

**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

December 6, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Webster, Iowa for the period July 1, 2016 through June 30, 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. Specifically, the City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and utility billings, collections and delinquent accounts are reconciled for each billing period. In addition, the City should fully implement the recommended Uniform Chart of Accounts and ensure local option sales tax receipts are expended in accordance with the approved ballot.

Mosiman also reported additional concerns were presented during fieldwork regarding certain transactions processed by the former City Clerk. Because these concerns were outside the scope of the agreed-upon procedures engagement, a separate special investigation report will be issued.

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/1722-0515-EPOP>.

###

CITY OF WEBSTER

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

**FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017**

Table of Contents

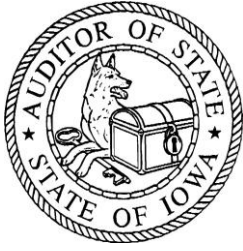
		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Bank Reconciliations	B	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C	8
Financial Reporting	D	8-9
Disbursements	E	9
Questionable Disbursements	F	9-10
Payroll	G	10
City Council Meeting Minutes	H	10
Certified Budget	I	11
Utility Rate Ordinance	J	11
Computer System	K	11
Deposits and Investments	L	12
Electronic Check Retention	M	12
Staff		13

City of Webster

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Bryan E. Lee	Mayor	Jan 2016	Jan 2018
Steve Black	Council Member	Jan 2016	Jan 2018
Kyle Garringer	Council Member	Jan 2016	Jan 2018
Gerald Glandon	Council Member	Jan 2016	Jan 2018
Scott Mihal	Council Member	Jan 2016	Jan 2018
Barbara Shifflett	Council Member	Jan 2016	Jan 2018
Lindsey Black	City Clerk		Resigned March 2017
Jan Berg	City Clerk		Effective March 2017
John N. Wehr	Attorney		Indefinite

City of Webster



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

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 Webster for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Webster'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 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 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.

Additional concerns were brought to our attention during fieldwork regarding certain transactions processed by the former City Clerk. Because the additional concerns need to be addressed but were outside the scope of the agreed-upon procedures engagement, a separate special investigation report will be issued.

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 Webster 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

September 15, 2017

Detailed Recommendations

City of Webster

Detailed Recommendations

For the period July 1, 2016 through June 30, 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) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Payroll – approving time sheets, recordkeeping, preparing and distributing.

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 should be documented by the signature or initials of the reviewer and the date of the review.

Also, bank statements should be delivered to an official who does not collect or disburse City funds. The bank statements should be reviewed in a timely manner for unusual activity and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. At June 30, 2017, the City’s general ledger was \$42,342 less than the reconciled bank and investment balance because the City’s four certificates of deposit and two savings accounts were not recorded in the City’s general ledger.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the 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.

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

Recommendation – Delinquent account listings should be prepared monthly and retained. 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 signing or initialing and dating the reconciliations.

- (D) Financial Reporting – The City has not fully 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. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the

City of Webster

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

various funding sources of the City, including, but not limited to, road use tax and local option sales tax. In addition, the following were noted:

- The City has not established a Special Revenue, Road Use Tax Fund and road use tax receipts totaling \$984 were not recorded in the City's general ledger.
- The City has not established a Special Revenue, Local Option Sales Tax (LOST) Fund to ensure LOST receipts and balances are properly accounted for and LOST is spent in accordance with the approved ballot.

A monthly City Clerk's report, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of total disbursements for all funds to the certified budget by function is not prepared.

In addition, 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..." However, adequate financial records were not available to support receipts, disbursements and fund balances reported in the City's fiscal year 2016 AFR. Also, the beginning fund balances on the fiscal year 2016 AFR did not agree with the ending fund balances on fiscal year 2015 AFR.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. 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. The City Clerk should prepare a monthly City Clerk's report which includes a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements for all funds to the certified budget by function. In addition, the City should establish procedures to ensure the AFR receipts, disbursements and balances agree with the general ledger.

- (E) Disbursements – Eleven of thirty disbursements tested were not approved by the City Council. In addition, three of thirty disbursements tested were not properly supported.

