



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

August 10, 2018

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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of New Market's Periodic Examination Report dated June 16, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2017 to February 28, 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. The City corrected eight of the findings and partially corrected eight of the findings. The remaining four findings are reported as "not" corrected. Nine additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of New Market'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/1522-0844-EPFP>.

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CITY OF NEW MARKET

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

**FOR THE PERIOD
JUNE 1, 2017 THROUGH FEBRUARY 28, 2018**

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City of New Market

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Frank Sefrit	Mayor	Jan 2018	Jan 2020
Paul Gruber	Council Member	Jan 2016	Jan 2020
Charles Hobbrick	Council Member	Jan 2016	Jan 2020
Bob Riddle	Council Member	Jan 2016	Jan 2020
Jim Radke	Council Member	Jan 2018	Jan 2022
Gary Reeve	Council Member	Jan 2018	Jan 2022
Angela Tracy	City Clerk/Treasurer		Indefinite
Jim Varley	Attorney		Indefinite

City of New Market



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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 June 16, 2016 on the City of New Market, 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 date June 16, 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 to February 28, 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 June 16, 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 New Market during the course of our follow-up procedures engagement. 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

June 26, 2018

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

Findings Reported in the Periodic Examination Report dated June 16, 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) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (5) Payroll – record keeping, preparing, signing and distributing.
 - (6) Financial reporting – preparing and reconciling.
 - (7) Accounting system – performing all general accounting functions and having custody of assets.

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) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual accounts, they were not reviewed by an independent person. Also, complete reconciliations, including investments, were not performed.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank/investments balances should be investigated and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Current Status – Partially corrected. For the period reviewed, the City did not prepare complete bank reconciliations for 3 of the 9 months. In addition, bank reconciliations were not reviewed by an independent person. The recommendation is repeated.

City of New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

- (C) Petty Cash – The City maintains a petty fund for which authorization could not be located. In addition, the City's petty cash fund was not included in the City's accounting records and resulting fund balances.

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 funds and accounts, including petty cash, should be included in the City Clerk's accounting records. In addition, the petty cash fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

Current Status – Partially corrected. For the period reviewed, the City adopted an ordinance authorizing the petty cash fund and the petty cash fund was included in the City's accounting records and fund balances. However, the ordinance did not state the established amount of the petty cash fund.

- (D) Accounting Records and Financial Information – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City Clerk's financial reports to the City Council do not include receipts, disbursements, transfers and balances for each fund or comparisons of actual disbursements to the certified budget by function. In addition, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate the preparation of and support for the Annual Financial Report (AFR).

Recommendation – To provide better financial information and control over budgeted disbursements, the recommended COA, or its equivalent, should be followed, including proper classification of receipts by source and disbursements by function. The City Clerk should prepare a monthly City Clerk's report which includes receipts, disbursements, transfers and balances for each fund and a comparison of actual disbursements to the certified budget by function. This report should be reviewed and approved by the City Council. In addition, year-to-date totals of receipts by fund and source and of disbursements by fund and function should be maintained to facilitate the preparation of and support for the AFR.

Current Status – Partially corrected. During the period reviewed, the City used the recommended Uniform Chart of Accounts (COA) for Iowa City Governments. However, the City Clerk's financial reports to the City Council did not include receipts, disbursements, transfers and balances for each fund which reconcile to the City's general ledger. In addition, a comparison of total disbursements for all funds to the certified budget was not included. Also, year-to-date totals of receipts by fund and source and disbursements by fund and function were not maintained to facilitate the preparation of and support for the Annual Financial Report (AFR). The recommendation is partially repeated.

City of New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The receipts, disbursements and fund balances included in the City’s AFR do not agree with the City’s records. We were unable to determine the accuracy of the receipts, disbursements and ending cash balances by fund reported on the AFR since information supporting the amounts was not retained. In addition, approval of the AFR by the City Council was not documented.

Recommendation – The City should ensure receipts, disbursements and fund balances included in future AFRs agree with the City’s records. In addition, the AFR should be approved by the City Council and the approval should be documented in the minutes record.

Current Status – Not corrected. The fiscal year 2017 AFR does not agree to the City’s records for receipts, disbursements and ending fund balance by \$1,952, \$2,161, and \$123,587, respectively. The recommendation is repeated.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and delinquent account listings were 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, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

Current Status – Partially corrected. For the period reviewed, the City prepared delinquent account listings. However, utility billings, collections and delinquent accounts were not reconciled and reviewed by an independent person. The recommendation is partially repeated.

