



**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 Rose Hill, 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, including requiring an independent review of reconciliations. In addition, the City should comply with the Chapter 384.18 of the Code of Iowa by amending its budget before disbursements are allowed to exceed the budget.

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 ROSE HILL**

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

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

## Table of Contents

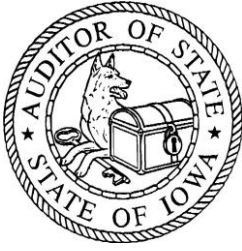
	<u>Page</u>
Officials	3
Independent Accountant’s Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A            8
Bank Reconciliations	B            8
Payroll	C            8
Monthly City Clerk’s Report	D            8
Annual Financial Report	E            9
Deposits and Investments	F            9
City Council Meeting Minutes	G            9
Certified Budget	H            9
Questionable Disbursements	I            9-10
Dual Compensation	J            10
Electronic Check Retention	K            10
Staff	11

**City of Rose Hill**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Kyle Morgan	Mayor	Jan 2016	Jan 2018
Jake Dannels	Council Member	Jan 2016	Jan 2018
Adam Fenton	Council Member	Jan 2016	Jan 2018
Terry Lowe	Council Member	Jan 2016	Jan 2018
Janet Martin	Council Member	Jan 2016	Jan 2018
Robert Wells	Council Member	Jan 2016	Jan 2018
Lorie Jager	City Clerk		Indefinite
Dustin Hite	Attorney		Indefinite

**City of Rose Hill**



**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 Rose Hill 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 Rose Hill'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 Rose Hill 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 9, 2018



## **Detailed Recommendations**

City of Rose Hill

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) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Financial reporting – preparing and reconciling.
- (6) 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 bank reconciliation generated from the City’s financial system includes the City’s main checking account but excludes investments. Also, there is no independent review of the bank reconciliations.

Recommendation – The City should establish procedures to ensure bank reconciliations include all checking and investment account balances. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Payroll – Hourly employee timesheets did not include evidence of supervisory review and approval.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

(D) Monthly City Clerk’s Report – Monthly City Clerk’s reports did not include a summary of receipts, disbursements and beginning and ending balances by fund. In addition, the City Council is not provided a comparison of disbursements to the certified budget by function.

Recommendation – Monthly City Clerk’s reports, including a summary of receipts, disbursements and beginning and ending balances by fund, should be prepared and provided to the City Council for approval. Monthly reporting to the City Council should also include comparisons of actual disbursements to the certified budget by function.

City of Rose Hill

Detailed Recommendations

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

- (E) Annual Financial Report – The fiscal year 2017 Annual Financial Report (AFR) ending balance of \$130,366 did not agree to the June 30, 2017 bank balance of \$130,921, a variance of \$555.

Recommendation – The City should establish procedures to ensure the ending balance in the AFR reconciles to the bank balance.

- (F) Deposits and Investments – Although a resolution naming official depositories has been approved by the City Council, the approved depositories were not included in the depository resolution. In addition, the City adopted a written investment policy on June 8, 1994. However, the policy refers to an outdated Chapter of the Code of Iowa rather than to Chapter 12B.10B of the Code of Iowa.

Recommendation – The City Council, by resolution, should adopt a new depository resolution which establishes approved depositories as required by Chapter 12C.2 of the Code of Iowa. In addition, the City should modify the written investment policy to reference current Code of Iowa provisions.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted within fifteen days of the meeting, including total disbursements by fund. The minutes posted did not include total disbursements by fund.

Recommendation – The City should comply with the Code of Iowa and ensure postings of the City Council meeting minutes include total disbursements by fund.

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

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.

- (I) 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>
Taso’s Steak House	Five \$25 gift certificates to volunteers of Rose Hill clean up days	\$ 125
Taso’s Steak House	Gift certificate to vendor who donated labor costs on project	50

City of Rose Hill

Detailed Recommendations

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

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 by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (J) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.”

During the period January 1, 2017 through December 31, 2017, the Mayor and a City Council member were compensated \$45 each for work performed at the Rose Hill Clean up days. This compensation violates Chapter 372.13(8) of the Code of Iowa.

Recommendation – The City should seek reimbursement for the \$45 improperly paid to the Mayor and the City Council member.

- (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.

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.

City of Rose Hill

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Selina V. Johnson, CPA, Senior Auditor II  
Christopher M. Anderson, Staff Auditor

  
Marlys K. Gaston, CPA  
Director