



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

March 20, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Ackley, 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 reviews of reconciliations. In addition, the City should investigate alternatives to eliminate various deficit balances.

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/1721-0388-BLOF>.

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CITY OF ACKLEY
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 Ackley

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Erik Graham	Mayor	Jan 2018
Dale Brass	Mayor Pro-Tem	Jan 2018
Robert Harms	Council Member	Jan 2018
Susan Ibeling	Council Member	Jan 2018
Al Jones	Council Member	Jan 2020
Joe Wessels	Council Member	Jan 2020
Kelly DeBerg	City Clerk	Indefinite
Michael A. Smith	Attorney	Indefinite

City of Ackley



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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 Ackley 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 Ackley'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 2017 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 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.
9. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. 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.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. 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 Ackley 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

March 7, 2018

Detailed Recommendations

City of Ackley

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 or two individuals have control over each of the following areas for the City:

- (1) Accounting system – performing all accounting functions, having custody of assets and controlling all data input and output.
- (2) Cash and petty cash – handling, reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Payroll – rates are entered into the system by someone independent but are not reviewed and approved by someone independent.

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) Financial Condition – At June 30, 2017, the City had deficit balances in the Special Revenue, Urban Renewal Tax Increment, Urban Renewal and Enterprise, Sewer Funds, of \$353,825, \$54,780 and \$71,367, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

(C) Change/Petty Cash Funds – The City maintains change/petty cash funds at City Hall and the Library for which there is no authorized amount.

Recommendation – The City Council should approve an authorized amount to be maintained in each change/petty cash fund.

(D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year and a delinquent accounts list is prepared. However, the reconciliations and delinquent account listings were not reviewed by an independent person. In addition, there was no testing of utility rates to ensure proper billing.

Recommendation – Procedures should be established to have an independent person or a Council member review the reconciliations and monitor delinquent accounts each month. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review. The City should also periodically test utility rates to ensure proper billing.

(E) Bank Reconciliations – The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. Although the bank reconciliations are reviewed, there is no indication when the review took place.

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

City of Ackley

Detailed Recommendations

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

- (F) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the debt service function by \$257. 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.

- (G) 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.

- (H) Payroll and Compensated Absences – The hourly wage for a seasonal maintenance worker and a library clerk was not documented in the City Council minutes. In addition, employee vacation and compensatory time hours earned and used were not adequately maintained or reviewed by an independent person.

Recommendation – All wages for City employees should be approved by the City Council and the approval should be adequately documented in the City Council minutes. In addition, compensated absences earned and used by each employee should be maintained and reviewed by an independent person.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dale Brass, Council Member Owner of Sailer Ford	Purchase of a new vehicle and repairs	\$19,059

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions above may represent a conflict of interest since competitive bidding was not utilized for all transactions and the total of the transactions was in excess \$2,500 for the fiscal year.

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

- (J) Annual Urban Renewal Report – The City’s TIF receipts and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City’s records.

Recommendation – The City should ensure the receipts and balances reported on the Levy Authority Summary agree with the City’s records.

City of Ackley

Detailed Recommendations

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

- (K) Disbursements – Invoices and other supporting documentation are approved by a City Council member, however, the date approved is not documented.

Recommendation – Documentation of disbursements approval should include the date approved.

- (L) Disaster Recovery Plan – The City’s disaster recovery plan does not provide for identification of staff responsibilities and does not include a current list of hardware and components and software application. Also, the plan does not require a copy of the plan or copies of all user documentation and policy and procedures manuals be kept off site or a determination the plan has been adequately tested.

Recommendation – The written disaster recovery plan should be updated to include the above items and to require the plan be periodically tested.

- (M) 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 staff.
- (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 be made each time the same, or a similar, situation arises.

City of Ackley

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Steven O. Fuqua, CPA, Senior Auditor II
Heather M. Poula, Assistant Auditor


Marlys K. Gaston, CPA
Director