- (G) Utility Rates – The utility rates entered into the system are not reviewed and approved by an independent person to ensure proper utility calculations and billing. In addition, Chapter 388.6 of the Code of Iowa states in part, “A city utility or a combined utility system may not provide use or service at a discriminatory rate...” The City’s Maintenance Supervisor is not billed for water and sewer usage.

Recommendation – An independent individual should review and approve utility rates periodically and when rate changes occur to ensure proper utility billings. Also, all individuals utilizing water and sewer services should be billed for those services, as required.

Current Status – Partially corrected. Utility rates are entered into the system by the software provider and are reviewed by the City Clerk. However, the City’s Maintenance Supervisor is not billed for sewer and water usage. The recommendation is partially repeated.

City of New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

- (H) Disbursements – Invoices and other supporting documentation are not reviewed by the individual who co-signs the checks. In some cases, checks were signed in advance by the individual responsible for co-signing checks. Although the City Council approves a disbursement listing, no evidence exists to indicate invoices or other supporting documentation are reviewed. Supporting documentation is not cancelled to prevent reuse. In addition, supporting documentation for 13 of the 30 transactions tested could not be located and credit card payments are not always supported by a vendor invoice for each transaction.

Recommendation – Supporting documentation for disbursements should be reviewed by each check signer prior to co-signing checks. Checks should only be signed and countersigned when the completed check and appropriate supporting documentation are available for review. Prior to signing, the checks and supporting documentation should be reviewed by the City Council for propriety. All invoices or other supporting documentation should be cancelled to prevent duplicate payment. In addition, supporting documentation should be maintained for all transactions and all credit card transactions should be supported by a vendor invoice.

Current Status – Partially corrected. Ten of ten disbursements tested during the period reviewed for both the City and the Fire Department were properly supported, including credit card payments. In addition, it does not appear the City signed checks in advance during the period reviewed. However, there was no evidence the check co-signer, the City Council or the Fire Department officials reviewed invoices or other supporting documentation prior to payment. Also, supporting documents are not cancelled to prevent reuse. The recommendation is partially repeated.

- (I) City Council Meeting Minutes – City Council meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and ensure all City Council meeting minutes are signed to authenticate the actions taken.

Current Status – Corrected. For the period reviewed, the City Council meeting minutes were signed, as required.

- (J) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jim Radke, Council Member, wife is Joyce Radke, cleaning services	Cleaning services	\$ 3,543

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.

In addition, there was not a formal, signed contract between the City and Joyce Radke to establish the contract terms for the cleaning services to be provided, including the cost for those services.

City of New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

Recommendation – The City should consult legal counsel to determine the disposition of these matters. In the future, the City should follow a competitive bid process when potential service providers include City employees/officials or parties related to City employees/officials. The City should also ensure a formal, signed contract is in place to establish the terms and conditions for all services provided to the City.

Current Status – Not corrected. The recommendation is repeated.

- (K) 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.

Current Status – Corrected. During the period reviewed, the City issued prenumbered receipts for all office collections.

- (L) Payroll Approval – The approved salary amount and subsequent wage rate increases for the Maintenance Supervisor were not included in the City Council meeting minutes. In addition, a personnel file is not maintained for the City's Maintenance Supervisor.

Recommendation – Approved salary amounts and wage rates for all employees should be documented in the City Council meeting minutes. In addition, personnel files should be maintained for all City employees.

Current Status – Partially corrected. On April 5, 2018, the City adopted a resolution establishing hourly pay rates for the Maintenance Supervisor, City Clerk and seasonal employees. However, a personnel file is not maintained for the Maintenance Supervisor.

- (M) Payroll – The City's Maintenance Supervisor is not required to prepare and submit timesheets to support hours worked. Also, vacation, sick leave and compensatory time earned or used by employees, including related balances, are not reviewed and approved by supervisory personnel prior to processing payroll. In addition, two of four timesheets tested were not approved by the employee's supervisor and pay rates entered into the system and payroll reports are not reviewed by an independent person.

Recommendation – Timesheets should be required for all employees and should be signed by the employee and approved by the employee's immediate supervisor prior to preparation of payroll. The timesheets should support all hours worked and all hours taken as vacation, sick leave and compensatory time. Also, vacation, sick leave and compensatory balances should be monitored and reviewed by an independent person. In addition, pay rates entered into the system and payroll reports should be approved by an independent person.

Current Status – Partially corrected. During the period reviewed, the Maintenance Supervisor prepared and signed timesheets and the timesheets were subsequently approved by the City Clerk. However the City Clerk's timesheet is not reviewed and approved by supervisory personnel. In addition, the vacation, sick leave and compensatory time earned and used are not independently reviewed or approved. In addition, there is no evidence pay rates entered into the accounting software or payroll reports are reviewed and approved by an independent individual. The recommendation is partially repeated.

