 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 City 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 disbursement for each fund, a list of all claims allowed or a summary of all receipts.

In addition, Chapter 380.7 of the Code of Iowa requires minutes of all City Council proceedings be signed by the City Clerk. Three of four monthly minutes reviewed were not properly signed.

Recommendation – The City should comply with Chapters 372.13(6) and 380.7 of the Code of Iowa and post total disbursement for each fund, a list of all claims allowed and a summary of all receipts. In addition, the City should ensure all City Council meeting minutes are signed to authenticate the actions taken.

- (K) Certified Budget – The City does not maintain disbursement records sufficient to facilitate monthly comparisons of year to date disbursements to the certified budget by function. However, based on a review of the fiscal year 2016 Annual Financial Report, disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the culture and recreation 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. The City should maintain disbursement records sufficient to facilitate monthly comparisons of year to date disbursements to the certified budget by function. Disbursements should be classified by function in accordance with the recommended uniform Chart of Accounts and monitored throughout the year.

- (L) Financial Condition – The June 30, 2016 Annual Financial Report (AFR) reported a deficit fund balance of \$2,231 in the Proprietary Fund.

Recommendation – The City should verify the accuracy of the fund balances reported in the AFR. If the reported Proprietary Fund deficit balance is correct, the City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

City of Oto

Detailed Recommendations

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

(M) Investments – The City does not maintain an accounting record/register for certificates of deposits (CDs). In addition, there is no reconciliation or verification of investment earnings/income.

Recommendation – An accounting register should be maintained for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number. Interest earned on investments should be verified and reconciled to interest recorded in the general ledger by someone independent of recording investments and related earnings.

(N) Disbursements – During our review the following conditions were noted:

1. Eight of thirty-four disbursements tested were not adequately supported.
2. Four of thirty-four disbursements tested were not recorded in the general ledger.
3. One of two credit card disbursements tested did not have itemized receipts to support the credit charges.
4. Overdraft fees of \$66 were paid to Security National Bank.

Recommendation – The City should ensure all disbursements are adequately supported and are properly recorded in the general ledger. The City Council should develop procedures to ensure accounts are reconciled timely and up-to-date balances are maintained to avoid overdraft fees.

(O) Revenue Bonds – The City has a sewer revenue bond and a water revenue bond. The following were noted regarding the revenue bonds:

1. The sewer revenue bond resolution requires a sinking account be established for the payment of principal and interest. Although, the City has established a separate bank account for the payment of principal and interest, the City has not established a sewer sinking account in the general ledger as required by the bond resolution.
2. The water revenue bond resolution requires the City produce and maintain net receipts 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 receipts falling due in the same year. Because the City has not fully implemented fund accounting and is unable to provide balances by fund, the City is not monitoring, and is unable to determine, if the City is in compliance with the bond resolution.
3. The City has not established written procedures to monitor compliance with the arbitrage yield restrictions and rebate requirements under Section 148 of the Federal Internal Revenue Service Rules.

Recommendation – The City should establish procedures to ensure compliance with the water and sewer revenue bond resolutions. The City should establish the required sinking account and make required transfers to the account. The City should also ensure accounting records are maintained to enable the City to monitor compliance with the net receipt bond requirements.

City of Oto

Detailed Recommendations

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

In addition, the City should establish written procedures to monitor compliance with the arbitrage yield restrictions and rebate requirements under Section 148 of the Federal Internal Revenue Service Rules.

- (P) Debt Service Levy – The City improperly levied for debt service for its sewer revenue bond on its fiscal year 2016 and 2017 budgets. The sewer revenue bond is required to be paid from the earnings of the sewer system. The debt service levy for fiscal years 2016 and 2017 totaled \$8,174 for each year.

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

- (Q) Compensation – Per City ordinance City Council Members should receive \$5 per meeting attended, the Mayor should receive \$10 per meeting attended and all appointed officer and employee salaries are to be set by resolution of the City Council. For the period reviewed, City Council Members received \$10 per meeting attended and the Mayor received \$20 per meeting attended. In addition, the City was unable to provide a resolution approving salaries for the City Clerk and the Maintenance Supervisor.

In addition, the City Clerk received \$2 per City Council meeting attended. The City was unable to provide support authorizing this pay.

Recommendation – The City should ensure the compensation for the Mayor and City Council Members are paid in accordance with City ordinance. Appointed officer and employee salaries should be set by resolution of the City Council and documented in the City Council meeting minutes. Additional pay to the City Clerk, if any, for attending City Council meetings should be approved by the City Council. The approval should be documented in the City Council meeting minutes.

- (R) Payroll Rates – The payroll rates entered on the computer are not reviewed by an independent person.

Recommendation – To improve internal controls, all payroll rates entered on the computer system should be reviewed by an independent person. The review should be documented by the initials of the reviewer and the date of the review.

- (S) Local Option Sales Tax – The City's Local Option Sales Tax (LOST) ballot requires LOST receipts to be used 5% for property tax relief and 95% for storm sewer and street construction. No documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

City of Oto

Detailed Recommendations

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

- (T) 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 for several bank accounts.

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.

City of Oto

Staff

This engagement was performed by:

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