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STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 24, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Masonville's Periodic Examination Report dated April 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 indicate the City Council needs to exercise additional fiduciary oversight. Four of the fifteen findings reported in the Periodic Examination Report dated April 7, 2016 have been corrected, four were partially corrected and one is no longer valid. However, the City Council has not yet taken action to implement the remaining six recommendations. Three additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Masonville'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 <https://auditor.iowa.gov/reports/1522-0264-EPFP>.

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CITY OF MASONVILLE

**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 Masonville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
William Alden	Mayor	Jan 2016	Jan 2018
Jerry Alden	Council Member	Jan 2016	Jan 2018
Pat Laughren	Council Member	Aug 2017	Resigned Oct 2017
Nellie Marting	Council Member	Jan 2016	Jan 2018
Joe Moreno	Council Member	Aug 2017	Jan 2018
Charles Rettinger	Council Member	Jan 2016	Jan 2018
Marge Horstman	City Clerk		Indefinite

City of Masonville



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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 April 7, 2016 on the City of Masonville, Iowa covering the period January 1, 2015 through December 31, 2015 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 April 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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

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 April 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 Masonville 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 26, 2018

Detailed Recommendations

City of Masonville

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 April 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, journalizing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparing, distributing, entering rates and adding/removing employees from the system.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
 - (6) Long-term debt – recording 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.

Current Status – Not corrected. The recommendation is repeated.

- (B) Bank Reconciliations – The cash and investment balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, the bank reconciliations are not independently reviewed. In addition, listings of outstanding checks were not prepared monthly and retained.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Monthly outstanding check listings should be prepared and retained. Outstanding check listings should include check number, date written and amount for each listed check.

Current Status – Partially corrected. Each month an elected official of the City reviews the original bank statements and bank reconciliation prepared by the City Clerk. The elected official signs and dates a form to document the review. The City is not preparing an outstanding check listing including check number, date written and amount for each check. The recommendation is partially repeated.

City of Masonville

Report on the Status of Periodic Examination Findings and Recommendations

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

(C) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” We reviewed the AFR for the year ended June 30, 2015 and noted the following:

- Individual fund activity was not supported by the City’s records, including amounts reported as other financing sources and other financing uses.
- Total indebtedness at June 30, 2015 is understated on the AFR by \$132,201.
- Budget amounts reported on the AFR did not agree to the City’s approved budget.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records and the City’s approved budget.

Current Status – Not corrected. The receipts, other financing sources and uses, and fund balances reported in the fiscal year 2017 AFR do not agree to the City’s records. The indebtedness at June 30, 2017 was overstated by \$8,884. The cash basis fund balance did not agree to the City Clerk’s report by \$1,668. The budget amounts on the June 30, 2017 AFR did not agree to the City’s approved budget for the fiscal year. The recommendation is repeated.

(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 – Not corrected. The recommendation is repeated.

(E) Management Financial Information – The City Clerk’s financial reports to the City Council included cash balances and monthly receipts and disbursements, but did not include comparisons to the certified budget by function or a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendment to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, the monthly reports should include the beginning balances, receipts, disbursements, transfers and ending balances for each fund.

Current Status – Not corrected. The recommendation is repeated.

City of Masonville

Report on the Status of Periodic Examination Findings and Recommendations

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

- (F) Official Depositories – 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 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.

Current Status – Corrected. The Council approved a depository resolution on April 11, 2016.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted within fifteen days of the meeting. The postings shall include a list of claims, including the reason for each claim, a summary of receipts and total disbursements by fund. The meeting minutes tested did not include total disbursements from each fund or a summary of receipts. In addition, three minutes tested did not include the reason for each claim.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and ensure a summary of receipts, total disbursements by fund and the reason for each claim are posted as required.

Current Status – Partially corrected. The minutes tested during our follow-up procedures included a list of claims and the reason for each claim. However, the posted minutes did not include total disbursements by fund or a summary of receipts. The recommendation is partially repeated.

- (H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works and culture and recreation 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.

Current Status – Not corrected. Disbursements for the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, community and economic development and business type activities functions. The recommendation is repeated.

- (I) Credit Card – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City’s credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to support the purchases.

Current Status – Corrected. The City adopted a credit card policy on April 11, 2016.