Recommendation – All disbursements should be approved by the City Council and the approval should be documented in the City Council meeting minutes. Supporting documentation should be retained for all disbursements. To strengthen internal control, each check should be prepared and signed by one person and detailed supporting vouchers and invoices should be provided, along with the check, to an independent individual for review and countersignature.

- (F) Questionable Disbursements – During the year, \$8 was disbursed for a beef and cheese snack. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

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.

City of Webster

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

Recommendation – The City Council should determine and document the public purpose served by this disbursement 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.

- (G) Payroll – 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 reviewed, the Mayor was compensated \$786 for performing water chlorine testing and various small maintenance tasks, and a City Council member was compensated \$1,367 for mowing. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits the Mayor and City Council members from receiving compensation as a City employee. In addition, City Council approval of the Mayor’s monthly salary and wages for performing chlorine water testing could not be located and was unavailable for review during the performance of our procedures.

Also, payroll was not independently reviewed to ensure employees do not receive more than the authorized amount, and timesheets did not include evidence of supervisory review.

Recommendation – The City should consult legal counsel to determine the disposition of the payments issued to the Mayor and City Council member, including seeking reimbursement for the \$786 and \$1,367 improperly paid to the Mayor and City Council member, respectively.

In addition, the City should ensure City Council meeting minutes properly document approved salaries and pay rates for all City employees at the time of hiring and when raises occur. All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (H) 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, including a list of claim allowed, a summary of receipts and total disbursements by fund. The minutes publication for four meetings tested did not include a summary of receipts or total disbursements by fund, as required. Also, for two of four meetings tested the list of claims allowed did not include amounts paid to employees. In addition, minutes for two of four meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should ensure published minutes include a list of claims allowed, a summary of receipts and total disbursements by fund in accordance with the Code of Iowa. Also, the list of claims allowed should include amounts paid to employees, either individually or in total. In addition, minutes for all meetings should be signed to authenticate the actions taken, as required.

City of Webster

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (I) Certified Budget – Because the City has not fully implemented the recommended COA and does not record disbursements by function, it was not possible to determine whether actual disbursements exceeded budgeted amounts by function.

Recommendation – The City should follow the recommended COA, or its equivalent, and utilize the monthly City Clerk’s report to compare total disbursements by function to the certified budget to ensure compliance with Code of Iowa requirements.

- (J) Utility Rate Ordinance – Chapter 384.84(1) of the Code of Iowa requires utility rates be established by City ordinance. In addition, Chapter 372.13(5) of the Code of Iowa requires City records and documents be retained. The ordinance establishing the City’s utility rates could not be located and was unavailable for review during the performance of our procedures.

Based on a review of the City Council meeting minutes dated January 7, 2017, the City’s water rates were increased. However, there was no record of the City’s ordinance being amended for this change. According to the City Clerk, in November 2017, the City Council passed a resolution backdated to January 2017 approving a rate increase from \$28 per quarter to \$34 per quarter for each customer billed. Because the rate increase was not established through ordinance, the City should have continued to use \$28 per quarter rather than \$34 per quarter to calculate customer utility billings. As a result, the City overbilled utility customers approximately \$1,200 between January 2017 and October 2017.

Also, one City Council Member tested was billed an incorrect rate resulting in a \$15 over billing for the month.

Recommendation – The City should ensure utility rates are established by ordinance and all ordinances should be retained in accordance with the Code of Iowa. In addition, the City should consult legal counsel to determine the disposition of the backdated City Council resolution and utility bill overbillings. An independent person should periodically review and test utility billings to ensure they are properly calculated and the correct rates are billed.

- (K) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Requiring password changes because software does not require the user to change logins/passwords periodically.
- Requiring computers to have a log off function when not in use.
- Requiring system back-ups to be stored off site.
- Requiring backups to include all programs and files.

In addition, the City does not have a written disaster recovery plan and access to the City’s computer system is not restricted through the use of user IDs and passwords

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s internal control over its computer system. Also, a written disaster recovery plan should be developed.

City of Webster

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (L) 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.

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.

- (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 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 Webster

Staff

This engagement was performed by:

Jennifer Campbell, CPA, Manager
Alex N. Kawamura, CPA, Staff Auditor
Andrew J. Salwolke, Assistant Auditor


Marlys K. Gaston, CPA
Director