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STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 3, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Melrose, Iowa for the period April 1, 2016 through March 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 possible. The City should also establish procedures to reconcile investment account balances to the City's records monthly, the Annual Financial Report agrees with the City's records and the monthly City Clerk's reports are complete and accurate. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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/1622-0643-EP0P>.

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CITY OF MELROSE

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

**FOR THE PERIOD
APRIL 1, 2016 THROUGH MARCH 31, 2017**

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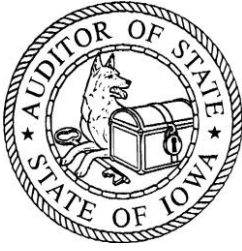
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City of Melrose

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|-------------------|----------------------|-------------------|---------------------|
| Mike Feehan | Mayor | Jan 2016 | Jan 2018 |
| Cali Lacey | Council Member | Jan 2016 | Jan 2018 |
| Kristi Rush-Meeks | Council Member | Jan 2016 | Jan 2018 |
| Cody Ryan | Council Member | Jan 2016 | Jan 2018 |
| Clifford Savage | Council Member | Jan 2016 | Jan 2018 |
| Bernard Schurman | Council Member | Jan 2016 | Jan 2018 |
| Linda Heller | City Clerk/Treasurer | | Indefinite |

City of Melrose



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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 Melrose for the period April 1, 2016 through March 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Melrose'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 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.


8. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
9. 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.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. 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 Melrose 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 25, 2018

Detailed Recommendations

City of Melrose

Detailed Recommendations

For the period April 1, 2016 through March 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) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – handling, reconciling and recording.
 - (3) Receipts – opening mail, collecting, depositing, posting and reconciling.
 - (4) Disbursements – purchasing, check writing, mailing, reconciling and recording.
 - (5) Payroll – preparing and distributing.
 - (6) Financial reporting – preparing and reconciling.
 - (7) Computer system – performing all general accounting functions and controlling all data input and output.

For the Melrose Volunteer Fire Department and First Responders account, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – purchasing, check writing, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Volunteer Fire Department and First Responders 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 – Bank and investment balances were not reconciled to book balances monthly. Outstanding check listings are not maintained. At March 31, 2017, the City’s book balance exceeded the City’s bank and investment balances by \$4,032.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the book balances 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. In addition, outstanding check listings should be maintained.

- (C) 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...”. The City’s fiscal year 2016 Annual Financial Report (AFR) reported beginning and ending fund balances which did not agree with the City’s records or with the preceding fiscal year’s AFR ending fund balances. In addition, the receipts and disbursements reported on the AFR were not supported by the City’s records due to the City not maintaining cumulative data of the year’s receipts and disbursements.

City of Melrose

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

Recommendation – The City should ensure the Annual Financial Report receipts, disbursements and balances agree with the City’s records. The City should also ensure the Annual Financial Report beginning and ending fund balances agree from year to year.

- (D) 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.

- (E) Monthly City Clerk’s Report – Although monthly City Clerk’s reports are prepared each month, they are not always properly updated or accurate. Fund balances are not brought forward correctly from the previous month and receipts and disbursements are not updated. In addition, the monthly reports did not include comparisons to the certified budget by function.

Recommendation – The City should establish procedures to ensure the monthly City Clerk’s reports are accurate and complete and include a comparison of total disbursements for all funds to the certified budget by function.

- (F) 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.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted in three public places within the City within fifteen days of the meeting. The postings should include a list of all claims allowed, a summary of receipts, total disbursements by fund and a summary of ordinances or amendments adopted. The City did not maintain evidence or documentation of the required postings. In addition, four of four meeting minutes tested were not properly signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and post City Council minutes within fifteen days of the meeting, as required. The City should ensure the postings include a list of claims allowed, a summary of receipts, total disbursements by fund and a summary of ordinances or amendments adopted. The City Council meeting minutes should be signed by the City Clerk, as required.

City of Melrose

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (H) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works and general government 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.” Also, Chapter 384.16(3) of the Code of Iowa requires the City Council to set a time and place for a public hearing on the budget before the final certification date and to publish (or post in three public places if the City’s population is less than 200) notice of the hearing not less than ten nor more than twenty days before the hearing. The City did not retain documentation of the required posting.

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. The City should retain evidence of proper posting of the notice of public hearing for the budget.

- (I) Questionable Disbursements – During the period reviewed, the City purchased \$43 of flowers from the Volunteer Fire Department and First Responders account. This disbursement may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (J) Separately Maintained Records – The Melrose Volunteer Fire Department and First Responders maintain separate accounting records for certain operations. The transactions and resulting balances for these accounts were not included in the City’s accounting records, annual budget, monthly financial reports or Annual Financial Reports and were not reported to the Council each month.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

City of Melrose

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (K) Disbursements – Invoices and other supporting documentation were not always available to support disbursement transactions. Five of thirty transactions tested for the City and one of ten Volunteer Fire Department and First Responders transactions tested did not have adequate support. Also, the Volunteer Fire Department and First Responders support for disbursements is not cancelled to prevent reuse and for nine of thirty disbursements tested for the City, the check amount was different than the amount listed on the monthly City Clerk’s report. This was due to the monthly City Clerk’s report not always being properly updated or accurate. There is no independent review of transactions to ensure all checks are properly recorded and are properly reported to the City Council.

Recommendation – Supporting documentation should be maintained for all disbursements. Supporting documentation should be cancelled to prevent reuse. The City should establish procedures to ensure all disbursements are properly recorded and reported to the City Council. The procedures should include an independent review of disbursement transactions to ensure all disbursements are recorded at the correct amount.

- (L) 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 and the Volunteer Fire Department and First Responders do not receive an image of the back of each cancelled check.

Recommendation – The City and the Volunteer Fire Department and First Responders 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.

- (M) Volunteer Fire Department and First Responder’s Debit Card – The Volunteer Fire Department and First Responders have a debit card available for use by the Department. The debit card is in the possession of and name of the Secretary/Treasurer. The Department has allowed the debit card to be used to purchase items under \$300 without prior approval. Five of ten disbursements tested for the Department were made with the debit card, including 2 instances where cash was withdrawn. \$1,500 in cash was withdrawn for the purpose of purchasing fireworks for the 4th of July celebration and \$2,550 in cash was withdrawn for various 4th of July activities.

Recommendation – The City Council should prohibit the use of debit cards for City business, including for Volunteer Fire Department and First Responders purchases. The function of a debit card is to 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.

- (N) Payroll – Documentation of City Council approval of wage rates for the City Clerk, City Council and Mayor was not available. In addition, the City overpaid two City Council members for one meeting each, totaling \$50.

Recommendation – The City should establish procedures to ensure City Council approval is documented and available to support all City employee wages. The City should seek reimbursement for the overpayments to the City Council members.

City of Melrose

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

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

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. The collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

City of Melrose

Staff

This engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager
Jonathan M. Mader, CPA, Staff Auditor


Marlys K. Gaston, CPA
Director