



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

September 27, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Moorland, 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. In addition, the City should establish procedures to ensure bank accounts are reconciled to the general ledger monthly and utility billings, collections and delinquent accounts are reconciled monthly.

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/1622-0908-EPOP>.

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CITY OF MOORLAND

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

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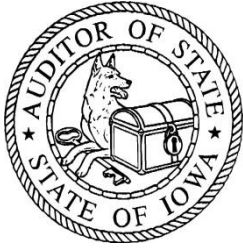
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City of Moorland

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Bradley Hoffman	Mayor	Jan 2016	Jan 2018
Randy Jones	Council Member	Jan 2017	Nov 2017
Matthew Smith	Council Member	Feb 2017	Nov 2017
Kenneth Thompson	Council Member	Nov 2015	Jan 2018
Debra Rauhauser	Council Member	Jan 2016	Jan 2020
Delia Hoffman	Council Member	Jan 2016	Jan 2020
Julia Fiala	City Clerk/Treasurer		Indefinite
Mark R. Crimmins	Attorney		Indefinite

City of Moorland



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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 Moorland for the period January 1, 2016 through December 31, 2016. The City of Moorland'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 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 transfers between funds for propriety, proper authorization and accurate accounting.
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.

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 Moorland, 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 Moorland and other parties to whom the City of Moorland 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 Moorland 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 13, 2017

Detailed Recommendations

City of Moorland

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) Cash – handling, reconciling and recording.
- (2) Long-term debt – recordkeeping and debt payment processing.
- (3) Receipts – collecting, depositing, recording, posting and reconciling.
- (4) Disbursements – invoice processing, check writing, signing, mailing, recording and reconciling.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting and maintaining accounts receivable.

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) Parks and Recreation Board – All accounting functions for the Parks and Recreation Board are handled by one individual without adequate compensating controls. In addition, accounting records are not maintained to facilitate the proper classification of receipts and disbursements in accordance with the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee. Also, there is no evidence the bank account is reconciled to the book balance monthly.

Recommendation – The Parks and Recreation Board should segregate accounting duties to the extent possible, utilizing other departments in the City, if needed, and properly classify receipts and disbursements in the accounting records in accordance with the Uniform Chart of Accounts. Also, the bank account should be reconciled to the book balance monthly and the reconciliations should be reviewed by an independent person. The review should be documented by the signature or initials of the reviewer and the date of the review.

(C) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to the bank and investment account balances throughout the year. For two months reviewed (September and October 2016), the total balance per the City’s general ledger was \$1,593 and \$1,416, respectively, less than the bank balance.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the City Clerk’s report and general ledger monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Moorland

Detailed Recommendations

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

- (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. Also, utility bills are not periodically reviewed and tested by an independent person to ensure calculations are correct.

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. An independent person should periodically review and test utility billings to ensure the accuracy of the billings.

- (E) Monthly City Clerk's Report – The monthly City Clerk's report to the City Council included a summary of receipts, disbursements and transfers, but did not include beginning and ending balances by fund. Also, a monthly comparison of the certified budget to actual disbursements by function is not provided to the City Council.

Recommendation – For better financial information, the monthly reports should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund. Also, 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 to the certified budget by function.

- (F) Separately Maintained Records – The City of Moorland Parks and Recreation Board maintains 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.

- (G) 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 from one of the City's banks.

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.

- (H) Corrective Transfer – A corrective transfer between funds was not approved by the City Council prior to the actual transfer.

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

City of Moorland

Detailed Recommendations

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

- (I) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The City’s Annual Financial Report included receipts and disbursements and beginning and ending balances which do not agree with the amounts recorded in the City’s records.

Recommendation – The City should ensure the receipts, disbursements, beginning and ending balances included in the future Annual Financial Reports are supported by the City’s records.

- (J) City Council Meeting Minutes – Certain minutes of the City Council meetings were not signed by the City Clerk as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City Council meeting minutes should be signed by the City Clerk, as required.

- (K) Unsupported Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Two of thirty disbursements tested were not properly supported.

