



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

May 17, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Onslow, Iowa for the period January 1, 2016 through December 31, 2016. 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 an independent review of reconciliations. The City should also establish procedures to reconcile bank and book balances monthly and utility billings, collections and delinquent accounts for each billing period. In addition, the City should comply with Chapter 384.18 of the Code of Iowa by amending the budget before disbursements are allowed to exceed the budget and track use of LOST receipts in accordance with ballot provisions.

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/1622-0498-EPOP>.

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CITY OF ONSLOW

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

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City of Onslow

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|----------------------------|----------------|-------------------|---------------------|
| Dean Holerud | Mayor | Jan 2015 | (Resigned Jan 2017) |
| Mike French | Council Member | Appointed | Nov 2017 |
| Shane (Cory) Oberbreckling | Council Member | Appointed | Nov 2017 |
| Josh Fall | Council Member | Jan 2016 | Jan 2020 |
| Matt Gray | Council Member | Jan 2016 | Jan 2020 |
| Mike Streeper | Council Member | Jan 2016 | Jan 2020 |
| Karen Bixler | City Clerk | | Indefinite |
| Jay Willems | Attorney | | Indefinite |

City of Onslow



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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 Onslow for the period January 1, 2016 through December 31, 2016, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Onslow's management, which agreed to the performance of the procedures performed, is responsible for 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 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 receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Onslow 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

April 16, 2018

Detailed Recommendations

City of Onslow

Detailed Recommendations

For the period January 1, 2016 through December 31, 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, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining accounts receivable records.
- (6) Long-term debt – recordkeeping and debt payment processing.
- (7) Financial reporting – preparing and reconciling.
- (8) Journal entries – preparing and recording.

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 Council Meeting Minutes – Chapter 380.7 of the Code of Iowa requires minutes to be properly signed. The City Council meeting minutes for the four minutes reviewed were not signed by the Mayor and the City Clerk. In addition, the publications for the meeting minutes reviewed did not include a list of all claims allowed or a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and ensure City Council meeting minutes are signed to authenticate the actions taken. In addition, the minutes publications should include a list of all claims allowed (including the reason for the claim) and a summary of all receipts.

(C) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual bank accounts, a complete reconciliation, including the savings accounts, was not prepared and the reconciled balances were not compared to the City's general ledger balances. In addition, the bank reconciliations were not reviewed by an independent person.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including savings accounts, should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

City of Onslow

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (D) Accounting Records and Financial Information – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. In addition, financial reports which include a summary of receipts, disbursements, transfers and balances for each fund and comparisons of actual disbursements to the certified budget by function are not presented to the City Council. In addition, year-to-date totals of receipts by fund and source and disbursements by fund and function should be maintained to facilitate the preparation of and support for the Annual Financial Report (AFR).

Recommendation – To provide better financial information and control over budgeted disbursements, the recommended COA, or its equivalent, should be followed, including proper classification of receipts by source and disbursements by function. The City Clerk should prepare a monthly City Clerk’s report which includes receipts, disbursements, transfers and balances for each fund and a comparison of actual disbursements to the certified budget by function. This report should be reviewed and approved by the City Council. In addition, year-to-date totals of receipts by fund and source and of disbursements by fund and function should be maintained to facilitate the preparation of and support for the AFR.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly. In addition, the City does not assess penalties and interest for delinquent balances as required by City ordinance.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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. In addition, the City should assess penalties and interest on all delinquent accounts in accordance with the City’s ordinance.

- (F) 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.

City of Onslow

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (G) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works, culture and recreation, general government debt service and business type activities 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.”

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.

- (H) Road Use Tax Fund – Payment of Debt – Chapter 312.6 of the Code of Iowa states “Funds received by municipal corporations from the road use tax fund shall be used for any purpose relating to the construction, maintenance and supervision of the public roads.” Principal and interest on the City’s tractor loan were paid from the Road Use Tax Fund. However, use of the City’s tractor is not limited to only road purposes. Other departments also use the tractor for water, sewer and parks purposes.

Recommendation – The City should reimburse the Road Use Tax fund from an appropriate fund (i.e., General Water and Sewer Funds) for current and past tractor loan payments not attributable to use for road purposes.

- (I) Separately Maintained Records – The City of Onslow, along with citizens of the City, have raised funds to make improvements to the City Park. The funds are maintained by a private individual who serves as the fundraising leader and are outside of the control of the City. These transactions and resulting \$11,654 balance 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.

- (J) Revenue Notes – The City has not established sewer sinking, sewer reserve or sewer short-lived asset reserve accounts and has not made monthly transfers to these accounts as required by the sewer revenue note resolution.

Recommendation – The City should establish sewer sinking, sewer reserve and sewer short-lived asset reserve accounts and ensure monthly transfers are made to these accounts as required.

- (K) Disbursements – Twenty of the thirty disbursements tested were disbursed prior to City Council approval. In addition, two of thirty disbursements tested were not properly supported by invoices or other supporting documentation.

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by the policy. All disbursements made under this policy should be reviewed at the next City Council meeting to provide the Council with an accurate knowledge of all funds expended by the City. In addition, the City should ensure proper supporting documentation is obtained and retained for all disbursements.

City of Onslow

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (L) Local Option Sales Tax – The City failed to maintain a copy of the Local Option Sales Tax (LOST) ballot which was passed by the residents of the City of Onslow in 1995. Per City officials, because the City did not know how LOST receipts were to be disbursed, LOST receipts were deposited into the General Fund and LOST disbursements were not recorded and tracked. City officials subsequently located the LOST ballot and determined LOST funds were to be utilized in the following manner; infrastructure (60%), property tax relief (25%) and economic development (15%).

Recommendation – The City should consult legal counsel regarding past use of LOST for potentially unallowable purposes. The City should properly track the use of LOST receipts, including the unspent balance, to demonstrate compliance with the LOST ballot. Subsidiary ledgers should be maintained or separate funds should be used to track each purpose.

- (M) Payroll – The following were noted:

- Employee salaries and hourly rates were not documented in the City Council meeting minutes. Accordingly, there is no evidence the salaries and hourly rates were approved.
- Two of three time sheets tested did not include evidence of supervisory review.
- Time sheets are not required for salaried personnel.

Recommendation – Employee salaries and hourly rates, including increases, should be approved by the City Council and the approval should be adequately documented in the City Council meeting minutes. In addition, time sheets should be required for all City employees to support hours worked and leave time taken. The time sheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (N) City Street Financial Report – The annual City Street Financial Report which is due to the Iowa Department of Transportation (IDOT) by September 30th of each year was not submitted by the City until December 19, 2016. This resulted in the State Treasurer withholding the City's road use tax receipts until the report was filed with the IDOT.

Recommendation – The City should develop procedures to ensure all reports are filed in a timely manner as required by law.

- (O) 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 several 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.

City of Onslow

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager
Mark D. Newhall, Staff Auditor
Ian N. Judson, Assistant Auditor


Marlys K. Gaston, CPA
Director