



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 1, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Rathbun's Periodic Examination Report dated April 19, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2017 through March 31, 2018.

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. Fourteen findings reported in the Periodic Examinations Report dated April 19, 2016 are repeated in this report. While the City corrected three and partially corrected four of the fourteen findings, seven of the findings are reported as "not corrected". Four additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Rathbun'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 and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1522-0024-EPFP>.

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CITY OF RATHBUN

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

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

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City of Rathbun

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Barbara Milburn	Mayor	Jan 2018	Jan 2020
V. Mike Baker	Council Member	Jan 2018	Jan 2020
Richard Glovas	Council Member	Jan 2018	Jan 2020
Ralph Gray	Council Member	Jan 2018	Jan 2020
Ronnie Milburn	Council Member	Jan 2018	Jan 2020
Phyllis Gray (Appointed Feb 2018)	Council Member	Mar 2018	Nov 2019
Cynthia Sulser	City Clerk/Treasurer		Indefinite
Monte M. McCoy	Attorney		Indefinite

City of Rathbun



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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 19, 2016 on the City of Rathbun, Iowa covering the period April 1, 2015 through March 31, 2016 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 dated April 19, 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 March 31, 2018.

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 19, 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 Rathbun 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

July 6, 2018

Detailed Recommendations

City of Rathbun

Report on the Status of Periodic Examination Findings and Recommendations

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

Findings Reported in the Periodic Examination Report dated April 19, 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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
 - (2) Cash – handling, reconciling and recording.
 - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (4) Long-term debt – recordkeeping, compliance and debt payment processing.
 - (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (6) Payroll – recordkeeping, preparing and distributing.
 - (7) Computer system – performing all general accounting functions and controlling all data input and output.
 - (8) Financial reporting – preparing and reconciling.
 - (9) Bank reconciliations – independent reviews of bank reconciliations were not documented.

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) Chart of Accounts – The City has not fully implemented the recommended 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.

Current Status – Corrected. The City implemented the COA for the fiscal year ending June 30, 2017 to record and report receipts and disbursements.

- (C) 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.

City of Rathbun

Report on the Status of Periodic Examination Findings and Recommendations

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

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.

Current Status – Partially corrected. As of the date of this report, the City has adopted a written investment policy and a resolution naming official depositories. However, although a resolution naming official depositories has been approved by the City Council, the maximum deposit amounts were not included in the resolution. The recommendation is partially repeated.

- (D) Outstanding Check Listing – For three of 12 months reviewed, an outstanding check listing detailing the check number, amount and date written for each outstanding check was not prepared.

Recommendation – The City should prepare an outstanding check listing monthly. The listing should include the check number, amount and date written for each check outstanding.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (P).

- (E) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings in cities with a population of less than 200 be posted in three public places (established by City ordinance) within fifteen days of the meeting. The postings should include total disbursements from each fund, a listing of all claims allowed, the purpose for each claim and a summary of receipts. Although minutes for the City Council meetings were posted in three public places, as required, the minutes postings did not include total disbursements from each fund, a listing of claims allowed, the purpose of each claim or a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and ensure the posted minutes include total disbursements by fund, a listing of all claims allowed, the purpose for each claim and a summary of receipts.

Current Status – Partially corrected. For the period reviewed, the minutes postings included a listing of claims allowed, the purpose of each claim and a summary of receipts. However, the minutes postings did not include total disbursements from each City fund. The recommendation is partially repeated.

- (F) Surety Bond Coverage – Surety bond coverage of City officials and employees is not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should maintain surety bond coverage as required by Chapter 64 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

City of Rathbun

Report on the Status of Periodic Examination Findings and Recommendations

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

- (G) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works and community and economic development 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 during the year ended June 20, 2017 exceeded the amount budgeted in the debt service function. The recommendation is repeated.

- (H) Computer System – The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Ensuring only software licensed to the City is installed on computers.
- Internet usage.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system.

Current Status – Partially corrected. As of the date of this report, the City has developed written policies for all items except a written disaster recovery plan. The recommendation is partially repeated.

- (I) Receipts – Pre-numbered receipts were not issued for all collections.

In addition, five of 25 receipts tested for liquor license permits, road use tax and local option sales tax were recorded in incorrect funds.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all receipts. Receipts should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented. The City should make corrective transfers to record receipts in the correct funds.

Current Status – Not corrected. The recommendation is repeated.

City of Rathbun

Report on the Status of Periodic Examination Findings and Recommendations

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

- (J) 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.

- (K) Financial Reporting – 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.” The AFR due December 1, 2015 omitted the Special Revenue, Community Donation Fund activity and fund balance of \$1,392. Also, debt payments of \$3,192 were incorrectly reported as general government disbursements rather than debt service disbursements.

Recommendation – The City should ensure all receipts, disbursements and balances are properly reported in the AFR by reconciling all amounts to the City’s financial records. An independent person should review the AFR for accuracy.

Current Status – Not corrected. The AFR due December 1, 2017 omitted the Special Revenue, Park Fund activity and fund balance of \$2,483. In addition, total disbursements and certain individual line item disbursements did not agree with the City’s records. The recommendation is repeated.

- (L) Debt Service – Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.” Principal and interest on the City’s general obligation promissory note were recorded in the Special Revenue, Local Option Sales Tax Fund rather than the Debt Service Fund. Also, the total amount of general obligation debt outstanding, including principal and interest, is not tracked by the City.

Recommendation - The City should transfer funds to the Debt Service Fund to pay general obligation bonds. Also, the City should track all outstanding debt and reconcile with payments made by the City.

Current Status – Partially corrected. The City is tracking the total amount of general obligation debt outstanding. However, as of the date of this report, the City is not using fund accounting. The recommendation is repeated. In addition, see finding (O).

City of Rathbun

Report on the Status of Periodic Examination Findings and Recommendations

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

- (M) Payroll Returns and Taxes – The employee’s share of payroll taxes was not withheld from certain payroll checks. In addition, wages for the current and prior years have not been reported on IRS Forms W-2 and 941. We were unable to determine how long payroll taxes have not been withheld or wages reported.

Recommendation – The City should contact the IRS to determine the disposition of this matter. The City should establish procedures to ensure the employee share of payroll taxes are withheld and remitted and all payroll tax returns are completed and filed.

Current Status – Corrected. For the period reviewed, the City withheld payroll taxes and reported wages on IRS Form W-2. The 941 for quarter ended March 31, 2018 was properly filed with the IRS.

- (N) Safeguarding City Records – The City does not have fire prevention devices in City Hall.

Recommendation – The City should install fire prevention devices to help safeguard City records.

Current Status – Corrected. The City has a fire extinguisher located in City Hall.

Additional Findings as a Result of Follow-up Procedures:

- (O) Financial Reporting – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including, but not limited to, road use tax and local option sales tax.

In addition, a monthly City Clerk’s report, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of total disbursements for all funds to the certified budget is not prepared.

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. In addition, the City Clerk should prepare a monthly City Clerk’s report which includes a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements for all funds by function to the certified budget.

- (P) Bank Reconciliations – Bank balances were not reconciled to book balances monthly.

Recommendation – The City should establish procedures to ensure bank balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

City of Rathbun

Report on the Status of Periodic Examination Findings and Recommendations

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

- (Q) 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. In addition, the City retained only the front of each cancelled check for one of its two checking accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.11 of the Code of Iowa.

- (R) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

City of Rathbun

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor II


Marlys K. Gaston, CPA
Director