

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

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

October 2, 2017

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Mount Union, Iowa for the period July 1, 2015 through June 30, 2016. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

A copy of the agreed-upon procedures report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1622-0413-EPOP>.

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**CITY OF MOUNT UNION**

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

**FOR THE PERIOD  
JULY 1, 2015 THROUGH JUNE 30, 2016**

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**City of Mount Union**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
John Marek, Jr.	Mayor	Jan 2014	Jan 2018
Ben Johnson	Council Member	Jan 2014	Jan 2018
Wendy Mather	Council Member	Jan 2014	Jan 2018
Samantha Strothman	Council Member	Jan 2014	Jan 2018
Robyn Buffington	Council Member	Jan 2016	Jan 2020
Randall Wilkerson	Council Member	Jan 2016	Jan 2020
Sarah Berndt	City Clerk		Indefinite
Steve Ort	Attorney		Indefinite

**City of Mount Union**



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the City Development Board and  
the Henry County Auditor:

We received a petition for the City of Mount Union and, accordingly, 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 Mount Union for the period July 1, 2015 through June 30, 2016. The City of Mount Union'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 and tested selected receipts for accurate accounting and consistency with the recommended COA.
9. 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.
10. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
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 findings. Our findings are described in the Detailed Findings section of this report. Unless reported in the Detailed Findings, 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 Mount Union, additional matters might have come to our attention that would have been reported to you.

This report is a public record by law, is intended solely for the information and the use of the officials, employees and citizens of the City of Mount Union and other parties to whom the City of Mount Union 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 Mount Union 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

January 12, 2017



## **Detailed Findings**

City of Mount Union

Detailed Findings

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

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
  - (2) Cash – handling, reconciling and recording.
  - (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
  - (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
  - (5) Payroll – recordkeeping, preparing and distributing.
  - (6) Financial reporting – preparing and reconciling.
- (B) Bank Reconciliations – An independent review of the bank reconciliations was not performed.
- (C) Dual Signatures – Certain checks included only one signature although dual signatures are required by the City's Code of Ordinances, Chapter 7.07.
- (D) Local Option Sales Tax – The City's local option sales tax referendum effective January 1, 2001 through December 31, 2005 states the proceeds shall be used for parks and recreation. The City's local option sales tax referendum effective January 1, 2006 through December 31, 2015 states the proceeds shall be used for City park improvements.

During our audit of fiscal year 2013, we reported the City recorded local option sales tax in the General Fund and was not tracking how local option sales tax receipts were spent or the unspent balance. As a result, we were unable to determine whether the City had used the local option sales tax for the purposes specified in the local option sales tax referendums. Due to the magnitude of local option sales tax collections in relation to the balance of the City's governmental funds, we were unable to determine the true financial condition of the City's General Fund.

Our recommendation in the fiscal year 2013 audit stated the City should document local option sales tax receipts and disbursements since inception to determine the unspent balance at June 30, 2013 and make a corrective transfer from the General Fund to establish a Special Revenue Fund, Local Option Sales Tax Fund for the amount of unspent balance. We also recommended the City expend local option sales tax in accordance with the local option sales tax referendums.

Although the Mayor reconstructed local option sales tax receipts and disbursements to determine the unspent balance at June 30, 2013, the City did not make a corrective transfer from the General Fund to a Special Revenue, Local Option Sales Tax Fund because the unspent balance exceeded the balance in the City's General Fund. In January 2015, the City established a Local Option Sales Tax Fund.

City of Mount Union

Detailed Findings

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

The City's local option sales tax referendum effective January 1, 2016 states the proceeds shall be used for roads in the amount of \$5,000, garbage collection in the amount of \$3,100 and the remainder of the tax proceeds shall be recorded in the General Fund.

Although the City is recording local option sales tax collections under the new referendum in the Special Revenue, Local Option Sales Tax Fund, the City is not tracking the unspent balances for the three purposes stated in the referendum.

- (E) Bank Loan – On September 16, 2013, the City entered into an agreement with a local bank for a \$25,000 line of credit. The City did not comply with the provisions of Chapter 384.24A of the Code of Iowa which require certain authorization procedures to be followed, including notice, publication of intended action and time and place of the meeting to approve the intended action. The only documented approval of the loan agreement was a motion in the February 13, 2013 City Council minutes by which the City Council approved obtaining a loan “in the amount of \$7,000, plus financing fees for legal fees incurred for legal representation.”

The loan was collateralized by the City's community building. It does not appear appropriate for the City to use the community building as collateral for the loan. Rather, general obligation debt of cities is typically backed by the full faith and credit of the City and funded with a debt service levy.

This finding was reported in our fiscal year 2013 audit. To our knowledge, the issue remains unresolved.

- (F) Debt Service Levy – The City levied debt service taxes for an obligation that was not authorized as a general obligation in accordance with Chapter 384 of the Code of Iowa. In addition, the City recorded debt service receipts in the General Fund since a Debt Service Fund has not been established.
- (G) Monthly Financial Reports – Monthly financial reports were compiled from the accounting records and provided to the City Council for its review and approval. However, these financial reports did not include a comparison of actual disbursements to budget by function. In addition, disbursements in the financial reports were recorded when they cleared the bank rather than when the check was written and certain receipts were recorded on an accrual (GAAP) basis rather than a cash basis.
- (H) Transfers – The City transfers money to and from various funds periodically. However, these transfers were not always approved by the City Council.
- (I) Payroll Error – The City Clerk was erroneously paid twice for 20.25 hours worked in December 2015. The City Clerk was paid for December 2015 through March 2016 hours in April 2016. However, the total hours paid included December's hours twice. The overpayment was corrected in subsequent payrolls.
- (J) Payroll – The approved wage for the City's maintenance worker could not be located in City Council meeting minutes.

City of Mount Union

Detailed Findings

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

- (K) Annual Financial Report – Although the City’s Annual Financial Report for the year ended June 30, 2016 was submitted as required by Chapter 384.22 of the Code of Iowa, the beginning and ending fund balances reported did not agree with the City’s financial records.
- (L) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the general government function. In addition, disbursements in the public works function exceeded the amount budgeted prior to the May 30, 2016 budget amendment. 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.”
- (M) Unsupported Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Two disbursements were not properly supported.
- (N) Employee Benefits Levy – The City accounted for the employee benefits levy in the General Fund rather than a Special Revenue Fund. In accordance with budget forms prescribed by the Iowa Department of Management, the employee benefits levy is a Special Revenue levy.
- (O) Fuel Purchases – In two instances the City purchased fuel for an employee’s personal vehicle used for City work rather than reimbursing the employee for mileage.
- (P) City Council Meeting Minutes – One of four City Council meeting minutes tested was not posted within fifteen days of the meeting as required by Chapter 372.13(6) of the Code of Iowa.
- (Q) Petition Items – Except as noted, all items included in the Petition for Audit have been resolved.
- (R) Discontinuance – Effective March 8, 2017, the City of Mount Union was discontinued in accordance with Chapter 368.3 of the Code of Iowa.

City of Mount Union

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager  
Brandon J. Vogel, Senior Auditor II  
Adjoa S. Adanledji, Staff Auditor

  
Marlys K. Gaston, CPA  
Director