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STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 14, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Little Sioux, 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. The City should also ensure bank and utility reconciliations are prepared monthly, are reviewed by an independent person and variances, if any are resolved timely. 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 LITTLE SIOUX

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 Little Sioux

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|---------------------|----------------------|-------------------|---------------------|
| Martin McColley Jr. | Mayor | Jan 2016 | Jan 2018 |
| Gary Belt | Council Member | Jan 2014 | Jan 2018 |
| Rachel Cox | Council Member | Jan 2014 | Jan 2018 |
| Michelle McColley | Council Member | Jan 2016 | (Resigned Nov 2017) |
| Gardena Wallis | Council Member | Jan 2016 | Jan 2020 |
| Janiece Wallis | Council Member | Jan 2016 | Jan 2020 |
| Sheila Maldoon | City Clerk/Treasurer | Aug 2017 | Indefinite |
| Clint Fichter | Attorney | | Indefinite |

City of Little Sioux



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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 Little Sioux 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 Little Sioux'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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 Little Sioux 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

October 24, 2018

Detailed Recommendations

City of Little Sioux

Detailed Recommendations

For the period 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) Accounting System – performing all general accounting functions and having custody of assets.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Debt – recordkeeping, compliance and debt payment processing.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting and entering rates into the system.

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 and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile. For the month of June 2017, there was an unexplained variance of \$2,715 between bank and book balances. For the month of December 2017, there was an unexplained variance of \$3,969 between the bank and book balances. In both months, the bank balance was higher than the book balance. In addition, listings of outstanding checks were not maintained by the City.

Recommendation – The City should establish procedures to ensure bank and investment 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. Outstanding check listings should be maintained to facilitate monthly balances.

(C) 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.

City of Little Sioux

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly. A reconciliation is designed to ensure the proper recording of utility receipts, propriety of adjustments and write-offs and propriety of delinquent account balances. Certain delinquent accounts determined to be uncollectible by the City remain on the delinquent listing.

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 and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review. Delinquent accounts determined to be uncollectible should be approved by the City Council and written off.

- (E) Disbursements – The City Council meeting minutes document approval of claims in total, but a list of claims is not included in the meeting minutes and evidence of approval is not otherwise indicated on the invoices or claims. Based on discussions with a City Council member, claims were approved after they were paid. In addition, the former City Clerk pre-signed 56 checks prior to her resignation in March 2017. Also, four of 40 disbursements tested were not properly supported, 31 disbursements tested were not approved by the City Council, one disbursement tested included \$8 of sales tax and supporting documentation was not effectively canceled to prevent reuse.

Recommendation – The City should establish procedures to ensure a detailed listing of claims is provided to the City Council for approval and is available to support the claims approved. All disbursements should be approved by the City Council and the approval should be documented in the meeting minutes. The City could adopt a written policy to allow payment of certain bills prior to City Council approval. All disbursements should be approved by the City Council prior to disbursement, with the exception of those specifically allowed by the policy. Under no circumstances should checks be signed in advance. All disbursements should be supported by invoice or other supporting documentation and all supporting documentation should be properly canceled to prevent reuse. The City should establish procedures to ensure sales tax is not paid on City disbursements.

- (F) Debit Cards – The City has debit cards available for use by the City Mayor and City Clerk while on City business. Twelve of twelve debit card disbursements tested were not properly approved by the City Council and six transactions tested improperly included \$88 of sales tax.

Recommendation – The City Council should prohibit the use of debit cards for City 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. The City should also establish procedures to ensure sales tax is not paid on City disbursements, as noted above.

City of Little Sioux

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (G) Monthly City Clerk's Report – Monthly City Clerk's reports, including a summary of beginning balances, receipts, disbursements, transfers and ending fund balances by fund and a comparison of total disbursements for all funds to the certified budget by function, were not prepared and provided to the City Council.

