



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 2, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations on the City of Albion's Periodic Examination Report dated September 2, 2015. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period May 1, 2016 through February 28, 2017.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While thirteen of the twenty-six findings reported in the Periodic Examination Report dated September 2, 2015 have been corrected and four have been partially corrected, nine of the findings are repeated in this report and are reported as "not corrected".

A copy of the City of Albion's Report on the Status of Periodic Examination Findings and Recommendations 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/1522-0603-EPPF>.

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CITY OF ALBION

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
MAY 1, 2016 THROUGH FEBRUARY 28, 2017**

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City of Albion

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
John Henze	Mayor	Jan 2016	Jan 2020
Eric Erikson	Council Member	Jan 2016	Jan 2018
Kay Gill	Council Member	Jan 2016	Jan 2018
Pat Hemming	Council Member	Jan 2016	Jan 2018
Justin Krueger	Council Member	Jan 2016	Jan 2018
Eric Schmidt	Council Member	Jan 2016	Jan 2018
Karen Hermann (Appointed Dec 2015)	City Clerk/Treasurer		(Resigned Jun 2016)
Jody Wallen (Appointed Jun 2016)	City Clerk/Treasurer		Indefinite
Jeffrey P. Hazen	Attorney		Indefinite

City of Albion



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Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated September 2, 2015 on the City of Albion, Iowa covering the period August 1, 2014 through July 31, 2015 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.


This report includes the findings and recommendations from the City's Periodic Examination Report dated September 2, 2015 and the current status of the City's implementation of the recommendations included in that report. This report covers the period May 1, 2016 through February 28, 2017.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated September 2, 2015. 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 Albion during the course of our follow-up procedures. Should you have 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

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Albion

Report on the Status of Periodic Examination Findings and Recommendations

For the period May 1, 2016 through February 28, 2017

Findings Reported in the Periodic Examination Report dated September 2, 2015:

(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) Receipts – depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Payroll – record keeping and preparing.
- (6) Financial reporting – preparing and reconciling.
- (7) Accounting system – performing 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.

Current Status – Not corrected. The recommendation is repeated.

(B) Bank Reconciliations – Bank and investment balances were not reconciled to book balances monthly. At June 30, 2015, the City's general ledger was \$34,777 less than the reconciled bank and investment balance.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

Current Status – Partially corrected. For the period reviewed, the City reconciled bank and investment balances to book balances monthly. However, investment balances were not accurately reported and there was no independent review of the bank reconciliation. The recommendation is partially repeated.

City of Albion

Report on the Status of Periodic Examination Findings and Recommendations

For the period May 1, 2016 through February 28, 2017

(C) 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...” We noted the following regarding the City’s 2014 AFR:

- Certain receipts and disbursements did not agree with the City’s records.
- The beginning balances reported did not agree to the ending balances reported in the City’s audit for the year ended June 30, 2013. The governmental fund total beginning balance was overstated by \$64,661 and the proprietary fund total beginning balance was understated by \$64,912.
- We were unable to determine the accuracy of disbursements reported since the City’s financial records do not classify disbursements by function and information supporting the amounts reported was not retained.
- The City’s outstanding debt was not reported in the AFR.
- The City Council did not approve the AFR.

Recommendation – The City should ensure the AFR beginning balances and financial activity, including outstanding debt, is properly supported and reported. The AFR should be approved by the City Council.

Current Status – Corrected. The City’s AFR for the fiscal year ending June 30, 2016 was properly supported and reported and was approved by the City Council.

(D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – A reconciliation of utility billings, collections and delinquent accounts is not prepared. In addition, delinquent account listings were not maintained.

Recommendation – 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, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts. Delinquent account listings should be prepared monthly and retained.

Current Status – Partially corrected. For the period reviewed, the City maintained a delinquent account listing; however, a reconciliation of utility billings and collections was not performed. The recommendation is partially repeated.

(E) Improper Reimbursement – In March 2015, the City reimbursed the City Clerk (now former City Clerk) \$110 for a registration fee for the 2015 IMFOA Spring Conference. Documentation supporting the reimbursement included a note indicating the City Clerk had paid the registration fee using her personal credit card. However, the reimbursement appears improper since the registration fee of \$110 was charged to the City’s credit card and was subsequently paid by the City.

Recommendation – The City should seek reimbursement for the improper payment.

Current Status – Not corrected. The City has not sought reimbursement for the improper payment from the former City Clerk. The recommendation is repeated.

City of Albion

Report on the Status of Periodic Examination Findings and Recommendations

For the period May 1, 2016 through February 28, 2017

- (F) Insurance Stipend – During the period reviewed, the City paid an employee \$8,000 representing a retroactive adjustment to the employee’s insurance stipend. The 2010 City Council Resolution approving the stipend provides for a \$500 per month payment to the employee in lieu of City insurance coverage. However, since the payments were made through payroll, the employee netted less than \$500 each month. In March 2015, the City Council approved the \$8,000 payment to compensate the employee for the difference between the gross amount of \$500 per month and the net amount paid.

