



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE

January 31, 2018

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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Wheatland, 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 the financial activity and balances of all City accounts, including the City Fire Department, are included in the City's accounting records. In addition, the City's credit card disbursements should comply with the City's credit card policy.

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/1721-0214-EPOP>.

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CITY OF WHEATLAND
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017

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City of Wheatland

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Century Schnede	Mayor	Jan 2016	Jan 2018
Paul Stankee	Mayor Pro Tem	Jan 2016	Jan 2020
Jeremiah Wiese	Council Member	Jan 2014	Jan 2018
Christy Stankee	Council Member	Nov 2015	Jan 2018
Christian Bousselot	Council Member	Jan 2016	Jan 2020
Robert Denahy	Council Member	Jan 2016	Jan 2020
Laurie Ganzer	City Clerk		Indefinite
John Peavy	Attorney		Indefinite
City Fire Chief	Paul Stankee		Indefinite
City Library Director	Jill Bachus		Indefinite

City of Wheatland



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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 Wheatland 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 Wheatland'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 debt, including 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 Wheatland 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

January 5, 2018

Detailed Recommendations

City of Wheatland

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, and having custody of assets.
- (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, and recording.
- (6) 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 and distributing.
- (10) Computer system – performing all general accounting functions and controlling all data input and output.
- (11) Financial reporting – preparing 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) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, pre-numbered receipts are not issued, paid invoices or other supporting documentation are not properly canceled and accounting records did not facilitate the proper classification of receipts or disbursements.

Recommendation – The City Fire Department should segregate accounting duties to the extent possible, require the issuance of pre-numbered receipts for all collections, cancel invoices or other supporting documentation and properly classify receipts and disbursements in the accounting records.

City of Wheatland

Detailed Recommendations

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

- (C) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual bank accounts, a complete reconciliation, including investments, was not prepared and the reconciled balances were not compared to the City’s general ledger balances. Also, an independent review of bank account reconciliations was not performed. Additionally, a listing of outstanding checks was maintained however, it does not include payee and date written. Also, the City does not include the change fund within its bank reconciliation.

For the City Fire Department, there is no evidence monthly bank reconciliations are performed.

Recommendation – To improve financial accountability and control, comprehensive monthly bank reconciliations, including investments, should be performed and variances between book and bank balances should be investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. A detailed listing of outstanding checks should be maintained which includes the payee and date written. The City Fire Department should establish procedures to ensure bank reconciliations are prepared monthly and are reviewed by an independent person.

- (D) 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...” A variance of \$33,513 in the public works function exists between the fiscal year 2016 AFR and the general ledger. Also, the ending balance in the fiscal year 2016 AFR did not agree with the City’s general ledger and the City incorrectly reported a total of \$1,993,000 of long term debt as issued during the year ended June 30, 2016. In addition, the City does not report interfund transfers within the transfer line on the AFR and does not include the activity from the separately maintained Fire Department accounts.

Recommendation – The City should ensure the receipts, disbursements and balances included in future AFR are supported by the amounts recorded in the City’s records and the long-term debt schedule accurately reports the City’s long-term debt. The City should also correctly report transfers on the AFR and include all City accounts, including the Fire Department accounts.

- (E) Change Fund – The City Clerk, who is the City Clerk for multiple cities, will occasionally make change for residents of another City from the City of Wheatland’s change fund.

Recommendation – The City should not use the Wheatland change fund for other cities.

- (F) 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 reconciliation should be evidenced by the signature or initials of the reviewer and the date of the review.

City of Wheatland

Detailed Recommendations

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

- (G) Checks Signed in Advance – In some cases, checks are signed in advance by the individual responsible for co-signing checks.

Recommendation – Checks should only be signed and countersigned when the completed check and appropriate supporting documentation are available for review.

- (H) Payroll – Salaried employees do not prepare and submit timesheets to support hours worked and/or leave time taken and timesheets for hourly employees did not include evidence of supervisory review. In addition, vacation usage and balances are not reviewed and approved by supervisory personnel prior to processing payroll.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and the employee's immediate supervisor prior to submission. The timesheets should support all hours worked and all hours taken as paid time off. Also, vacation, sick leave and compensatory time usage and balances should be monitored and reviewed by an independent person.

