



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

June 18, 2018

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Elberon, 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. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. In addition, the City should maintain adequate financial records in accordance with the recommended Chart of Accounts, for completing and supporting the Annual Financial Report and for monitoring disbursements to ensure the certified budget is not exceeded.

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/1722-0828-EPOP>.

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**CITY OF ELBERON**

**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 Elberon**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Timothy Miller	Mayor	Jan 2016	Jan 2018
Rynonda Franzen (Appointed)	Council Member	Jan 2017	Nov 2017
Nancy Braasch	Council Member	Jan 2014	Jan 2018
Mark Fisher	Council Member	Jan 2014	Jan 2018
Linn Snell	Council Member	Jan 2016	Jan 2020
Bruce Swyter	Council Member	Jan 2016	Jan 2020
Laurie McMains	City Clerk/Treasurer	Jan 2018 – Present	
Kimberly Silhanek	City Clerk/Treasurer	Feb 2016 – Resigned Oct 2017	
Jan Hettinger	City Clerk/Treasurer	Aug 2017 – Resigned Sep 2017	
Jill Apfel	City Clerk/Treasurer	Dec 2016 – Resigned Apr 2017	
Jennifer Zahradnik	Attorney		Indefinite

**City of Elberon**



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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 Elberon 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 Elberon'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 2016 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 Elberon 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 7, 2018



## **Detailed Recommendations**

City of Elberon

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 individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing and reconciling earnings.
- (3) Long-term debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing and posting.

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) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, investment balances were not included in the bank reconciliations. In addition, there is no evidence of independent review of bank reconciliations.

Recommendation – The City should establish procedures to ensure bank and investment 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.

(C) 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.

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.

City of Elberon

Detailed Recommendations

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

- (D) Utility Billings – The City’s records are insufficient to determine whether utility billings were properly calculated and mailed timely each month. Based on an observation of the June 2017 billings, 13 included utility billings for more than one month. Three customers also noted on the billings they did not receive a billing in the prior month. In addition, utility billings are not periodically reviewed and tested to ensure calculations are correct, tax is properly included and penalties are properly assessed.

Recommendation – All utility billings should be prepared and mailed monthly and the records maintained. In addition, the City Council or other independent person designated by the City Council should periodically review the utility billings to ensure calculations are correct, tax is properly included and penalties are properly assessed. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (E) Debit Card – The City has a debit card available for use by employees while on City business.

Recommendation – The City Council should prohibit the use of a debit card for City purchases. Debit cards provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (F) Investments – Investments included in the monthly City Treasurer’s Report do not agree to amounts reported on bank statements. A certificate of deposit for \$31,628 held for the purchase of an ambulance was cashed in February 2013. However, the balance is still included in the Treasurer’s Report as of June 30, 2017.

Recommendation – Investments should be reconciled monthly to the bank statements by an independent individual. In addition, the City should make the necessary corrections for the certificate of deposit no longer held by the City.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting, including total disbursements from each fund, a summary of receipts and a summary of ordinances or amendments adopted during each meeting. In cities with a population less than 200, the publication requirements can be met by posting the minutes in three public places permanently designated by City ordinance. Documentation was not maintained to support the minutes were posted within 15 days. The minutes postings did not include total disbursements from each fund, a summary of receipts or a summary of ordinances or amendments adopted during each meeting.

In addition, documentation was not maintained to support the City Council meetings were preceded by proper notice in accordance with Chapter 21.4 of the Code of Iowa and the minutes record for two meetings tested was not signed as required by Chapter 380.7 of the Code of Iowa.

City of Elberon

Detailed Recommendations

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

Recommendation – The City should comply with the Code of Iowa and post meeting minutes within 15 days of the meeting. Documentation of the minutes postings should be retained. The minutes postings should include total disbursements by fund, a summary of receipts and a summary of ordinances or amendments adopted during the meeting. The City should also post proper notice prior to each City Council meeting and maintain documentation of the postings. In addition, all City Council meeting minutes should be signed to authenticate the actions taken.