Recommendation – The City Clerk should prepare monthly City Clerk's reports which include a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements to the certified budget by function. The City Council should review and approve the monthly City Clerk's reports.

- (H) 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 to the City, and all expenditures..." The following conditions were noted for the City's fiscal year 2017 Annual Financial Report (AFR):

- The fiscal year 2017 beginning fund balances were not updated from the fiscal year 2016 AFR.
- Four of six line items tested in the detail of the AFR did not agree with City records (two receipt items and two disbursement items.).
- Road Use Tax Fund receipts were overstated by \$1,090.
- The ending balance for governmental funds was overstated by \$19,568 and the ending proprietary balance was understated by \$27,256.

Recommendation – The City should ensure the amounts reported in the Annual Financial Report are accurate and are supported by the City's records.

- (I) Employee Benefit and Emergency Levies – The City accounted for the employee benefits and emergency levies in the General Fund rather than a Special Revenue Fund. In accordance with budget forms prescribed by the Iowa Department of Management, the employee benefit and emergency levies are Special Revenue Fund levies.

Recommendation – The City should establish Special Revenue Funds to account for the employee benefits and emergency levies.

- (J) 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.

City of Little Sioux

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

(K) Computer System – The following deficiencies in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes every 60-90 days.
- Internet usage.
- Backup of critical files, including storage off-site.

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

Recommendation – The City should develop written policies and procedures and a written disaster recovery plan addressing the above items to improve the City’s internal control over its computer system.

(L) Unused Checks – Unused checks are not stored in a secure location.

Recommendation – The City should establish procedures to ensure unused checks are stored in a secure location.

(M) Payroll – The following were noted:

- Timesheets do not include evidence of supervisory review or approval.
- Actual approved wages and hourly rates were not documented in the City Council meeting minutes.
- No procedures exist to ensure employees do not receive more than the authorized salary amount.
- The City does not have a written policy for how vacation, sick leave and compensatory time are to be accrued and accounted for.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel prior to the preparation of payroll. Actual approved wages and hourly rates should be documented in the City Council meeting minutes. The City should establish policies and procedures to ensure employees do not receive more than their authorized salary. A formal, written policy should be established to provide for the proper accrual of and accounting for vacation, sick leave and compensatory time.

(N) Information Returns – The City did not issue Internal Revenue Service (IRS) Form 1099 MISC to the individual providing \$2,700 of mowing services during 2017.

Recommendation – The City should establish procedures to ensure all required IRS 1099 forms are properly completed and filed.

City of Little Sioux

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (O) Local Option Sales Tax – The local option sales tax (LOST) ballot requires 50% of LOST receipts to be allocated for maintenance and repair of City streets and 50% to be allocated for maintenance and repair of City buildings. During calendar year 2017, although the City has established a Special Revenue, LOST Fund (LOST Fund) to account for LOST activity, four LOST receipts were credited to the General Fund. Also, one LOST receipt was recorded as a negative disbursement and one LOST receipt was not recorded in the general ledger.

In addition, during the period reviewed, the City spent \$228 of LOST receipts for payment of City Hall and City Park electric bills and mowing at the City park. In accordance with the referendum provisions, this may not be an allowable use of LOST receipts.

Recommendation – The City should reimburse the LOST Fund from the General Fund for amounts incorrectly credited to the General Fund. Future LOST receipts should be recorded in the LOST Fund. In addition, all receipts should be recorded as receipts, not as negative disbursements. The City should consult legal counsel to determine the propriety of the use of LOST receipts for electric bills and mowing City parks. If determined to be an unallowable use, current and past use for these purposes should be reimbursed to the LOST Fund and all future disbursements should be in accordance with the LOST ballot provisions.

