



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

June 5, 2018

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Otho, Iowa for the period April 1, 2017 through March 31, 2018. 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 requiring an independent review of bank reconciliations. In addition, the City should establish procedures to ensure utility billings, collections and delinquent accounts are reconciled 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/1722-0909-EP0P>.

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**CITY OF OTHO**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
APRIL 1, 2017 THROUGH MARCH 31, 2018**

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**City of Otho**

**Officials**

| <u>Name</u>      | <u>Title</u>   | <u>Term Began</u> | <u>Term Expires</u> |
|------------------|----------------|-------------------|---------------------|
| Jason Hamburger  | Mayor          | Jan 2018          | Jan 2020            |
| Robert Ewing     | Council Member | Jan 2016          | Jan 2020            |
| Mike Montgomery  | Council Member | Jan 2016          | Jan 2020            |
| Jimmy Beekman    | Council Member | Jan 2018          | Jan 2022            |
| Brant Farrand    | Council Member | Jan 2018          | Jan 2022            |
| Marvin Fortune   | Council Member | Jan 2018          | Jan 2022            |
| Glenda Rasmussen | City Clerk     |                   | Indefinite          |
| Mark R. Crimmins | Attorney       |                   | Indefinite          |

**City of Otho**



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Independent Accountant's Report on Applying Agreed-Up 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 Otho for the period April 1, 2017 through March 31, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Otho'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 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 the City of Otho 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

May 4, 2018



## **Detailed Recommendations**

City of Otho

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

- (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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
  - (3) Long-term debt – recordkeeping and reconciling.
  - (4) Receipts – opening mail, collecting, depositing, recording and reconciling.
  - (5) Disbursements – purchasing, invoice processing, check writing, mailing, signing, reconciling and recording.
  - (6) Payroll – recordkeeping, preparing, signing and distributing.
  - (7) Utilities – billing, collecting, depositing and posting.
  - (8) Financial reporting – preparing and reconciling.
  - (9) Journal entries – preparing and recording.
  - (10) Accounting system – performing all general accounting functions, including journal entries, having custody of assets and controlling all data input and output.

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) General Ledger – Fund balances in the City’s general ledger are not the fund balances reported on the monthly City Clerk’s reports. Per discussion with the City Clerk, the fund balances per the City’s general ledger have not reconciled to the bank and investment balances for several years due to errors in the fund balances carried forward in the computerized general ledger system. The City maintains separate fund balances in the monthly City Clerk’s reports which are used for financial reporting purposes and which reconcile to the bank and investment balances.

Recommendation – The City should work with its accounting software provider to correct the fund balances reported in general ledger system.

- (C) Bank Reconciliations – Although monthly bank reconciliations were prepared and reconciled to the monthly City Clerk’s reports, the bank reconciliation for one of two months tested did not include investment account balances. In addition, the bank reconciliations were not reviewed by an independent person.

City of Otho

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to the bank and investment account balances monthly. In addition, an independent person should review the reconciliations and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Annual Financial Report – The fiscal year 2017 Annual Financial Report (AFR) ending fund balances did not agree to the monthly City Clerk’s report balances by \$89. In addition, total disbursements in the AFR were overstated by \$10,004 compared to the City’s records.

Recommendation – The City should ensure the AFR balances and activity agree with the City’s records.

- (E) Monthly City Clerk’s Report – Monthly City Clerk’s reports, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund, were prepared. However, the reports did not include a comparison of actual disbursements to the certified budget by function.

Recommendation – The City should ensure the City Clerk’s reports include comparisons of total disbursements for all funds to the certified budget by function.

- (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) Petty Cash Fund – The City maintains a petty cash fund for which no authorized amount could be located. In addition, the petty cash fund is not maintained on an imprest basis.

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 funds.

- (H) Payroll – Although time cards are maintained for all employees, there was no evidence the time cards were reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.

Recommendation – Time cards should be reviewed and approved by appropriate supervisory personnel prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review.

City of Otho

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

- (I) Investment Policy – For the period April 1, 2017 through March 31, 2018 the City had not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. On April 10, 2018 the City adopted an investment policy in compliance with Chapter 12B.10B of the Code of Iowa.
- (J) Disaster Recovery Plan – The City does not have a written disaster recovery plan for financial data.

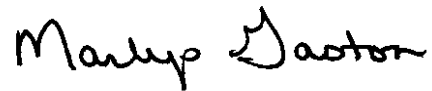
Recommendation – The City should develop a written disaster recovery plan.

City of Otho

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager  
Cole L. Hocker, CPA, Senior Auditor  
Mitchell M. Kirby, Assistant Auditor



Marlys K. Gaston, CPA  
Director