

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

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NEWS RELEASE

FOR RELEASE

February 21, 2019

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Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Beaman's Periodic Examination Report dated March 31, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period April 1, 2017 through March 31, 2018.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While the City corrected four of the seventeen findings reported in the Periodic Examination Report dated March 31, 2016, partially corrected one and one is reported as "no longer valid", eleven of the findings are reported as "not corrected."

A copy of the City of Beaman's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF BEAMAN

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

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

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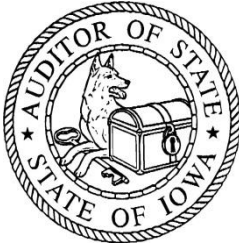
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City of Beaman

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Ann Smith	Mayor	Jan 2018	Jan 2022
Brenda Heitmeyer	Council Member	Jan 2016	Jan 2020
Dave Moorman	Council Member	Jan 2016	Jan 2020
Debbie Ashton	Council Member	Jan 2018	Jan 2022
Barry Brockman	Council Member	Jan 2018	Jan 2022
Jason Scafferi	Council Member	Jan 2018	Jan 2022
Jeff Frank	City Clerk/Treasurer		Indefinite
Erika Allen	Attorney		Indefinite

City of Beaman



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Auditor of State's Independent Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated March 31, 2016 on the City of Beaman, Iowa covering the period January 1, 2015 through December 31, 2015 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.


This report includes the findings and recommendations from the City's Periodic Examination Report dated March 31, 2016 and the current status of the City's implementation of the recommendations included in that report. This report covers the period April 1, 2017 through March 31, 2018.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated March 31, 2016. 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 Beaman during the course of our follow-up procedures engagement. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


ROB SAND
Auditor of State

February 13, 2019

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Beaman

Report on the Status of Periodic Examination Findings and Recommendations

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

Findings Reported in the Periodic Examination Report dated March 31, 2016:

- (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, including journal entries, and having custody of assets.
 - (2) Cash – handling, reconciling and recording.
 - (3) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (6) Long-term debt – recordkeeping, compliance and debt payment processing.
 - (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
 - (9) Computer system – performing all general accounting functions and controlling all data input and output.
 - (10) Financial reporting – preparing and reconciling.

For the Beaman Volunteer Fire Department account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements - preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Volunteer Fire Department should review their 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.

Current Status – Partially corrected. During the period reviewed, checks were signed by the Mayor and approved by the City Council and receipt and disbursement functions for the Volunteer Fire Department were handled by the City, except for certain disbursements made from a separate bank account maintained by the Volunteer Fire Department. The recommendation is partially repeated.

City of Beaman

Report on the Status of Periodic Examination Findings and Recommendations

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

- (B) 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 the city, and all expenditures...” Fund balances reported in the City’s 2015 Annual Financial Report do not agree with the City’s records. Also, outstanding debt at June 30, 2015 was incorrectly reported as \$9,000 rather than \$129,000.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

Current Status – Not corrected. Fund balances reported in the City’s 2017 Annual Financial Report were understated by \$10,000. Also, outstanding debt at June 30, 2017 was incorrectly reported as \$11,031 rather than \$125,000 on the AFR. The recommendation is repeated.

- (C) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual accounts, they were not always reviewed by an independent person. Also, a complete reconciliation including investments was not prepared.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (D) Investments – The City has adopted a written investment policy. 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 should modify the written investment policy to reference current Code of Iowa provisions.

Current Status – Not corrected. The recommendation is repeated.

- (E) Payment of General Obligation Notes – 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 taxes, must be deposited in the debt service fund.” During the period reviewed, the City paid interest of \$637 on a general obligation capital loan note from the General Fund.

Recommendation – The City should transfer future funding contributions from the General Fund to the Debt Service Fund. Payments on the general obligation capital loan notes should be made from the Debt Service Fund, as required.

Current Status – Corrected. During the period reviewed, long-term debt principal and interest payments were paid out of the appropriate fund.

City of Beaman

Report on the Status of Periodic Examination Findings and Recommendations

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

- (F) Journal Entries – Journal entries are not reviewed and approved by an independent individual.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Current Status – Not corrected. The recommendation is repeated.

- (G) Disbursements – Evidence of City Council approval for certain disbursements tested could not be located.

Recommendation – All disbursements should be approved by the City Council. The City should establish procedures to ensure a detailed listing of claims approved is retained.

Current Status – Corrected. During the period reviewed, five of five disbursements tested were approved by the City Council.

- (H) Payroll – Timesheets did not include evidence of supervisory review. Additionally, the wage rate for four of the six employees tested was not approved by the City Council.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, the City Council should approve pay rates for all City employees at the time of hiring and when raises occur. The approved rates should be documented in the City Council meeting minutes.

