



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 23, 2018

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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Pulaski's Periodic Examination Report dated November 17, 2015. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period August 1, 2014 through July 31, 2015.

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. All seventeen findings reported in the Periodic Examination Report dated November 17, 2015 are repeated in this report. The City corrected two of the findings, partially corrected two of the findings and two of the findings are no longer valid. The remaining eleven findings are reported as "not corrected". Five additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Pulaski'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/1522-0245-EPFP>.

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CITY OF PULASKI

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

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

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City of Pulaski

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Danny J.R. Harris	Mayor	Jan 2016	Jan 2018
Amos Archer	Council Member	Jan 2016	Jan 2018
Rosa Archer	Council Member	Jan 2016	Jan 2018
Jeremy Breeding	Council Member	Jan 2016	Jan 2018
Karen Miller	Council Member	Jan 2016	Jan 2018
Sheryl Wright	Council Member	Jan 2016	Jan 2018
Linda Gittins	City Clerk/Treasurer		Indefinite
Ashley Walkup	City Attorney		Indefinite

City of Pulaski



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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:

A Periodic Examination Report dated November 17, 2015 was prepared by the firm Martin P. Brown, CPA, on the City of Pulaski, 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 date November 17, 2015 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2016 through April 30, 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 November 17, 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 Pulaski 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

October 19, 2017

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

City of Pulaski

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2016 through April 30, 2017

Findings Reported in the Periodic Examination Report dated November 17, 2015:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual 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, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distributing.
- (5) Financial Reporting – preparing and reconciling.
- (6) Journal Entries – preparing and journalizing.

Recommendation – Segregation of duties is difficult with a limited number of employees. However, the City should periodically review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. The independent review procedures set up by the City, including reviews of reports by the Mayor and City Council, should be monitored to ensure continued compliance.

Current Status – Not corrected. The recommendation is repeated.

(B) City Council Meeting – Clerk’s Report – Total receipts and fund balances are not reported in the Clerk’s Report.

Recommendation – The City should establish procedures to ensure that revenues and fund balances are being accounted for in the Clerk’s Report.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (U).

(C) City Council Meeting Minutes - Signature – Minutes of meetings have not been signed.

Recommendation – The City should ensure all minutes are signed by both the Mayor and Clerk as per Iowa Code Chapter 380.7

Current Status – Corrected. During the period reviewed, the minutes were properly signed.

(D) Bank Reconciliations – Bank reconciliations are being done monthly, but no documentation of the reconciliations or independent approval is retained.

Recommendation – Bank reconciliations should be maintained by the City, and should indicate approval of an independent individual designed by the City Council by initials or signature and date of review.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (R).

City of Pulaski

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2016 through April 30, 2017

- (E) Deposits and Investments – Depository Resolution – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12.C.2 of the Code of Iowa.
- Recommendation – The City Council should, by resolution, approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12.C.2 of the Code of Iowa.
- Current Status – Not corrected. The recommendation is repeated.**
- (F) Deposits and Investments – Investment Policy – The City has not adopted a written investment policy as required by Chapter 12.B.10B of the Code of Iowa. Per the agreed upon procedures engagement, no investments were held by the City during the period reviewed.
- Recommendation – The City should adopt a written investment policy that complies with Chapter 12B.10B of the Code of Iowa.
- Current Status – Not corrected. The recommendation is repeated.**
- (G) Annual Financial Report – Debt Reporting – Total debt was not reported on the Annual Financial Report.
- Recommendation – The City should establish procedures to ensure the information on the Annual Financial Report is complete, and should take action to correct the reports.
- Current Status – No longer valid. The City paid off all of its debt in November 2015.**
- (H) Debt Payments – Late Fees – The City incurred a late fee of \$36 due to a late loan payment. Had the payment been made on time, the fee would not have been incurred by the City.
- Recommendation – The City should establish procedures to ensure the City’s debt payments are approved by the City Council in a timely manner to prevent late fees from being incurred.
- Current Status – No longer valid. The City paid off all of its debt in November 2015.**
- (I) Reconciliation of Garbage Receipts, Collections and Delinquent Accounts – No reconciliation of garbage receipts or delinquent account listing was prepared by the City during the year reviewed. The City has contracted this service out beginning in fiscal year 2016.
- Recommendation – Procedures should be established to ensure all delinquent billings have been resolved. Procedures should be established to reconcile receipts, collections and delinquent accounts should the City resume any services. The City Council or person designated by the City Council should monitor delinquent accounts. This review should be documented by signature or initials of the reviewer and date of review.
- Current Status – Partially corrected. In November 2015, the City began using a third party contractor to bill, collect and follow up on past due balances related to garbage services. However, a reconciliation of garbage billings, receipts and delinquent accounts is not prepared by the City or obtained from the third party contractor and reviewed by the City. The recommendation is partially repeated.**

City of Pulaski

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2016 through April 30, 2017

- (J) Questionable Disbursements – Two tested disbursements paid in the general account were not approved by the City Council, and may not meet the definition of public purpose as defined in the Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The disbursements are listed below:

<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
Davis County Development	Membership	\$300.00
Iowa Workforce Development	no description	\$140.00

According to the Attorney General’s opinion, it is possible for such disbursements to meet the test of service a public purpose, though such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper disbursement is very thin.