City of Masonville

Report on the Status of Periodic Examination Findings and Recommendations

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

- (J) Disbursements – Supporting documents are not furnished to the check co-signer prior to co-signing the checks. Approval of payments is not documented by the signature or initials of the reviewer and the date of review on the supporting documentation. Also, supporting documentation for claims is not cancelled to prevent reuse.

Three disbursements tested were not properly supported by an invoice. One disbursement tested was not approved by the City Council.

Recommendation – Supporting documents for disbursements should be reviewed by the check signers prior to co-signing checks. Payment approval should be documented by the signature or initials of the reviewer and the date of review on the supporting documentation. In addition, supporting documentation for claims should be cancelled to prevent reuse. The City should retain original invoices for all disbursements and ensure all claims are approved by the City Council.

Current Status – Partially corrected. During the period reviewed, supporting documentation was provided to an elected official for review. The review was documented with a signature and date on a cover sheet. For the items tested during the follow-up procedures, disbursements were supported by invoices and disbursements were approved by the City Council. However, supporting documentation for claims was not cancelled to prevent reuse. The recommendation is partially repeated.

- (K) 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.

Current Status – Not corrected. The recommendation is repeated.

- (L) Payroll – Time sheets were not required to be prepared by all employees to substantiate hours worked. For time sheets that were prepared, there was no indication the time sheets had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll. In addition, one employee's hourly rate could not be traced to City Council authorization.

City of Masonville

Report on the Status of Periodic Examination Findings and Recommendations

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

Recommendation – The City should review and update payroll policies and procedures to ensure all employees submit detailed timesheets to support hours worked and timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Also, all pay rates should be authorized by the City Council and the authorization should be documented in the minutes record.

Current Status – Partially corrected. For employees tested during follow-up procedures, the City Council approved hourly rates. However, timesheets were not prepared for all employees and were not approved by supervisory personnel. The recommendation is partially repeated.

- (M) 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.

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

- (N) Annual Urban Renewal Report (AURR) – The AURR report was not certified to the Iowa Department of Management on or before December 1. The report was certified on February 23, 2016.

Recommendation – The City should file the AURR timely.

Current Status – Corrected. The AURR for fiscal year 2017 was certified on September 19, 2017.

- (O) Transfers – Transfers made by the City were not approved by the City Council.

Recommendation – The City Council should approve all transfers prior to the actual transfer and document the approval as part of the minutes record.

Current Status – No longer valid. During our follow-up procedures, there were no transfers recorded on the City's general ledger.

Additional Findings as a Result of Follow-up Procedures:

- (P) Investment Policy – The City has not adopted a written policy as required by Chapter 12B.10B 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.

City of Masonville

Report on the Status of Periodic Examination Findings and Recommendations

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

- (Q) Compensation of City Employees and Officials – The Mayor is paid \$350 per month after all taxes are deducted for wastewater operator duties. In addition, the Mayor receives an hourly rate for additional duties related to wastewater and other services, as necessary. A City Council member also received hourly compensation for mowing, spraying and other maintenance duties. Section 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.” Accordingly, the Mayor and City Council member were not entitled to receive compensation as the City’s wastewater operator or for other duties performed as employees of the City.

Recommendation – The City should monitor payment to City officials to ensure compliance with the Code of Iowa. In addition, the City should consult legal counsel to determine appropriate action to be taken for the current and past payments made to the Mayor and the City Council member, including seeking reimbursement for the unallowable compensation.

- (R) USDA Sewer Revenue Note – According to the City’s USDA sewer revenue note provisions, the City is to establish a sinking account to pay the interest and principal when due and a reserve account. Monthly transfers are to be made to the sinking account sufficient to pay the principal and interest on the notes when due and to the reserve account until the sum of \$8,827 is accumulated. The accounts have not been established, so transfers have not been made and there is not an established balance to meet the reserve account requirements.

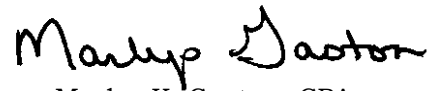
Recommendation – The City should comply with the USDA sewer revenue note provisions and establish the required accounts. The City should also make the required monthly transfers to the sinking and reserve accounts up to the required amounts.

City of Masonville

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
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Marlys K. Gaston, CPA
Director