Current Status – Not corrected. During the period reviewed, one of six timesheets tested did not include evidence of supervisory review prior to processing payroll. In addition, one of six pay rates tested was not approved by the City Council. The recommendation is repeated.

- (I) Certified Budget – Disbursements for the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, 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.

Current Status – Not corrected. Disbursements for the year ended June 30, 2017 exceeded the amounts budgeted in the public works, culture and recreation and business type activity functions. The recommendation is repeated.

City of Beaman

Report on the Status of Periodic Examination Findings and Recommendations

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

- (J) 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.

Current Status – Not corrected. The recommendation is repeated.

- (K) Utility Rates – We reviewed the December 2015 utility billings for all elected officials. One City Council Member tested was billed an incorrect sewer rate resulting in a \$6 under billing for the month. According to the City Clerk, the incorrect billing rate resulted from the Council Member's account classification changing from commercial to residential a few years ago, but the rate was never updated in the system. The City's sewer ordinance does not allow for a different rate for commercial and residential customers. Accordingly, charging different rates is in violation of the City's ordinance and Chapter 384.84 of the Code of Iowa.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement of the under billed amounts for the current and prior years. An independent person should periodically review and test utility billings to ensure they are properly calculated and the correct rates are billed. Also, the City should ensure all utility rates are established by ordinance as required by Chapter 384.84 of the Code of Iowa.

Current Status – Corrected. During the period reviewed, billings for one month for all City Council members and the City Clerk were tested. All individuals tested were charged the approved rates. In addition, an independent person periodically reviews utility rates entered into the computer.

- (L) Separately Maintained Records – The Fire Department maintains separate accounting records for certain operations. The transactions and the resulting balances were not included in the City's annual budget, monthly financial reports or Annual Financial Reports. Also, invoices and other supporting documentation were not always available to support disbursements from this account.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis. Also, all disbursements should be supported by invoices or other supporting documentation.

Current Status – Not corrected. The recommendation is repeated.

City of Beaman

Report on the Status of Periodic Examination Findings and Recommendations

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

- (M) Questionable Disbursements – Certain Fire Department 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:

Paid to	Purpose	Amount
Walmart	Water, Gatorade, pop	\$ 97
Grundy County Fire Association	Dues	80
Something to Share	Flowers	59
Casey’s General Store	Donuts, ice	40

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.

Current Status – Not corrected. During the period reviewed, Fire Department disbursements to Wal-Mart and Casey’s General Store for Gatorade, pop and pizza totaling \$133 were noted. The recommendation is repeated.

- (N) Local Option Sales Tax – The City’s Local Option Sales Tax (LOST) ballot requires LOST receipts be used 100% for community betterment. The City’s LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

Current Status – Corrected. During the period reviewed, the City recorded and tracked LOST receipts in a separate fund. No LOST disbursements occurred in the period reviewed.

- (O) Bank Loan Agreement – On December 17, 2015, the City entered into a bank loan for \$12,000 for a City truck and plow. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

Current Status – Not corrected. In January 2018, the City refinanced the bank loan identified above for \$8,000 and did not publish a notice of intent of action or the time and place for the meeting. The recommendation is repeated.

City of Beaman

Report on the Status of Periodic Examination Findings and Recommendations

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

- (P) Investment Summary Report – One certificate of deposit (CD) balance on the June 30, 2015 investment summary report was reflected as a negative \$5,822 while the actual CD balance was \$5,835. Also, the total adjusted CD balance on the investment summary report was \$195,359 while the actual total CD balance was \$196,629, a variance of \$1,270. Also, there is no evidence of independent review of the investment summary report.

Recommendation – The City should establish procedures to ensure the investment summary report is accurate. An independent person should review the investment summary report and document the review by signing or initialing and dating the investment summary report.

Current Status – Not corrected. As of March 31, 2018, the total adjusted CD balance reported on the City’s balance sheet was \$195,426 while the actual CD balance was \$195,956, a variance of \$530. The recommendation is repeated.

- (Q) City Council Vacancy – In accordance with Chapter 372.13(2) of the Code of Iowa, when a vacancy occurs on the City Council, the vacancy should be filled one of two ways, the City Council should 1) appoint a member within 60 days after the vacancy or 2) call a special election. If the City Council fails to make an appointment within sixty days, the City Clerk shall give notice of the vacancy to the County Commissioner and the County Commissioner shall call a special election to fill the vacancy at the earliest practicable date.

On September 9, 2015 Brian DeSilva resigned from the City Council and the City Council appointed a replacement on December 9, 2015, ninety-one days after the resignation date. Since the appointment was not within sixty days of the vacancy, the City should have notified the County Commissioner and a special election should have been held to fill the position.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.


Current Status – No longer valid. During the period reviewed, no City Council member positions were vacant.

City of Beaman

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Alex N. Kawamura, CPA, Staff Auditor


Marlys K. Gaston, CPA
Deputy Auditor of State