The City did not retain documentation to support how the retroactive payment amount was determined and accordingly, we were unable to determine the propriety of the amount paid. In addition, the payment was made through accounts payable rather than payroll. Accordingly, the proper state and federal taxes were not withheld from the payment and the City did not report the payment on Internal Revenue Service Form W-2.

Recommendation – The City should document how the retroactive adjustment amount was determined and should contact the Iowa Department of Revenue and the Internal Revenue Service to determine the disposition of the unreported compensation.

Current Status – Not corrected. The City has not documented how the retroactive adjustment was determined and they have not contacted the Iowa Department of Revenue or the Internal Revenue Service to determine the disposition of the unreported compensation. The recommendation is repeated.

- (G) 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.”

During the period November 5, 2014 through February 26, 2015, the Mayor was compensated \$10,877 for performing the City Clerk’s duties while the City Clerk was on leave. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits the Mayor from receiving compensation as a City employee while serving as Mayor.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$10,877 improperly paid to the Mayor.

Current Status – Corrected. During the period reviewed, the City submitted this claim to their insurance carrier and received payment of \$9,877, which represented the amount improperly paid less the insurance deductible.

- (H) Disbursements – Invoices and other supporting documentation are not reviewed by the person responsible for co-signing checks and certain checks were signed in advance by the co-signer. Also, three disbursements tested were not approved by the City Council and supporting documentation was not cancelled to prevent reuse.

Recommendation – Supporting documentation for all disbursements should be reviewed by the person responsible for co-signing checks prior to signing the checks. Under no circumstances should checks be signed in advance. All disbursements should be approved by the City Council and supporting documentation should be cancelled to prevent reuse.

City of Albion

Report on the Status of Periodic Examination Findings and Recommendations

For the period May 1, 2016 through February 28, 2017

Current Status – Corrected. For the period reviewed, the City Council reviewed invoices and other supporting documentation prior to payment and invoices were cancelled to prevent reuse. Checks are no longer signed in advance.

- (I) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Theisens	Candy and tea	\$ 19
Walmart	Candy	23
Haley’s Deli	Lunch for Summit training	33
Pizza Ranch	Lunch for Summit training	67
Business Management Daily	Electronic newsletter subscriptions (not located on the City’s computer)	185
National Notary Association (NNA)	Membership dues, insurance and newsletter subscription (not located on the City’s computer)	220
Southeastern Iowa Synod Evangelical Lutheran Church in America	Poverty workshop registration fee	45

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 a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served 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. The City should seek reimbursement for purchases, if any, determined to be personal in nature.

Current Status – Corrected. For the period reviewed, no questionable disbursements were noted.

- (J) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety 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.

Current Status – Not corrected. Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the business type activities function. The recommendation is repeated.

City of Albion

Report on the Status of Periodic Examination Findings and Recommendations

For the period May 1, 2016 through February 28, 2017

- (K) Monthly City Clerk's Report – Monthly City Clerk's reports, including a summary of receipts, disbursements and ending balances by fund, were not always prepared and provided to the City Council for review and approval. In addition, the City Council is not provided a monthly bank reconciliation or a comparison of disbursements to the certified budget by function.

Recommendation – Monthly City Clerk's reports, including a summary of receipts, disbursements and ending balances by fund, should be prepared and provided to the City Council for approval. Monthly reporting to the City Council should also include bank reconciliations and comparisons of actual disbursements to the certified budget by function.

Current Status – Partially corrected. For the period reviewed, the monthly City Clerk's reports included a summary of receipts, disbursements and ending balances by fund and were provided to the City Council for approval. However, the City Council was not provided a comparison of actual disbursements to the certified budget by function. The recommendation is partially repeated.

- (L) Financial Condition – At June 2015, the City had deficit balances of \$29,055 and \$5,910 in the General Fund and the Enterprise, Water Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Current Status – Not corrected. At June 30, 2016, the City had deficit balances of \$4,048, \$3,468 and \$31,722 in the Special Revenue, Employee Benefits Fund, the Debt Service Fund and the Enterprise, Water Fund, respectively. The recommendation is repeated.

- (M) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 25% for property tax relief and 75% for capital improvements. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

Current Status – Not corrected. The recommendation is repeated.

- (N) 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. The minutes for the December 15, 2014 meeting were not published within fifteen days. Also, the City Council meeting minutes for the March 3, 2015 meeting were not available and the minutes publication for the June 4, 2015 City Council meeting could not be located.

In addition, City Council meetings were not preceded by proper notice in accordance with Chapter 21.4 of the Code of Iowa and the minutes record for one meeting tested was not signed as required by Chapter 380.7 of the Code of Iowa.

City of Albion

Report on the Status of Periodic Examination Findings and Recommendations

For the period May 1, 2016 through February 28, 2017

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. All City Council meeting minutes and proofs of publications should be retained. In addition, the City should post proper notice prior to each City Council meeting and all City Council meeting minutes should be signed to authenticate the actions taken.

