



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 18, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Miles, Iowa for the period January 1, 2017 through December 31, 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 and establish procedures to ensure bank reconciliations are completed monthly. Additionally, procedures should be established to verify the individual components of the monthly utility reconciliation and have an independent person review the reconciliations and monitor delinquent accounts. Also, the City should recover remaining funds provided to non-profit corporations for current and past donations.

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/1722-0455-EP0P>.

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CITY OF MILES

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

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

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City of Miles

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Michael Portz	Mayor	Jan 2016	Jan 2018
Jennifer Machande	Mayor Pro Tem	Jan 2014	Jan 2018
Kristie Melvin	Council Member	Jan 2014	Jan 2018
Jesse Speer	Council Member	Jan 2014	Jan 2018
Dale Cassaday	Council Member	Aug 2016	Jan 2020
Timothy Volquardsen	Council Member	Jan 2016	Jan 2020
Susan Papke	City Clerk		(Resigned Feb 2017)
Audrey Thayer (Appointed Feb 2017)	City Clerk		(Resigned Sep 2017)
Mindy Ashcraft (Appointed Aug 2017)	City Clerk		Indefinite

City of Miles



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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 Miles for the period January 1, 2017 through December 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Miles'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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 Miles 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

July 6, 2018

Detailed Recommendations

City of Miles

Detailed Recommendations

For the period January 1, 2017 through December 31, 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, custody and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
 - (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (5) Payroll – recordkeeping, preparing, signing, distributing, entering rates and adding/removing employees from the system.
 - (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
 - (7) Debt – recordkeeping and debt payment processing.
 - (8) Journal entries – preparing and recording.
 - (9) Accounting system – performing all general accounting functions, including journal entries and having custody of assets.
 - (10) Computer systems – performing all general accounting functions 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) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The June 30, 2017 bank and book balances properly reconciled, however, for December 31, 2017, the book balance was \$10 understated.

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 – Although the City maintains a monthly reconciliation of utility billings, collections and delinquent accounts produced by the utility system, the individual components are not verified to the City’s general ledger, billing register, bank account and delinquent account listings. In addition, an independent person does not review and approve the reconciliations or adjustments made to accounts.

City of Miles

Detailed Recommendations

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

Recommendation – The City should verify the individual components of the system run monthly reconciliation to the City’s general ledger billing register, bank account and delinquent account listings. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Non-Profit Donations – During the period reviewed, the City donated \$500, \$100, \$1,000 and \$400, respectively, to the following non-profit organizations: the American Legion, the YWCA, the Jackson County Economic Alliance and the Operation New View Community Action Agency.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, “...no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly.”

We previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

“...I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds,’ subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose of which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of funds received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking.”

Recommendation – We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over its public funds to separate non-profit organizations. The City should recover remaining funds provided to these non-profit organizations for current and past, if any, donations.

- (E) Monthly City Treasurer’s Report – Although the total fund balance reported on the City’s June 30, 2017 Annual Financial Report (AFR) agrees with the June 30, 2017 City Treasurer’s Report generated by the City’s accounting system, the June 2017 City Clerk’s Report and the June 2017 bank reconciliation, the fund balances by individual fund do not agree between the AFR, the City Treasurer’s Report or the City Clerk’s Report.

Recommendation – The City should establish procedures to ensure computer generated reports are accurate. The City should work with its software provider to determine the cause for the report errors and take immediate action to correct the reports.

City of Miles

Detailed Recommendations

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

- (F) Monthly City Clerk's Report – The monthly City Clerk's reports do not include a comparison of total disbursements for all funds to the certified budget by function.
- Recommendation – The City should establish procedures to ensure monthly City Clerk's reports include a comparison of total disbursements for all funds to the certified budget by function.
- (G) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.
- Recommendation – Prenumbered receipts should be issued for all collections to provide additional control over the proper collection and recording of all receipts.
- (H) Journal Entry Approval – Journal entries are not reviewed and approved by an independent person.
- Recommendation – Journal entries should be reviewed and approved by an independent person. This review and approval should be documented by the signature or initials of the independent reviewer and the date of the review.
- (I) Financial Condition – The General and Enterprise, Cemetery Funds had deficit balances of \$12,763 and \$1,518, respectively at June 30, 2017.
- Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial condition.
- (J) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the business-type activities function.
- 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.
- (K) Disbursements – One of 36 disbursements tested was not properly supported by an invoice. Additionally, the check for this disbursement was less than the amount approved by the City Council.
- Recommendation – The City should ensure all disbursements are properly supported by invoice or other supporting documentation. The City should establish procedures to ensure disbursements provided for review at each monthly meeting reconcile to information in the City's accounting system. If a claim is changed by the City Council during approval, the approved claims listing should be changed to reflect the approved amount.
- (L) Compensated Absences – Vacation accruals, use and balances were not supported, tracked or approved.
- Recommendation – The City should establish written policies and procedures to provide for the proper accounting for vacation accruals, uses and balances, including the requirement for proper approval and documentation.

City of Miles

Detailed Recommendations

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

- (M) Cemetery Fund – The City recorded the cemetery receipts and disbursements in an Enterprise Fund rather than as part of the General Fund.

Recommendation – The City should record the cemetery receipts and disbursements in the General Fund in accordance with the Uniform Chart of Accounts.

- (N) 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.

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

- (O) Depository Resolution – Although a resolution naming official depositories has been approved by the City Council, the maximum deposit amounts were not included in the depository resolution.

Recommendation – The City Council, by resolution, should adopt a new depository resolution which establishes maximum deposit amounts as required by Chapter 12C.2 of the Code of Iowa.

- (P) Annual Financial Report – The long-term debt section of the AFR did not report the beginning balance or loan proceeds received during the year for the State Revolving Loan issued in 2013.

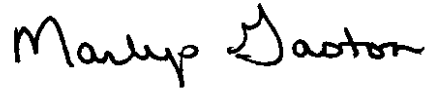
Recommendation – The long-term debt section of the AFR should report all outstanding debt.

City of Miles

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager
Jesse J. Probasco, CPA, Senior Auditor
Matthew A. Miller, Assistant Auditor



Marlys K. Gaston, CPA
Director