



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 22, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Dougherty, 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 and establish procedures to ensure bank reconciliations are completed monthly. In addition, the City should determine and document the public purpose served by certain disbursements.

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/1722-0144-EP0P>.

#

CITY OF DOUGHERTY
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 |
| Chart of Accounts | C 8 |
| Monthly City Clerk's Report | D 9 |
| Deposits and Investments | E 9 |
| City Council Meeting Minutes | F 9 |
| Questionable Disbursements | G 9-10 |
| Separately Maintained Records | H 10 |
| Electronic Check Retention | I 10 |
| Accounting Policies and Procedures Manual | J 10 |
| Disbursement Approval | K 10 |
| Payroll | L 11 |
| Unsupported Disbursements | M 11 |
| Disbursements | N 11 |
| Staff | 12 |

City of Dougherty

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|----------------------|----------------------|-----------------------|-------------------------|
| Lynn Nagel | Mayor | Jan 2014 | Dec 2018 |
| Amy Noss | Council Member | Jan 2014 | Dec 2018 |
| Nicolette Nagel | Council Member | Jan 2014 | Dec 2018 |
| Joel Rooney | Council Member | Jan 2014 | Dec 2020 |
| Andy Schuster | Council Member | Jan 2016 | Dec 2020 |
| Sue O'Brien | Council Member | Jan 2016 | Dec 2020 |
| Mary Nagel | City Clerk/Treasurer | | Indefinite |
| Dorsey & Whitney LLP | Attorney | | Indefinite |

City of Dougherty



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 Dougherty 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 Dougherty'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 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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. 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 Dougherty 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

October 30, 2017

Detailed Recommendations

City of Dougherty

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 bank accounts and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – purchasing, check writing, signing, mailing, reconciling and recording.
- (4) Payroll – preparing, distributing, entering payroll rates and adding or removing employees from the system.
- (5) Financial reporting – preparing and reconciling.
- (6) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.

For the Dougherty Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Dougherty Volunteer Fire Department should review their 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 – Bank and investment balances were not reconciled to book balances monthly. At June 30, 2017 the City's general ledger was \$62 greater than the reconciled bank and investment balance. In addition, the City's general ledger fund balance did not include \$40,966 of fire and rescue funds on hand at June 30, 2017.

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. In addition, the City should ensure all accounts of the City, including separately maintained records, are recorded in the City's general ledger.

- (C) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

City of Dougherty

Detailed Recommendations

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

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

- (E) 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.

- (F) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted within fifteen days of the meeting, including total disbursements from each City fund and a list of claims allowed showing the name of the person or firm making the claim, the reason for the claim and the amount of the claim. Four of four minutes postings tested did not include total disbursements for each fund and the list of claims allowed did not include the reason for each claim. Also, the City Council meeting minutes were not properly signed in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation – Postings of City Council meeting minutes should include total disbursements from each fund and the listings of claims allowed should include a reason for each claim. Also, all minutes should be signed, as required.

- (G) 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. These disbursements, paid from a bank account maintained by the Dougherty Volunteer Fire Department, are detailed as follows:

| Paid to | Purpose | Amount |
|-------------------------|---------------------------------------------------|--------|
| Rockwell Area Market | Beer, alcohol, snacks, pop and plastic silverware | \$ 195 |
| Casey's General Store | Pizza, breadsticks, beer, powerade and snacks | 60 |
| World of Trophies | Retirement Plaque | 45 |
| Russ Hanig | Reimbursement for pizza | 107 |
| Matt Reed | Reimbursement for pizza | 71 |
| Martin Bros Food Market | Shredded BBQ pork | 96 |
| Sarah Lee | BBQ sauce, dills, buns | 10 |

City of Dougherty

Detailed Recommendations

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

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. It is unclear how the purchase of alcohol would serve a public purpose.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (H) Separately Maintained Records – The City of Dougherty Volunteer Fire Department 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.

- (I) 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 Volunteer Fire Department does not receive an image of the front or 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.

- (J) 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 personnel.
- (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 make each time the same, or a similar, situation arises.

- (K) Disbursement Approval – While the City Council meeting minutes note approval of claims, the total amount approved from the approved claims listing is not documented and the claims list and/or the individual invoices are not signed to document the approval.

Recommendation – The City should establish procedures to ensure the minutes record includes the total amount of claims approved from the approved claims listing or the approved claims listing and/or individual claims are signed to clearly document which claims were approved.

City of Dougherty

Detailed Recommendations

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

- (L) Payroll – City Council approval of the City Clerk’s pay rate was not documented in the minutes record. Also, the City Council and the Mayor’s compensation was not approved by City ordinance as required by Chapter 372.13(8) of the Code of Iowa. Additionally, employee timesheets were not retained.

Recommendation – The City Clerk’s approved pay rate should be documented in the City Council minutes and the City Council and the Mayor’s compensation should be approved by City ordinance, as required. In addition, all timesheets should be retained and reviewed and approved by supervisory personnel prior to processing payroll.

- (M) Unsupported Disbursements – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported and cancelled to prevent reuse. Four of thirty transactions tested were not properly supported and claims for the Dougherty Volunteer Fire Department were not cancelled to prevent reuse.

Recommendation – The City should establish policies to require proper support for all disbursements and require invoices to be cancelled to prevent reuse. Disbursements should not be approved unless adequate supporting documentation is available.

- (N) Disbursements – Two transactions tested included late fees and sales tax totaling \$34.

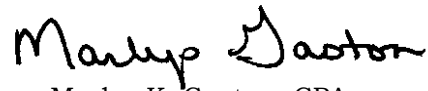
Recommendation – The City should establish procedures to ensure all payments are timely to avoid late fees and are reviewed to prevent the payment of sales tax.

City of Dougherty

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager
Jonathan M. Mader, Staff Auditor
Cody J. Pifer, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director