- (H) City Council Meetings – Chapter 21.3 of the Code of Iowa states in part, “Each governmental body shall keep minutes of all its meetings showing the date, time and place, the members present, and the action taken at each meeting.” During our review of the minutes record, we noted a special City Council meeting was scheduled for December 2015. However, no minutes were available for this meeting.

Recommendation – Minutes should be maintained for all City Council meetings held. Swearing in of officers should be noted in minutes to indicate the change in leadership.

- (I) Monthly City Clerk’s Report – The City Clerk’s monthly financial reports to the City Council did not include comparisons of actual disbursements to the certified budget by function. In addition, the reports do not report transfers separate from receipts and disbursements.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include a comparison of actual disbursements to the certified budget by function. Also, for better financial information, the monthly reports should also report transfers separate from receipts and disbursements.

- (J) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” We were unable to determine the accuracy of receipts and disbursements reported in the June 30, 2016 Annual Financial Report since the City did not maintain financial records to classify receipts by source and disbursements by function. In addition, the total receipts, total disbursements and ending fund balance reported in the Annual Financial Report were \$823, \$1,864 and \$151 respectively, less than the totals in the City’s accounting records.

Recommendation – The City should maintain adequate financial records for completing and supporting the Annual Financial Report.

- (K) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

City of Elberon

Detailed Recommendations

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

- (L) Disbursements – Approval of payments is not documented by the signature or initials of the reviewer and the date of review on the supporting documentation. In addition, five of 30 disbursements tested were not supported by proper documentation.

Recommendation – Payment approval should be documented by the signature or initials of the reviewer and date of the review on the supporting documentation. In addition, all disbursements should be supported by invoices or other supporting documentation.

- (M) Prenumbered Receipts – Prenumbered receipts were not issued for collections.

Recommendation – Prenumbered receipts should be issued for all collections. The receipts should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented by the signature or initials of the reviewer and the date of the review.

- (N) Timesheets – Timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll. In addition, one employee did not have time cards available to document hours worked.

Recommendation – Procedures should be established to ensure timesheets are completed by all employees and reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be evidenced by the supervisor's initials and the date approved.

- (O) Receipts – During the period reviewed, local option sales tax receipts of \$5,062 were incorrectly recorded as road use tax receipts and road use tax receipts of \$4,845 were incorrectly recorded as local option sales tax receipts.

Recommendation – The City should implement procedures to ensure receipts are properly recorded.

- (P) Certified Budget – The City does not record disbursements by function in the accounting records. Accordingly, a comparison of budget to actual disbursements by function is not performed.

Recommendation – The City should establish procedures to maintain accounting records which classify disbursements by function and compare the budget to actual disbursements by function.

- (Q) Credit Cards – The Library has a credit card for ordering supplies for the Library. For the credit card disbursement tested, all receipts to support the charges were not available. Also, the May 2017 credit card statement included year to date fees and interest charged. In addition, the City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of credit cards. The policy at a minimum should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to support the purpose. All charges should be supported by receipts and all the bills should be paid timely to avoid late fees.

City of Elberon

Detailed Recommendations

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

- (R) 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.

- (S) 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.

- (T) 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.

- (U) 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. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, weekly back up of computer files, copies of user documentation and the disaster recovery plan should be maintained at an off-site location.

- (V) City Council Oversight – 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 needs to exercise additional fiduciary oversight.

City of Elberon

Detailed Recommendations

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

In providing this oversight, financial records should be made readily available to all City Council Members and the City Council should regularly receive and review the City's financial records, bank statements, utility reconciliations and reports. Proper oversight also includes the adoption of written policies pertaining to proper internal control, compliance and oversight which address implementation of the recommendations in this report and the establishment of procedures to ensure compliance with these policies.

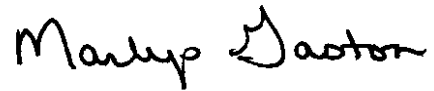
Recommendation – Oversight by the City Council is essential and should be an ongoing effort by all members. Financial records should be made available to all City Council members at the City Council meetings or upon request. In the future, the City Council should exercise due care and require and review 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.

City of Elberon

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager  
Kelly L. Hilton, Senior Auditor  
Taylor I. Cook, Staff Auditor

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