City of New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

- (N) Mayor/Council Member Compensation – Mayor and Council Member compensation was not approved by City ordinance as required by Chapter 372.13(8) of the Code of Iowa.

Recommendation – The City should approve the compensation of the Mayor and Council Members by ordinance, as required.

Current Status – Corrected. During the period reviewed, the Mayor and City Council members' compensation was approved by ordinance.

- (O) 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 was not 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.

Current Status – Corrected. For the period reviewed, the City did not have an investment policy or a depository resolution. However, on April 5, 2018, the City passed a resolution adopting an investment policy and naming official depositories.

- (P) Financial Condition – As noted in (E) above, we were unable to substantiate the ending fund balances reported in the June 30, 2015 Annual Financial Report (AFR). However, the AFR reported a deficit fund balance of \$610,409 in the General Fund.

Recommendation – The City should verify the accuracy of the fund balances reporting in the AFR. If the reported General Fund deficit is correct, the City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

Current Status – Corrected. The City determined receipts had been improperly recorded in the Enterprise, Water Fund for a period of time by the prior City Clerk. The current City Clerk determined approximately \$415,770 of receipts had been incorrectly deposited to the Enterprise, Water Fund. A transfer was made from the Enterprise, Water Fund to the General Fund during the fiscal year ended June 30, 2017 to correct the amount improperly reported. This transfer helped eliminate the negative fund balance in the General Fund.

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

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and obtain the required surety bond coverage and periodically review the coverage for adequacy.

Current Status – Corrected. During the period reviewed, the City had surety bond coverage for City officials and employees.

City of New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

- (R) Certified Budget – Disbursements during the year ended June 30, 2015 as reported on the Annual Financial Report exceeded the amounts budgeted in the business-type activities function. 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 30, 2017 exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government and capital projects functions. The recommendation is repeated.

- (S) Receipts – One road use tax receipt for \$4,404 was recorded in the General Fund as a local option sales tax receipt when it should have been recorded in the Road Use Tax Fund.

Recommendation – The City should develop procedures to ensure receipts are recorded correctly within the accounting system.

Current Status – Corrected. During the period reviewed, all road use tax receipts were properly deposited in the Special Revenue, Road Use Tax Fund.

- (T) Employee Benefits – The City budget form, prescribed by the Iowa Department of Management, requires the employee benefits levy be accounted for as a Special Revenue Fund levy. The City accounted for the proceeds of the employee benefits levy in the General Fund rather than establishing a Special Revenue Fund.

Recommendation – The City should establish a Special Revenue Fund to account for the employee benefit levy, as required.

Current Status – Corrected. During the period reviewed, employee benefit levy receipts were recorded in the Special Revenue, Employee Benefits Fund.

Additional Findings as a Result of Follow-up Procedures:

- (U) Separately Maintained Records – The Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

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 New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

(V) Segregation of Duties - Fire Department – 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 New Market Fire Department separate account:

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

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.

(W) Bank Reconciliations – Fire Department – Monthly bank reconciliations were not prepared for the New Market Fire Department separate account.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank/investments balances should be investigated and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

(X) Prenumbered Receipts – Fire Department – Prenumbered receipts were not issued for collections.

Recommendation – Prenumbered receipts should be issued by the Fire Department for all collections to provide additional control over the proper collection and recording of receipts.

(Y) Prepaid Fuel Account – The City and the City Fire Department have a prepaid fuel account at a local business.

Recommendation – Claims for goods should only be paid when goods have been received. In addition, the City should be reviewing and approving bills to ensure claims are appropriate before they are paid.

(Z) Prenumbered Receipts – The City issues prenumbered receipts, however, the numerical sequence of the receipts is not monitored and receipts are not compared to deposits by an independent person.

Recommendation – To provide additional control over the proper collection and recording of all money, prenumbered receipts should be compared to the City's deposits by an independent person. In addition, the numerical sequence of receipts should be monitored to ensure all receipts are properly accounted for.

City of New Market

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 to February 28, 2018

(AA) Credit Card Policy – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City’s credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to support the purchase.

(BB) Questionable Disbursements – Certain disbursements we believe 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 were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
J Bruners	Meals and beverages for elected officials and spouses	\$ 570
Ice House	Meals and beverages for Fire Department personnel	520

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

(CC) Transfers – The City transferred \$177,580 from the Enterprise, Water Fund to the General Fund and \$238,190 from the Enterprise, Water Fund to the Capital Projects Fund to correct past accounting errors. However, the transfers were not approved by the City Council.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and transfer amounts as part of the minute’s record.

City of New Market

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager
Karen J. Kibbe, Senior Auditor II


Marlys K. Gaston, CPA
Director