

**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

December 26, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Shannon City, Iowa for the period January 1, 2017 through December 31, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. In addition, the City should ensure supporting documentation is maintained for all disbursements and all claims are approved by the City Council. Also, the City should comply with Chapter 372.13(6) and Chapter 380.7 of the Code of Iowa for City Council Meeting minutes.

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/>.

###

CITY OF SHANNON CITY

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant’s Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Monthly City Clerk’s Reports	B 8
City Council Meeting Minutes	C 8
Disbursements	D 9
Payroll	E 9
Deposits and Investments	F 9
Transfers	G 9
Internal Revenue Service (IRS) Form 1099	H 9
Surety Bond Coverage	I 9
Accounting Policies and Procedures Manual	J 10
Electronic Check Retention	K 10
Annual Financial Report	L 10
Staff	11

City of Shannon City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Terry Gilbert	Mayor	Jan 2016	Jan 2020
Clay Arnold	Council Member	Jan 2016	Jan 2020
Robert Arnold	Council Member	Jan 2016	Jan 2020
Butch Hoffman	Council Member	Jan 2016	Jan 2020
Gen Hoyt	Council Member	Jan 2016	Jan 2020
Randy Lilly	Council Member	Jan 2016	Jan 2020
Jessica Connelly	City Clerk/Treasurer		Indefinite
Marion James	Attorney		Indefinite

City of Shannon City



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Accountant's Report on Applying Agreed-Upon 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 Shannon City 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 Shannon City'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 transfers between funds for propriety, proper authorization and accurate accounting.
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 Shannon City 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

November 27, 2018

Detailed Recommendations

City of Shannon City

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) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing and reconciling earnings.
- (3) Receipts – opening mail, recording, and reconciling.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Financial reporting – preparing and reconciling.
- (7) Transfers and 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) Monthly City Clerk's Reports – The monthly City Clerk's reports do not include disbursements by fund or a comparison of actual disbursements to the certified budget by function. In addition, fund balances reported on the monthly reports are not reduced by outstanding but unpaid checks.

Recommendation – The City should establish procedures to ensure the monthly City Clerk's reports provided to the City Council include disbursements by fund and a comparison of actual disbursements to the certified budget by function. In addition, the City Clerk's report should reflect a reduction of the fund balances for outstanding but unpaid checks.

(C) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements from each fund, a listing of claims allowed, the purpose of each claim or a summary of receipts. In cities with a population of 200 or less, minutes may be posted in three public places, permanently designated by ordinance, in lieu of being published. Minutes for the City Council meetings were not posted in three public places, as required. Additionally, the 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 post City Council meeting minutes in three public places established by City ordinance, as required. The posted minutes should include total disbursements by fund, a listing of all claims allowed, the purpose for each claim and a summary of receipts. All meeting minutes should be signed to authenticate the actions taken.

City of Shannon City

Detailed Recommendations

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

- (D) Disbursements – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported. Two of 17 transactions tested were not properly supported. Also, one of 17 disbursements tested was not documented on the disbursement listing approved by the City Council.

Recommendation – The City should establish policies to require proper support for all disbursements. Disbursements should not be approved unless adequate supporting documentation is available. Also, all disbursements should be approved by the City Council and that approval should be documented in the minutes records.

- (E) Payroll – City Council approval of the City Clerk’s pay rate was not documented in the minutes record. Also, the City Council and the Mayor’s compensation was not approved by City ordinance as required by Chapter 372.13(8) of the Code of Iowa.

Recommendation – The City Clerk’s approved pay rate should be documented in the City Council minutes and the City Council and the Mayor’s compensation should be approved by City ordinance, as required.

- (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) Transfers – Transfers between funds were not always approved by the City Council prior to the actual transfer.

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

- (H) Internal Revenue Service (IRS) Form 1099 – The City did not issue an IRS Form 1099 for payments in excess of \$600 to a contractor compensated for mowing and trimming, as required.

Recommendation – The City should contact the IRS to determine the disposition of the unreported compensation paid to the contractor. The City should also establish procedures to ensure all required IRS Form 1099s are properly completed and filed in the future.

- (I) Surety Bond Coverage – Surety bond coverage of 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 Shannon City

Detailed Recommendations

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

- (J) Accounting Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (K) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (L) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's AFR include a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures..." Receipt and disbursement balances reported on the Annual Financial Report (AFR) agree with the City's financial records. However, the City did not include transfers made during the year resulting in an understatement of the General Fund ending balance and an overstatement of the Special Revenue Fund ending balance by \$2,459.

Recommendation – The City should ensure transfers are properly recorded on the AFR and fund balances reported in the AFR agree with the City's financial records.

City of Shannon City

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Nicholas J. Gassman, Assistant Staff Auditor


Marlys K. Gaston, CPA
Director