

**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

January 31, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Calamus, 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 reconcile utility billings, collections and delinquent accounts for each billing period. The City should also ensure financial activity and balances of all City accounts, including the City Park Board, are included in the City's accounting records. In addition, the City should comply with the water revenue bond resolution requirements.

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/1722-0202-BLOF>.

#

CITY OF CALAMUS

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

Table of Contents

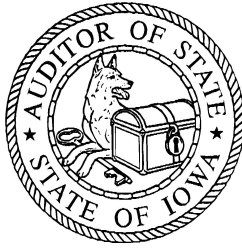
	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Bank Reconciliations	B 8
Annual Financial Report	C 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D 9
Payroll	E 9
Separately Maintained Records	F 9
Journal Entries	G 9
Certified Budget	H 10
Revenue Bonds	I 10
Financial Condition	J 10
Computer System	K 10
Checks Signed in Advance	L 10
Staff	11

City of Calamus

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Steines	Mayor	Jan 2018
Leon Dieckmann	Mayor Pro Tem	Jan 2020
Laverne Boedeker	Council Member	Jan 2018
Julie Steffens-Kalfas	Council Member	Jan 2018
Michael Lacey	Council Member	Jan 2020
Reid Minor	Council Member	Jan 2020
Laurie Ganzer	City Clerk	Indefinite
John Peavy	Attorney	Indefinite

City of Calamus



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-Upon 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 Calamus 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 Calamus' 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 2017 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 debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Calamus 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

December 15, 2017

Detailed Recommendations

City of Calamus

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) Accounting system – performing all general accounting functions, including journal entries, having custody of assets and controlling all data input and output.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Long-term debt – recordkeeping, compliance and debt payment processing.
- (7) Journal entries – preparing and recording.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.

For the City Park Board account, 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 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 – The cash balances in the City's general ledger were reconciled to bank account balances throughout the year. However, an independent review of the bank reconciliations was not performed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Calamus

Detailed Recommendations

For the period July 1, 2016 through June 30, 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...” The City’s fiscal year 2017 AFR reported receipts, disbursements and ending fund balances which do not agree with the City’s records. In addition, the amount reported as indebtedness was understated \$2,171,000.

Recommendation – The City should ensure the financial information reported on the AFR agrees with the City’s records. An independent person should review the AFR for accuracy.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – 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 of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (E) Payroll – Salaried employees do not prepare and submit timesheets to support hours worked and vacation or sick leave used.

Recommendation – Timesheets should be prepared by all employees and should be reviewed and approved by supervisory personnel prior to processing payroll.

- (F) Separately Maintained Records – The City of Calamus’ Park Board maintains separate accounting records for certain operations. The cash balances in the accounting records are not reconciled to the quarterly bank statements. In addition, the transactions and resulting balances are not included in the City’s accounting records or the City’s AFR.

Recommendation – The City of Calamus’ Park Board should reconcile bank and book balances quarterly. 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 AFR and should be reported to the City Council monthly.

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

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

City of Calamus

Detailed Recommendations

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

- (H) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in public safety and public works 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.” Also, the budget amounts in the accounting system do not agree with the fiscal year 2017 approved budget.

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. The City should ensure the budget amounts in the accounting system agree with the approved budget.

- (I) Revenue Bonds – The provisions of the water revenue bond resolution require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they come due. For the year ended June 30, 2017, the City’s general ledger for the Enterprise, Water Fund reported net operating receipts of \$(857), \$31,569 less than the net receipt requirement of \$30,712. The provisions of the water revenue bond resolution also require sufficient transfers be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City has established a water revenue bond sinking account; however, transfers were not made to the account and bond principal and interest was not paid from this account.

Recommendation – The City should consult legal counsel and review the City’s utility rates to ensure the rates are adequate to produce the required net operating receipts. In addition, the City should make the required monthly transfers to the water revenue bond sinking account and bond principal and interest payments should be made from the water sinking account.

- (J) Financial Condition – At June 30, 2017, the City had a deficit balance of \$22,776 in the Enterprise, Water Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

- (K) Computer System – The City does not have a written disaster recovery plan.

Recommendation – The City should develop and periodically test a written disaster recovery plan.

- (L) Checks Signed in Advance – Certain checks are signed before the check payee and amount are completed.

Recommendation – Checks should not be signed in advance.

City of Calamus

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Kelly L. Hilton, Senior Auditor
Michael G. DeAngelis, Auditor Intern


Marlys K. Gaston, CPA
Director