



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

March 5, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Dow City, 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, including independent review of bank reconciliations. In addition, the City should establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period.

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/1722-0221-EP0P>.

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CITY OF DOW CITY
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 Dow City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Cody Steinkuehler	Mayor	Jan 2016	Jan 2018
Ace Ettleman	Council Member/ Mayor Pro tem	Jan 2016	Jan 2020
Landon Burhoop	Council Member	Jan 2014	Jan 2018
James Randol	Council Member	Jan 2014	Jan 2018
Keith Starkweather	Council Member	Jan 2014	Jan 2018
James Kyle Ahart	Council Member	Jan 2016	Jan 2020
Deb Garrett	City Clerk/Treasurer		Indefinite
George Blazek	City Attorney		Indefinite

City of Dow City



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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 Dow City 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 Dow City'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 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 Dow City 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 17, 2018

Detailed Recommendations

City of Dow City

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, 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) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (9) 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) Petty Cash Fund – The City maintains a petty cash fund for which no authorization could be located.

Recommendation – The petty cash fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

- (C) Investments – An accounting register is not maintained for each investment.

Recommendation – A register should be maintained for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number.

- (D) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

City of Dow City

Detailed Recommendations

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

- (E) Bank Reconciliations – Bank reconciliations were not reviewed by an independent person.

Recommendation – Bank reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

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

- (G) Questionable Disbursements – For the period reviewed, \$90 was disbursed for flowers for a funeral. 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.

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.

- (H) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ace Ettleman, City Council Member, owner of Ettleman Oil	Fuel	\$5,096

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the services were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

City of Dow City

Detailed Recommendations

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

- (I) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for one transaction tested could not be located.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

- (J) Financial Condition – At June 30, 2017, the Enterprise, Sanitation Fund had a deficit balance of \$3,582.

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

- (K) Transfers – Certain transfers exceeded the amounts approved by the City Council.

Recommendation – All transfers should agree with the amount approved by the City Council.

- (L) Annual Financial Report – The fiscal year 2016 Annual Financial Report (AFR) total disbursements do not agree with City records. General governmental function disbursements were understated \$6,899 and business type activities function disbursements were overstated \$10,553.

Recommendation – The City should establish procedures to ensure disbursements included in the AFR are supported by the City's records.

- (M) Prenumbered Receipts – Prenumbered receipts were not issued for collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

- (N) Payroll – Timesheets for the City Clerk were not approved by supervisory personnel.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (O) Donations – In February 2017, the City approved a payment of \$1,000 to the Dow City Library Association (Association), which is a private non-profit organization.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, "... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly."

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, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property."

City of Dow City

Detailed Recommendations

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

Recommendation – We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over its public funds to a separate non-profit organization. The City should recover the remaining funds provided to the Association.

City of Dow City

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Anthony J.T. Mallie, CPA, Staff Auditor
Heather M. Poula, Assistant Auditor


Marlys K. Gaston, CPA
Director