- (I) 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.

- (J) Revenue Bonds – The City's sewer revenue bond resolutions require a sinking account to be established and sufficient monthly transfers be made to the sinking account from the Enterprise, Sewer Fund for the purpose of making the required bond principal and interest payments when due.

The City has not established the Enterprise, Sewer Fund sinking account.

Recommendation – The City should establish and make sufficient transfers from the Enterprise, Sewer Fund to a sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

- (K) Financial Condition – The City had a deficit balance of \$2,477 in the Enterprise, Solid Waste Fund at June 30, 2017.

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

- (L) Local Option Sales Tax and Road Use Tax – During the period reviewed, a local option sales tax (LOST) receipt of \$6,784 was incorrectly recorded as a road use tax receipt and a road use tax receipt of \$8,919 was incorrectly recorded as a LOST receipt.

Recommendation – The City should implement procedures to ensure all receipts are properly recorded.

City of Wheatland

Detailed Recommendations

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

- (M) Separately Maintained Records – The Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records. Additionally, disbursements for the Fire Department were not adequately supported. We scanned supporting documentation and most disbursements were to the Wheatland Grocery, but were not itemized.

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 Fire Department should maintain proper supporting documentation for all disbursements.

- (N) 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
B&C Liquor	Alcohol for a fireman’s dinner	\$ 56
Wheatland Floral	Flowers for funeral	75
McDonald’s	Meal reimbursement for attending a funeral in DeWitt	9

We also noted several disbursements to Wheatland Grocery for which proper public purpose could not be determined since the supporting documentation was not properly itemized.

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.

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.

- (O) Certified Budget – At June 30, 2017, disbursements exceeded the amount budgeted in the business type activities function. 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 Wheatland

Detailed Recommendations

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

- (P) Credit Card Disbursements – The City has credit cards for use by employees while on official business. The City has adopted a formal policy to regulate the use of the credit cards and to establish procedures to use the credit cards. However, the City allows employees to make personal purchases with the credit cards and pay the credit card bill using personal funds. This is unallowable per the City’s credit card policy. We reviewed credit card statements for August, September and October of 2016 and did not note any personal transactions or late fees paid with City funds. Invoices or other supporting documentation were not always available to support credit card charges.

Recommendation – The City’s credit card purchase procedures should follow the City’s written credit card policy. The City should allow use of the City’s credit card for only official City business. The City should retain original vendor invoices to support all credit card charges.

- (Q) Disbursements – Paid invoices or other supporting documentation are not properly cancelled to prevent reuse. The City Fire Department was charged sales tax for one disbursement tested and three disbursements tested did not include adequate supporting documentation.

Recommendation – Paid invoices or other supporting documentation should be cancelled to prevent reuse. Also, the City Fire Department should ensure sales tax is not paid on purchases and disbursements should be supported by invoices or other supporting documentation.

- (R) Monthly Financial Reports – The City Clerk’s monthly financial reports to the City Council included cash and investment balances and year-to-date receipts and disbursements, but did not include comparisons of total disbursements for all funds to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include a comparison of total disbursements for all funds to the certified budget by function.

- (S) Water Meters – For one month reviewed, the billing register indicated certain water customer’s usage was zero. Per discussion with the City Clerk, the City does not repair broken meters in a timely manner and therefore some citizens, including the Mayor, are charged the minimum rate monthly.

Recommendation – The City should ensure broken water meters are repaired to ensure all water and sewer consumption is correctly billed in accordance with City ordinances.

- (T) Transfers – Transfers between funds were not properly coded as “transfers” in the general ledger.

Recommendation – The City should ensure transfers are properly coded in the general ledger.

City of Wheatland

Staff

This engagement was performed by:

Ernest H. Ruben Jr., CPA, Manager
Joseph B. Sparks, Senior Auditor
Nicholas A. Kruse, Assistant Auditor


Marlys K. Gaston, CPA
Director