Current Status – Corrected. For the period reviewed, the City published meeting minutes within fifteen days, as required, and proof of publications were retained. The City posted proper notice prior to each City Council meeting and all meeting minutes were signed to authenticate actions taken.

- (O) Purchasing Policy – The City has not established a written purchasing policy.

Recommendation – The City should establish a written purchasing policy establishing guidelines for the City Clerk and City departments. At a minimum, the policy should establish a dollar threshold for purchases requiring pre authorization by the City Council.

Current Status – Corrected. The City established a purchasing policy in July 2016.

- (P) Payroll – The approved salary and wage rate increases for the City’s maintenance worker, City Clerk and library personnel were not included in the City Council meeting minutes. Also, time cards were not always reviewed and approved by supervisory personnel or City officials prior to preparation of the payroll and employees did not sign their time cards.

Recommendation – Approved salary and wage rates for employees should be documented in the City Council meeting minutes. Time cards should be signed by employees and should be reviewed and approved by appropriate supervisory personnel or City officials prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Partially corrected. During the period reviewed, time cards were signed by employees and were reviewed and approved by a City Official prior to the preparation of payroll. The wage rate approval for the City’s maintenance worker was not documented in the City Council meeting minutes. The recommendation is partially repeated.

- (Q) Credit Card Disbursements – Invoices or other supporting documentation were not always available to support credit card charges. In addition, the credit card statements tested included finance charges and late fees totaling \$174.

Recommendation – The City should retain original invoices to support all credit card charges. An independent person should reconcile the invoices to the credit card statements monthly. The City should establish procedures to ensure credit card payments are timely to avoid finance charges and late fees.

Current Status – Corrected. For the period reviewed, the City retained original invoices to support all credit card charges and invoices were reconciled to the credit card statements monthly. Credit card procedures were included as part of the approved purchasing policy.

City of Albion

Report on the Status of Periodic Examination Findings and Recommendations

For the period May 1, 2016 through February 28, 2017

- (R) Payroll Taxes – The first quarter 2015 State and Federal payroll reports were not filed timely. The reports were due in April 2015 but were not filed until July 2015. As a result, the City incurred penalty and interest charges.

Recommendation – The City should ensure all quarterly payroll reports are filed timely.

Current Status – Corrected. For the period reviewed, the City filed its State and Federal payroll reports timely.

- (S) Receipts – During the period reviewed, we identified several receipts posted to incorrect funds and account codes, including property tax, road use tax, local option sales tax (LOST) and a library grant. In addition, during May and June 2015, road use tax and LOST receipts were not posted to the general ledger. The City subsequently made adjustments to correct the errors.

Recommendation – The City should establish procedures to ensure all receipts are recorded accurately and timely in the City's general ledger.

Current Status – Corrected. For the period reviewed, the City posted all property tax, road use tax and LOST receipts to the correct fund and account codes.

- (T) Deposits and Investments – The City has adopted a written investment policy. However, the policy refers to an outdated Chapter of the Code of Iowa rather than to Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should modify the written investment policy to reference current Code of Iowa provisions.

Current Status – Not corrected. The recommendation is repeated.

- (U) Transfers – For the year ended June 30, 2015, transfers in did not agree to transfers out by \$7,815. The City did not record both sides of each transfer to the proper account code. In addition, one transfer for \$5,597 was not approved by the City Council.

Recommendation - Interfund transfers should be balanced monthly to ensure transfers in agree to transfers out and transfers should be reviewed to ensure transfers are posted to the proper account codes. The City Council should approve all interfund transfers and document the approval as part of the City Council meeting minutes.

Current Status – Corrected. For the year ended June 30, 2016, transfers in agreed to transfers out and all transfers were approved by the City Council.

- (V) 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.

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.

City of Albion

Report on the Status of Periodic Examination Findings and Recommendations

For the period May 1, 2016 through February 28, 2017

Current Status – Corrected. For the period reviewed, the City retained both the front and back of check images.

- (W) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Current Status – Not corrected. The recommendation is repeated.

- (X) Utility Billing Register – Based on a review of the utility billing register, we noted several customers with unusually high utility bills which appeared to be caused by the use of incorrect consumption amounts in calculating the bill. While the customers did not pay for the incorrect usage, there were no corrections noted in the billing register to indicate the correct billing amount. The utility billing register is not independently reviewed monthly to ensure the accuracy of utility billings.

Recommendation – The utility billing register should be reviewed monthly by an independent person to ensure billings are accurate and appear reasonable.

Current Status – Corrected. For the period reviewed, there were no unusually high uncorrected utility billings.

- (Y) Change Fund – During our review of the City's change fund, we noted the fund was \$18 short of the \$50 established amount.

Recommendation – To provide better control and accountability over the change fund, the change fund should be reconciled daily to an established amount.

Current Status – Corrected. During the period reviewed, the City's change fund was reconciled to the established amount.

- (Z) 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 staff.
- (2) Help achieve 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 same, or a similar, situation arises.

Current Status – Not corrected. The recommendation is repeated.

City of Albion

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Emma L. McGrane, Senior Auditor


Marlys K. Gaston, CPA
Director