

**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 21, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Thor, 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, including independent review of reconciliations and financial reports. The City should also establish procedures to ensure bank and investment accounts are reconciled to the general ledger monthly and utility billings, collections and delinquent accounts are reconciled each billing period.

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 THOR

**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 Thor

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Marc Ropte	Mayor	Jan 2018	Jan 2020
Jacquie Glaspie (Elected)	Council Member	Dec 2017	Jan 2020
Chuck Nerem	Council Member	Jan 2016	Jan 2020
Maxine Hoefler	Council Member	Jan 2018	Jan 2022
Mike Toillion	Council Member	Jan 2018	Jan 2022
Emory White	Council Member	Jan 2018	Jan 2022
Verla Thul	City Clerk/Treasurer	Jan 2018	Jan 2020

City of Thor



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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 Thor 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 Thor'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 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 Thor 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 26, 2018

Detailed Recommendations

City of Thor

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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, reconciling and posting.
 - (4) Disbursements – invoice processing, check writing, check signing, mailing, reconciling and recording. There is no evidence of review of individual invoices.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (6) Payroll – record keeping, preparing and distributing.
 - (7) Financial Reporting – preparing and reconciling.
 - (8) 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. Individual invoices should be reviewed and evidence of the review should be documented on the invoice.

- (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. In addition, a listing of outstanding checks was not prepared.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the book balances monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. In addition, outstanding check listings should be maintained.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. While the City prepares a delinquent account listing, the listing is not presented to the City Council monthly.

Recommendation – A listing of delinquent accounts should be provided to the City Council 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 document the review by signing or initialing and dating the reconciliations and should monitor delinquent accounts.

City of Thor

Detailed Recommendations

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

- (D) Monthly City Clerk's Report – The City Clerk's report includes receipts and disbursements for each month, but does not include the beginning and ending fund balances or comparisons of disbursements to the certified budget by function.

Recommendation – Monthly City Clerk reports provided to the City Council should include a summary of receipts, disbursements, transfers and balances by fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk's reports should include comparisons of disbursements to the certified budget by function.

- (E) Financial Reporting – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee and does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including, but not limited to, road use tax and local options sales tax. Also, during the period reviewed, a road use tax receipt of \$806 was incorrectly recorded as a local option sales tax receipt and a \$2,115 local option sales tax receipt was incorrectly recorded as a road use tax receipt.

In addition, 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 City's AFR reported ending fund balances that did not agree with the City's financial records because, while the City's records include receipts and disbursements, the City does not maintain fund balances.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. Also, the City should implement procedures to ensure all receipts are properly recorded. In addition, the City should establish procedures to ensure the AFR ending balances agree with City records.

- (F) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (G) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance of \$10,922 at June 30, 2017.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

City of Thor

Detailed Recommendations

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

- (H) Disbursements – Two disbursements tested for refuse hauling were not properly supported by invoice or other supporting documentation. Also, there is no evidence supporting documentation is reviewed by an independent person.

Recommendation – The City should ensure all disbursements are properly supported by invoices or other supporting documentation. An independent person should review supporting documentation for all disbursements prior to payment and the review should be documented.

- (I) Timesheets – Timesheets are not required for all City employees. Also, while one employee tested prepared a timesheet, the timesheet did not include evidence of supervisory review. In addition, wage increases for one employee were approved based upon a dollar amount and the actual approved wages were not documented in the City Council meeting minutes.

Recommendation – Timesheets should be required for all employees and should be reviewed and approved by supervisory personnel prior to processing payroll. Supervisory approval should be documented by the signature or initials of the supervisor and the date of approval. Additionally, procedures should be established to ensure all pay increases and the actual wages to be paid to employees are adequately documented in the City Council meeting minutes.

- (J) Local Option Sales Tax – We obtained documentation from the County Auditor establishing the LOST distribution as 100% for infrastructure, including water, streets, property improvements and equipment. However, the City has not properly tracked the use of LOST receipts to ensure compliance with the ballot requirements.

Recommendation – The City should implement procedures to track LOST disbursements and transfers to ensure LOST receipts are used in accordance with the ballot.

- (K) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works 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.

- (L) 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 obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

City of Thor

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Malika Moutiq, Staff Auditor
Cody L. Mathews, Assistant Auditor


Marlys K. Gaston, CPA
Director