



**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

November 30, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Badger, 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 and implement procedures to provide an adequate segregation of duties. The City should also establish procedures to ensure monthly bank and utility reconciliations are performed and are independently reviewed. In addition, the City should comply with the Code of Iowa for depository resolutions as required by Chapter 12C.2, budget amendments as required by Chapter 384.18, cancelled check retention as required by Chapter 554D.114 and unclaimed property as required by Chapter 556.11.

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/1622-0898-EP0P>.

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CITY OF BADGER

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

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

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**City of Badger
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Christopher Wendell	Mayor	Jan 2014	Jan 2018
Roger Curtis	Council Member	Jan 2014	Jan 2018
Janelle Wagner	Council Member	Jan 2014	Jan 2018
Jim Chaney	Council Member	Jan 2016	Jan 2020
Teresa Larson-White	Council Member	Jan 2016	Jan 2020
Tiffany Sorenson	Council Member	Jan 2016	Jan 2020
Nadine Odor	City Clerk/Treasurer		Indefinite
Monty Fisher	Attorney		Indefinite

City of Badger



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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 Badger 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 Badger'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 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.

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 Badger 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

November 7, 2017

Detailed Recommendations

City of Badger

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, reconciling and recording.
- 2) Investments – custody, posting, 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) Utilities – billing, collecting, depositing and posting.

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 – Although the cash balances in the City’s general ledger were reconciled to the checking account balance for the two months tested, a complete reconciliation including investments was not performed. Also, bank reconciliations are not independently reviewed.

In addition, the Check Reconciliation report generated by the City’s accounting system appears to include outdated reconciling items. Total deposits in transit of \$6,371 per the Check Reconciliation report at June 30, 2016 included 16 outstanding deposits dated between November 2008 and June 2016. Also, the listing of outstanding checks included checks for \$17,000 and \$15,000, dated November 2008 and June 2010, respectively. The accuracy of the reconciling items included in the Check Reconciliation report is questionable.

Recommendation – The City should immediately review all deposits in transit and outstanding checks to determine the accuracy of each reconciling item. After reconciling items have been reviewed and corrected, a bank reconciliation should be prepared and reconciled to the City’s accounting system. 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.

C) Debit Card – The City has used a debit card for various City purchases.

Recommendation – The City Council should prohibit the use of debit cards for City purchases.. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

City of Badger

Detailed Recommendations

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

- D) Deposits and Investments – The City has not adopted a resolution naming official depositories and authorized deposit amounts as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – 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.

- E) Reconciliation of Utility Billings and Collections – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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 and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- F) Financial Reporting – The monthly City Clerk’s report does not include transfers, beginning and ending fund balances or each fund or a comparison of total disbursements for all funds to the certified budget by function and does not include evidence of reconciliation or review by an independent person.

Recommendation – The monthly City Clerk’s report should include a summary of beginning and ending fund balances, transfers and a comparison of total disbursements for all funds to the certified budget by function.

- G) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the community and economic development 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.

- H) Disbursements – Supporting documentation could not be located for 4 of 8 transactions tested for which the payee was the City Clerk or the Mayor. Due to the lack of supporting documentation, we were unable to determine if the transactions met the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979. In addition 2 of 36 transactions tested were not properly approved by the City Council.

Three of the 36 claims tested were for mileage reimbursements. For 2 of these claims, mileage was reimbursed at \$0.525 per mile. However, the mileage reimbursement rate per City resolution is \$0.445 per mile.

Recommendation – All disbursements should be supported by invoice or other supporting documentation and should be approved by the City Council prior to disbursement. For those disbursements which require timely payment to avoid late fees, the City could adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. In addition, the City should ensure mileage reimbursements are at the approved rate.

City of Badger

Detailed Recommendations

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

- I) Payroll – For the pay period ended August 25, 2016, overtime was paid at an incorrect rate and additional, unsupported pay for the City Clerk and Maintenance employee was included in total payroll. The overtime was corrected with the September 2016 payroll. However, the September payroll did not include an adjustment of \$836 for the additional, unsupported pay included in the August 25, 2016 payroll.

Recommendation – The City should establish procedures to ensure the payroll register is properly reviewed each pay period, including ensuring the proper payroll rates are used to calculate overtime and total payroll properly recalculates and does not include additional pay. The City should consult legal counsel to determine the disposition of the uncorrected additional pay to the City Clerk and maintenance employee.

- J) Vacation and Overtime – The City of Badger Employee Handbook (Handbook) states “The employee may carry forth unused vacation time into the next program year to a maximum carry-over of 160 hours. Hours in excess of this amount will be forfeited.” In addition, the Handbook states “Upon termination of employment, compensation for unused vacation time shall not be provided.” City employees generally work four, ten hour days Monday through Thursday for a total of 40 hours per week. However, during the period reviewed, instances were noted when vacation hours were recorded on a Friday, causing total hours paid to the employee to exceed 40 hours for the week. By paying in excess of 40 hours for these weeks, the City effectively paid the employee for vacation time. City policy does not appear to allow for vacation payouts.

During the period reviewed the City Clerk and Maintenance employee both worked overtime. Some of the overtime for the City Clerk is due to training and meetings necessary to perform the duties of City Clerk. However, total overtime for the period April 1, 2016 through March 31, 2017 totaled 166.75 hours or approximately \$7,110 and 158.75 hours or approximately \$5,169 for the City Clerk and Maintenance employee, respectively.

Time cards supporting vacation used and overtime were reviewed and approved by appropriate personnel.

Recommendation – Overtime hours appear excessive. City officials should more closely monitor the overtime hours worked by City employees. In addition, the City should review its policies and procedures for recording vacation, overtime and hours worked and should ensure vacation time used and paid is in accordance with the City’s Handbook.

- K) Local Option Sales Tax – The Local Option Sales Tax (LOST) ballot requires LOST receipts be used 50% for reduction of General Obligation debt and 50% for any lawful purpose. The City does not have General Obligation debt outstanding and as a result the City is currently using 100% of LOST receipts for any lawful purpose. The City is not in compliance with the LOST ballot requirements.

Recommendation – The City should consult legal counsel to determine the proper disposition of this matter, including whether a change to the ballot language would be appropriate.

- L) Separately Maintained Records – The City of Badger Library maintains a bank account for the Library separate from the City Clerk’s accounting records. The transactions and resulting balances are not included in the City’s accounting records, monthly financial reports or Annual Financial Reports.

City of Badger

Detailed Recommendations

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

In addition, the Library holds regular fund-raisers to promote public support. Receipts from fund-raisers are deposited into the separate Library bank account. One check brought to our attention was being held by the Librarian in an unsecured location.

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.

The City should establish policies regarding the proper handling of receipts by the Library to ensure all pending deposits are secured and deposited in a timely manner.

- M) 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.

- N) Petty Cash and Change Funds – The City has three separate petty cash and change funds for the City, Library and bulk water sales, none of which are maintained on an imprest basis or maintained at an authorized amount. In addition, the Library and bulk water sales change funds are not included in the City’s accounting records or fund balances.

Recommendation – The petty cash funds should be maintained on an imprest basis to provide additional control over the petty cash fund. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Also, the City Council should approve an authorized amount to be maintained in each of the petty cash and change funds. Surprise cash counts should be conducted by an independent person to ensure the accuracy of the petty cash and change fund balances. In addition, 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 funds and accounts, including petty cash, should be included in the Clerk's accounting system.

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

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

City of Badger

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager
Eileen D. Loomis, Staff Auditor
Jacob N. Bennett, Assistant Auditor


Marlys K. Gaston, CPA
Director