Recommendation – All disbursements should be supported by invoice or other supporting documentation.

- (L) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, culture and recreation, debt service and business type activities 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.

- (M) Parks and Recreation Board Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Four of five disbursements tested were not properly supported. Disbursements included payments to Menards for paint, lightbulbs and other supplies for the community center, payments to Office Max for copies and to Wal-Mart for food for a fundraiser. Also, Chapter 554D.114 of the Code of Iowa allows the Board 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 Board does not receive an image of the front and back of each cancelled check.

Recommendation – Invoices or other supporting documentation should be retained to support all disbursements. The Board should obtain and retain images of both the front and back of cancelled checks, as required.

- (N) Water Tower Maintenance Fee – Chapter 384.84 of the Code of Iowa allows the City to establish, impose, adjust and provide for the collection of rates and charges to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of a city utility. Rates must be established by ordinance of the City Council. The City charges customers a monthly water tower maintenance fee of \$6, however, an ordinance approving the fee could not be located.

City of Moorland

Detailed Recommendations

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

Recommendation – The City should comply with Chapter 384.84 of the Code of Iowa when authorizing utility rates and charges and should seek legal counsel to determine the disposition of the unauthorized charge.

- (O) Depository Resolution – A resolution naming official depositories has not been approved by the City, as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City Council should adopt a depository resolution naming official depositories and establishing maximum deposit amounts, as required.

- (P) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.”

Chapter 362.5(2) and (3) of the Code of Iowa state, “(2). A city officer or employee shall not have an interest, direct or indirect, in any contract or job of work or material or the profits thereof or services to be furnished or performed for the officer’s or employee’s city. A contract entered into in violation of this section is void. (3). The provisions of this section do not apply to (a). The payment of lawful compensation of a city officer or employee holding more than one city office or position, the holding of which is not incompatible with another public office or is not prohibited by law.”

In September 2015 the City Council competitively bid for and awarded the Water System Supervisor position to the City Mayor and entered into an agreement with the Mayor to perform these services. Pursuant to the agreement, the Mayor is considered to be an employee of the City, rather than an independent contractor, in the performance of the duties covered by the agreement. Accordingly, the compensation paid to the Mayor while performing the duties of Water System Superintendent violate Chapter 372.13(8) of the Code of Iowa which prohibits the Mayor from receiving compensation as a City employee while serving as Mayor. Even though the City attempted to competitively bid the services under Chapter 362.5 of the Code of Iowa, the compensation received by the Mayor while performing services as a City employee is prohibited by law and accordingly, Chapter 362.5 of the Code of Iowa does not apply to this compensation and does not provide an exception which would make the compensation lawful.

Also, a City Council Member is paid \$1 per meter to read customer water meters. While the total amount paid to the Council Member is less than that \$2,500 bid threshold of Chapter 362.5 the City Council member is being paid as an employee of the City.

In September 2016, the City obtained an opinion from the City Attorney regarding whether the Mayor is legally able to do both jobs. The Attorney cited Chapters 362.5(1) and 362.5(4) of the Code of Iowa and concluded, “I believe both of these exceptions apply to this situation with Mr. Hoffman in that there is nothing improper about him acting as both the Mayor and being paid \$10 per day for testing water.”

However, according to an Attorney General’s Opinion dated May 4, 1983, “A city council member may accept employment with his or her city upon resignation, but shall not receive compensation for that employment during the officer’s term of office. The consequences of Chapter 372.13(8) cannot be avoided by resignation.” Therefore, the Mayor and Council Member received compensation contrary to the Code of Iowa and this Attorney General’s Opinion.

City of Moorland

Detailed Recommendations

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

Recommendation – The City should again consult legal counsel to determine the disposition of this matter, including consideration of seeking reimbursement for the \$3,067 improperly paid to the Mayor for services provided under the Water System Supervisor agreement and the \$833 improperly paid to the City Council Member for meter reading.

City of Moorland

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Janet K. Mortvedt, CPA, Senior Auditor II
Taylor I. Cook, Assistant Auditor


Marlys K. Gaston, CPA
Director