



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

NEWS RELEASE

FOR RELEASE

May 17, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Templeton's Periodic Examination Report dated July 7, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2017 through December 31, 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 are indications the City Council has exercised fiduciary oversight. Seven of the eleven findings reported in the Periodic Examination Report dated July 7, 2016 have been corrected and three have been partially corrected. The City Council has not yet take action to implement the recommendation for the remaining finding. Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Templeton'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/1522-0125-EPFP>.

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CITY OF TEMPLETON

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

**FOR THE PERIOD
JUNE 1, 2017 THROUGH DECEMBER 31, 2017**

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City of Templeton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Ken F. Behrens	Mayor	Jan 2016	Jan 2018
Mark A. Bauer	Council Member	Jan 2014	Jan 2018
Doyle Engelen (Elected Nov 2017)	Council Member	Feb 2016	Jan 2020
Joseph Irlbeck	Council Member	Jan 2016	Jan 2020
David Ramsey	Council Member	Jan 2016	Jan 2020
Alex Schoeppner	Council Member	Jan 2016	Resigned Aug 2017
Rhonda Schwaller	City Clerk		Indefinite
Robert Peters	Attorney		Indefinite

City of Templeton



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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:

The Office of Auditor of State issued a Periodic Examination Report dated July 7, 2016 on the City of Templeton, Iowa covering the period April 1, 2015 through March 31, 2016 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 July 7, 2016 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, 2017 through December 31, 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. 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 July 7, 2016. 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 Templeton 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

April 24, 2018

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

City of Templeton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

Findings Reported in the Periodic Examination Report dated July 7, 2016:

- (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) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing and recording.
 - (4) Payroll – recordkeeping, preparing and distributing, entering rates into the system and maintaining vacation balances.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
 - (6) Long-term debt – recordkeeping and debt payment processing.

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.

Current Status – Partially corrected. The City has implemented several independent reviews to strengthen internal controls. The custodian of the petty cash fund is separate from depositing, reconciling and recording receipts and receipts and deposits are verified and reviewed by two independent persons. In addition, deposits are made daily or the next business day. However, given the limited number of employees, segregation of duties findings still remain. The recommendation is repeated.

- (B) Fire Department – All accounting functions are handled by one individual without adequate compensating controls. Bank reconciliations are not performed.

In addition, during the period reviewed, two checks for \$25 each were written to “Cash”. Fire Department personnel indicated the cash was used to wash fire department vehicles.

Recommendation – The Fire Department should segregate accounting duties to the extent possible and bank reconciliations should be performed and reviewed monthly. In addition, checks should not be written to “Cash”.

Current Status – Partially corrected. During the period reviewed, accounting functions were still primarily handled by one individual. Bank reconciliations were performed as part of the overall City’s bank reconciliation and were reviewed by an independent person. During our follow-up procedures, we did not note any checks written to “cash” from the Fire Department account. The recommendation is partially repeated.

City of Templeton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

- (C) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to bank account balances throughout the year.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Current Status – Corrected. During the period reviewed, the City Clerk prepared monthly bank reconciliations which included balancing the cash balances on the City’s general ledger to the bank account balances. An independent review of the bank reconciliations was performed and documented.

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

Current Status – Corrected. During the period reviewed, the City Clerk performed periodic utility reconciliations. An independent review of the utility reconciliations was performed and documented.

- (E) Financial Condition – At March 31, 2016, the City had a deficit balance of \$17,462 in the Enterprise, Water Fund.

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

Current Status – Corrected. No deficit fund balances were noted during the period of follow-up procedures.

- (F) Payroll – Although timesheets were prepared for all employees, there was no indication the timesheets were reviewed and approved.

The wage rate for one of five employees tested was not approved by the City Council. Additionally, the salary increase for the Templeton Center Manager was approved based on a dollar amount increase and the actual approved wage was not documented in the minutes.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. All wages for City employees should be approved by the City Council and the approval should be adequately documented.

Current Status – Partially corrected. For employees tested during the follow-up procedures, the wage rates were approved by the City Council and changes in salary were approved at the actual wage. For all employees preparing a timesheet, an independent review was performed and documented. We noted one salaried employee who does not prepare a timesheet. This employee also earns compensated absences. The recommendation is partially repeated. In addition, see finding (L).

City of Templeton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published in a newspaper of general circulation within fifteen days of the meeting. Minutes for meetings tested were not published.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes in a newspaper of general circulation within fifteen days of the meeting, as required.

Current Status – Corrected. For the meetings tested during the follow-up procedures, meeting minutes were published in compliance with the Code of Iowa.

- (H) Payment of Claims – Certain disbursements were not approved by the City Council prior to payment. The City has adopted a resolution allowing certain routine claims to be paid prior to City Council approval. However, the resolution includes items not typically considered routine including, training registration fees, credit card payments, contractual obligations and claims up to \$7,500 for the Templeton Center.

Recommendation – The City should amend its resolution to allow only routine claims to be paid prior to City Council approval.

Current Status – Not corrected. During the follow-up procedures, three disbursements tested were not approved by the City Council prior to payment and the City had not made changes to the resolution allowing certain claims to be paid prior to City Council approval. At the time of the follow-up procedures, the City Attorney and City Council were in the process of making revisions to the City’s resolution regarding payment of claims. The recommendation is repeated.

- (I) 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.

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.

Current Status – Corrected. The City began including the Fire Department’s transactions and balances in their accounting records in July 2017.

- (J) 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 two bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Corrected. During the period reviewed, the City received and retained images of the front and back of cancelled checks for all bank accounts.

City of Templeton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through December 31, 2017

- (K) Questionable Disbursements – During the year, \$262 was disbursed from the Fire Department account for alcohol. These disbursements 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. It is unclear how the purchase of alcohol would serve a public purpose.

Recommendation – The City Council should determine and document the public purpose served before authorizing any further payments for alcohol. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation. Disbursements should not be approved if a public purpose is not served.

Current Status – Corrected. For the disbursements tested during the follow-up procedures, we did not note any purchases of alcohol or other items which did not appear to meet public purpose.

Additional Findings as a Result of Follow-up Procedures:

- (L) Compensated Absences – Vacation and sick leave time (accrued, used and remaining balances) are not recorded in the City’s accounting system and are not adequately tracked and reviewed by an independent person.

Recommendation – Vacation and sick leave time should be properly tracked and recorded in the accounting system timely and should be periodically reviewed by an independent person.

- (M) Counter Checks – The Park Board maintains a separate checking account and the activity is included in the City’s accounting records. However, the checks written on the account are counter checks, are not pre-numbered and do not include the Board’s account number or other personally identifiable information.

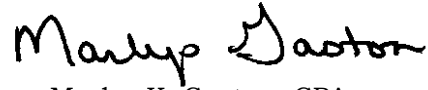
Recommendation – The City should obtain pre-numbered checks which include the Board’s preprinted account number to ensure better controls over disbursements made from the bank account.

City of Templeton

Staff

This engagement was performed by:

Pamela J. Pormann, CPA, Manager
Karen L. Brustkern, CPA, 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