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.

Current Status – Not corrected. During the period June 1, 2016 through April 30, 2017, the City paid \$25 for flowers for a funeral. The recommendation is repeated.

- (K) 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 its checking account.

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.

Current Status – Partially corrected. During the period reviewed, the City received both the front and back of cancelled checks for three of four bank accounts. The recommendation is partially repeated.

- (L) Tax Increment Financing – Urban Renewal Report – The Urban Renewal Report was not approved by the City Council until February 5, 2015.

Recommendation – The City should ensure the Urban Renewal Report is approved and filed by December 1 each year.

Current Status – Not corrected. The Annual Urban renewal Report due on December 1, 2016 was not approved by the City Council until February 6, 2017. The recommendation is repeated. Also see finding (S).

- (M) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in public safety and community and economic development 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.

City of Pulaski

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2016 through April 30, 2017

Current Status – Not corrected. For the year ended June 30, 2016, disbursements exceeded the amounts budgeted in public safety, public works, community and economic development, general government and business type activities functions. The recommendation is repeated.

- (N) Annual Financial Report – Fund Balance – Ending balance of the Special Revenue Fund per the fiscal year end 2014 Annual Financial Report is a deficit of \$28,295. The fiscal year end 2015 Annual Financial Report for the Special Revenue fund indicated a beginning balance of \$0. The deficit balance was not carried forward and the fund may still be in deficit.

Recommendation – The City Council should establish procedures to ensure accurate reporting, and should take action to correct the reports. Corrective actions should be taken if fund balances are determined to be in deficit.

Current Status – Corrected. The City appropriately corrected the beginning balance of the Special Revenue Fund in the fiscal year 2016 Annual Financial Report and the Fund was not in a deficit balance during the period reviewed.

- (O) Government Transactions – Classification – One deposit for Local Option Sales Tax was misclassified as Road Use Tax, and two Road Use Tax deposits were for incorrect amounts in the general ledger.

Recommendation – Procedures should be implemented to ensure proper classification of governmental revenue, and actions should be taken to correct the reports.

Current Status – Not corrected. For the fiscal year ended June 30, 2016, one local option sales tax receipt was misclassified as a road use tax receipt. The recommendation is repeated.

- (P) Tax Increment Financing – Urban Renewal Report – Amounts reported for Tax Increment Financing revenues, expenditures and fund balance on the Urban Renewal Report do not match city records, or the Annual Financial Report.

Recommendation – The City should implement procedures to ensure the reports are accurate, and action should be taken to correct the reports.

Current Status – Not corrected. The June 30, 2016 Annual Urban Renewal Report reported TIF receipts, disbursements and fund balance of \$2,128, \$2,128 and \$5,034, respectively. The June 30, 2016 AFR reported \$4,256 of receipts, no disbursements and an ending fund balance of \$9,290. The June 30, 2016 TIF fund balance reported on the profit and loss detail was \$30,838. The recommendation is repeated.

- (Q) Fund Balance Reporting – Annual Financial Report – Total Fund Balance as recorded on the City's Annual Financial Report at June 30, 2015 does not reconcile to the funds held by the City on that date. The Annual Financial Report indicates a balance of \$324,784, while funds in possession of the City at that date are \$314,870, a difference of \$9,914.

Recommendation – The City should establish procedures to ensure reports are accurate and should take action to correct the reports.

City of Pulaski

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2016 through April 30, 2017

Current Status – Not corrected. The June 30, 2016 Annual Financial Report reports a total balance of \$333,087, while City records as of June 30, 2016 reported a total balance of \$314,281, a difference of \$18,806.

Additional Findings as a result of Follow-up Procedures:

- (R) Bank Reconciliations – Bank balances were not reconciled to book balances recorded in the City’s accounting system for all months reviewed.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. These reconciliations should be approved by an independent person and the review should be documented by the signature or initials of the reviewer and date of the review.

- (S) Annual Urban Renewal Report – The fiscal year 2016 Annual Urban Renewal Report (AURR) was not certified to the Iowa Department of Management on or before December 1.

Recommendation – The City should file the AURR timely.

- (T) Uniform 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.

- (U) Monthly City Clerk Report Disbursements Reporting – The City Clerk’s report to the City Council includes a comparison of total disbursements to the budget by fund, but not by function.

Recommendation – The City should prepare a monthly City Clerk’s report which includes a comparison of total disbursements by function to the certified budget.

- (V) 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 June 1, 2016 through April 30, 2017, a City Council member was compensated \$1,200 for performing the duties of the Utility Clerk. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits the City Council member from receiving compensation as a City employee while serving as a Council member.

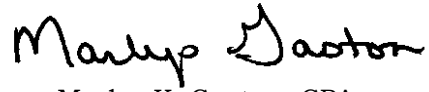
Recommendation – The City should consult legal counsel to determine the disposition of this matter, including consideration of reimbursement of the \$1,200 improperly paid to the City Council member.

City of Pulaski

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Dorothy O Stover, Senior Auditor II

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