



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 6, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Walker, 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 possible. In addition, the City should establish procedures to ensure debt payments and business transactions with City employees comply with the Code of Iowa.

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/1721-0553-EPOP>.

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CITY OF WALKER
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 Walker

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
James Voss	Mayor	Jun 2016	Jan 2018
Kene Shoop	Council Member	Jan 2014	Jan 2018
Chris Cook	Council Member	Jan 2016	Jan 2020
Robert Dunn III	Council Member	Jan 2016	Jan 2020
Rozena McVey	Council Member	Jan 2016	Jan 2020
Paul Nielsen (Elected)	Council Member	Nov 2017	Jan 2022
Connie Helms	City Clerk/Treasurer		Indefinite
Robert Hatala	Attorney		Indefinite

City of Walker



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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 Walker 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 Walker'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 Walker 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 17, 2018

Detailed Recommendations

City of Walker

Detailed Recommendations

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 of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, entering rates into the system and maintaining detail accounts receivable records.
- (5) Debt – recordkeeping and debt payment processing.
- (6) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – recordkeeping, preparing checks, distributing checks and entering rates into the system.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording with no independent review.

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) Computer System – The City does not have written policies over the computer system for:

- Password privacy and confidentiality.
- Requiring changes in passwords a minimum of every 60 to 90 days.
- Requiring backups be performed daily, weekly, monthly and yearly and taken off premises.
- Ensuring only software licensed to the City is installed on computers and monitoring software licensing requirements to ensure the City is in compliance.
- Usage of the internet.
- Personal use of computers and software.
- Requiring the use of an anti-virus program on computers.

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

(C) Payroll – Annual salary increases for the City Clerk/Treasurer and Public Works Technician were approved based upon a percentage and dollar increase and the actual approved wages were not documented in the City Council meeting minutes.

City of Walker

Detailed Recommendations

January 1, 2017 through December 31, 2017

Recommendation – Actual approved wages and hourly rates should be documented in the City Council meeting minutes.

- (D) Deposits and Investments – The City has adopted a written investment policy. However, the policy does not address all provisions required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should modify the investment policy to include the required provisions of Chapter 12B.10B of the Code of Iowa.

- (E) City Council Meeting Minutes – For one of four City Council meeting minutes tested, a motion passed with “3 ayes, 2 nays”. The minutes record did not indicate the vote of each City Council member present as required by Chapter 21.3 of the Code of Iowa.

Recommendation – The minutes record should indicate the vote of each City Council member present.

- (F) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
William Sherbon, temporary part-time employee, owner of Sherbon Construction	Cement and repair projects	\$ 11,723

Although the above transactions were awarded through a motion accepting a bid from the contractor, no published request for bids or formal bidding process was followed. In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (G) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation bonds were paid from the City’s General, Special Revenue, Local Option Sales Tax, Road Use Tax and Enterprise, Sewer Funds during fiscal year 2017. 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.”

Recommendation – The City should transfer from the General Fund, the Special Revenue, Local Option Sales Tax Fund, the Road Use Tax Fund and the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required.

City of Walker

Detailed Recommendations

January 1, 2017 through December 31, 2017

- (H) Revenue Bonds – The City’s sewer and water revenue bond resolutions require the City to establish sewer and water sinking accounts and make sufficient monthly transfers to these accounts from the Enterprise, Sewer and Water Funds for the purpose of making the required principal and interest payments when due. The City has not established sewer and water revenue bond sinking accounts and has not made monthly transfers to the accounts, as required.

Recommendation – The City should establish sewer and water revenue bond sinking accounts and make the monthly transfers as required.

- (I) Financial Reporting – The City post dated two checks which were recorded in July 2017 but cleared the bank in June 2017. The fiscal year 2017 Annual Financial Report (AFR) excluded these disbursements resulting in a understatement of disbursements of \$4,816.

Recommendation – Checks should not be post dated. The AFR should agree with disbursements incurred during the fiscal year.

- (J) 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.

- (K) Change and Petty Cash Funds – The change and petty cash funds were not included in the City’s accounting records and resulting fund balances.

Recommendation – The change fund and petty cash funds should be included in the City’s accounting records and resulting fund balances.

- (L) Utility Reconciliations – There is no evidence of independent review of the utility reconciliations.

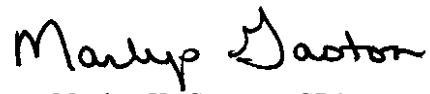
Recommendation – The City Council or other independent person designated by the City Council should review the reconciliations and sign or initial and date the reconciliations to document the review.

City of Walker

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager
Brandon J. Vogel, Senior Auditor II
Nicholas A. Kruse, Assistant Auditor



Marlys K. Gaston, CPA
Director