

**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

September 19, 2018

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Smithland, Iowa for the period April 1, 2017 through March 31, 2018. 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 ensure bank reconciliations are prepared timely, are reviewed by an independent person and variances, if any, are resolved. 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 amounts budgeted.

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/audit-reports/>.

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**CITY OF SMITHLAND**

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

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

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**City of Smithland**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Elizabeth Peterson	Mayor	Jan 2018	Jan 2020
Scott Blakely	Council Member	Jan 2016	Jan 2020
Diane McTeer	Council Member	Jan 2016	Jan 2020
Donald Sulsberger	Council Member	Jan 2016	Jan 2020
Angela Conaway	Council Member	Jan 2018	Jan 2022
Krista Sulsberger	Council Member	Jan 2018	Jan 2022
Amanda Kafton	City Clerk/Treasurer		Indefinite
Chad Thompson	Attorney		Indefinite

**City of Smithland**



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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 Smithland for the period April 1, 2017 through March 31, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Smithland'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 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 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.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Smithland 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 18, 2018



## **Detailed Recommendations**

City of Smithland

Detailed Recommendations

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

(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) Long-term debt – recordkeeping, compliance and debt payment processing.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (7) Computer systems – performing all general accounting functions and controlling all data input and output.
- (8) Journal entries – preparing 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.

(B) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to bank account balances throughout the year. In addition, a list of outstanding checks including check numbers, amount and date was not maintained. For the two months reviewed, bank and book balances did not properly reconcile. Variances of \$1,516 and \$5,236 were not resolved. In both cases, the book balance was higher than the bank balance.

Recommendation – The City should establish procedures to ensure bank 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. In addition, listings of outstanding checks should be retained to support month end balancing.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – 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 and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Smithland

Detailed Recommendations

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

- (D) Monthly City Clerk's Report – A monthly City Clerk's Report which includes receipts, disbursements, transfers and beginning and ending balances by fund, as well as a comparison of actual disbursements to the certified budget by function, is not prepared and provided to the City Council.

Recommendation – The City Clerk should prepare a monthly City Clerk's Report which includes a summary of receipts, disbursements, transfers and beginning and ending balances by fund, as well as a comparison of actual disbursements to the certified budget by function. The City Council should review and approve the monthly City Clerk's Report.

- (E) Deposits and Investments – 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 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.

- (F) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings, including the total disbursement for each fund and a summary of all receipts, be published within fifteen days of the meeting. Cities with a population of less than two hundred may post their meetings in three public places. The population for the City of Smithland is 224, however, the City does not publish their meeting minutes but rather posts them in three public places. Minutes posted do not include total disbursements for each fund or a summary of all receipts.

The City Council went into closed session on November 14, 2017. The specific exemption under Chapter 21.5 of the Code of Iowa allowing the closed session was not identified or documented in the meeting minutes, as required.

Recommendation – The City should comply with Chapters 372.13(6) and 21.5 of the Code of Iowa.

- (G) Certified Budget – Disbursements at June 30, 2017 exceeded the amounts budgeted in the general government and debt service functions. Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the business type activities function prior to the budget amendment. 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.

- (H) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

City of Smithland

Detailed Recommendations

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

(I) Financial Reporting – The following were noted:

- Interest earned on the City’s checking account was not recorded in the City’s general ledger.
- The fiscal year 2017 Annual Financial Report (AFR) beginning balance for the proprietary funds did not agree to the prior year ending balance reported in the fiscal year 2016 AFR.
- Total receipts, disbursements and long-term debt reported on the fiscal year 2017 AFR do not agree with City records. Receipts were understated \$877, disbursements were understated \$11,093 and debt outstanding was understated \$15,323.
- The total ending balance of \$118,877 reported on the fiscal year 2017 AFR was \$46,002 less than the City’s general ledger, which was \$1,516 less than the bank balance.

Recommendation – The City should develop procedures to ensure all transactions are recorded in the general ledger. The City should ensure current year AFR beginning balances agree with the prior year ending balances. In addition, the City should develop procedures to ensure receipts, disbursements, long-term debt and ending balances agree with City records.

(J) Disbursements – Supporting documentation for one of thirty transactions tested could not be located.

Recommendation – All disbursements should be supported by an invoice or other supporting documentation.

(K) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation street improvements bonds were paid from the Special Revenue, Road Use Tax Fund. 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.” The City has not established a Debt Service Fund and is currently recording property tax collections related to debt service in the General Fund.

In addition, detailed debt records are not periodically reconciled to the general ledger.

Recommendation – The City should establish a Debt Service Fund and transfer from the General Fund and the Special Revenue, Road Use Tax Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required. In addition, the City should develop procedures to periodically reconcile debt records with the general ledger.

(L) Loan Issuance Compliance – Chapter 384.83 of the Code of Iowa requires a public hearing to be held and notice of the public hearing to be published not more than 4 nor less than 20 days prior to the hearing to consider issuance of a revenue loan agreement. The City posted notice of the public hearing within the established timeframe, but did not publish notice of the public hearing, as required.

Recommendation – The City should publish notices of public hearings and maintain the proof of publication to document compliance with Chapter 384.83 of the Code of Iowa.

City of Smithland

Detailed Recommendations

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

- (M) Employee Benefits – The City accounted for the proceeds of the employee benefit levy in the General Fund rather than establishing a Special Revenue Fund. In accordance with budget forms prescribed by the Iowa Department of Management, the employee benefit levy is a Special Revenue Fund levy.

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

- (N) Local Option Sales Tax – The City imposed a local option sales and services tax (LOST) in the City with receipts to be allocated as follows: 50% for property tax relief, 30% for infrastructure and 20% for community development. Documentation was not maintained to determine the LOST collections were spent in accordance with the provisions of the LOST ballot referendum.

Recommendation – The City should maintain documentation to demonstrate LOST collections are disbursed in compliance with the provisions of the LOST ballot referendum.

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

Recommendation – Pre-numbered receipts should be issued for all collections and the numerical sequence of the pre-numbered receipts should be monitored by an independent person. In addition, an independent person should periodically compare the receipts to the bank deposits and accounting records and evidence of review should be documented.

- (P) Payroll – The following were noted:

- (1) City employees do not prepare and submit timesheets to support hours worked.
- (2) Annual salary increases for City employees were approved based upon a percentage and the actual approved wages were not documented in the City Council meeting minutes.
- (3) For one of five transactions tested, the approved salary could not be located in the City Council meeting minutes.

Recommendation – Timesheets should be prepared for all employees and should be signed by the employee and reviewed, approved and signed by the employee's immediate supervisor prior to the preparation of payroll. In addition, actual approved wages should be documented in the City Council meeting minutes.

- (Q) Journal Entries – Supporting documentation was not maintained for journal entries. In addition, journal entries are not reviewed and approved by an independent person.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. An independent person should review and approve journal entries and the approval should be documented by the signature or initials of the approver and the date of approval.

City of Smithland

Detailed Recommendations

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

- (R) 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. For the period April 1, 2017 through November 30, 2017, the City did not receive an image of the back of each cancelled check. For the period December 1, 2017 through March 31, 2018, the City did not receive an image of the front or back of each cancelled check.

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.

- (S) Commercial/Industrial Replacement Claim – The City incorrectly recorded the commercial/industrial replacement claim as “property tax” rather than “intergovernmental” receipts.

Recommendation – The City should ensure commercial/industrial replacement claim receipts are properly recorded.

City of Smithland

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager  
Ryan J. Pithan, CPA, Senior Auditor II  
Nicholas J. Gassman, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director