- (P) Uncollected Sewer Fees – Pursuant to a service contract with the County, the City bills customers located in the rural community of River Sioux for sewer service, in addition to the City's own customers. The sewer collections for River Sioux customers are remitted to the County and the County uses the collections to pay the debt associated with the construction of the sewer system. The agreement with the County requires the City to report uncollected River Sioux sewer fees in excess of \$500 to the County monthly and file small claims proceedings or certify unpaid sewer fees against property taxes annually. The City has not reported unpaid sewer fees to the County and has not pursued collection of delinquent River Sioux accounts, as required.

Recommendation – The City should implement procedures to ensure uncollected sewer fees are reported to the County monthly and to properly pursue the delinquent accounts, including consulting with legal counsel to determine how best to pursue these.

- (Q) Receipts – The numerical sequence of pre-numbered receipts was not monitored by an independent person to ensure all receipts were properly accounted for. In addition, the City used a portion of a cash utility payment to purchase postage stamps for City use.

Recommendation – An independent person should account for the numerical sequence of all receipts issued. In addition, all receipts should be deposited intact. If cash is needed to purchase postage, the City Council should authorize and approve a set dollar amount for a petty cash fund.

City of Little Sioux

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

(R) Utility Customer Accounts – The following conditions were noted:

- For three of nine utility accounts tested, the account balance was written off (\$538) or adjusted (\$1,225) without approval of the City Council. Subsequently, one account previously adjusted was later re-established for \$1,134.
- For three of nine utility accounts tested, the payments were not applied to the account in a timely manner.
- For two of nine utility accounts tested, the payment made per the deposit slip was \$5 and .56 more than the amount credited to the account.

Recommendation – The City should establish policies and procedures requiring City Council approval of adjustments to or write offs of utility accounts. All utility payments should be posted timely to the customer accounts. A reconciliation of utility collections posted to utility accounts and deposits should be performed weekly to ensure the accuracy of the payments posted to the utility accounts.

(S) 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. 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. In addition, Chapter 380.7 of the Code of Iowa requires all minutes of City Council meetings be properly signed. Minutes for the meetings tested were not properly signed.

Recommendation – Posted City Council meeting minutes should include total disbursements by fund, a listing of all claims allowed, the purpose for each claim and a summary of receipts. In addition, minutes of the City Council meetings should be signed to authenticate the actions taken.

(T) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, community and economic development 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, the fiscal year 2017 budget was not adopted and approved by March 15, 2016.

In addition, the City’s fiscal year 2017 adopted budget included budgeted disbursements in only one disbursement function. However, the City reported disbursements in six separate disbursement functions in the annual financial report. Also, the City did not budget for charges for service receipts, however, approximately \$125,000 of charges for service receipts were reported in the annual financial report.

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 and the City should adopt and approve its budget by March 15th, as required.

City of Little Sioux

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

The City should carefully scrutinize the City's history of receipts and disbursements to develop reasonable projections of receipts and disbursements for the City's certified budget.

- (U) Journal Entries – Journal entries were not reviewed and approved by the City Council.

Recommendation – The City Council should review and approve all journal entries to ensure they are reasonable and supported.

- (V) Revenue Bonds – The City's water revenue bond resolution requires the City to establish a water sinking account and make sufficient monthly transfers to the account from the Enterprise, Water Fund for the purpose of making the required principal and interest payments when due. The City has not established a water revenue bond sinking account and has not made monthly transfers to the account, as required.

Recommendation – The City should establish a water revenue bond sinking account and make the monthly transfers, as required.

- (W) Long-Term Debt – The City filed Internal Revenue Service form 8038-G, Information Return for Tax-Exempt Governmental Obligations, indicating it has written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements of Section 148 of the Internal Revenue Service rules. However, the City has not established these written procedures.

Also, detailed long-term debt records are not periodically reconciled to the general ledger.

Recommendation – The City should establish written procedures for post issuance compliance, as required. Also, the City should develop procedures to reconcile long-term debt records with the City's general ledger.

City of Little Sioux

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Ryan J. Pithan, CPA, Senior Auditor II
Micaela A. Tintjer, Assistant Auditor


Marlys K. Gaston, CPA
Director