



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

July 25, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Maxwell's Periodic Examination Report dated April 20, 2017. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2018 through March 31, 2019.

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 findings reported in the Periodic Examination Report dated April 20, 2017 and partially corrected four of the findings, eleven of the findings are reported as "not corrected" and one is no longer valid. One additional finding identified during the follow-up procedures is also included in this report.

A copy of the City of Maxwell'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 MAXWELL

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

**FOR THE PERIOD
JUNE 1, 2018 THROUGH MARCH 31, 2019**

City of Maxwell



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Rob Sand
Auditor of State

July 18, 2019

Officials of the City of Maxwell
Maxwell, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report on the Status of Periodic Examination Findings and Recommendations for the City of Maxwell, Iowa for the period ended March 31, 2019.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Maxwell throughout the follow-up engagement. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Maxwell

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Steven Gast	Mayor	Jan 2018	Jan 2020
Nicole Hudson	Council Member	Jan 2016	Jan 2020
Susan Livesay	Council Member	Jan 2016	Jan 2020
Doug Miller	Council Member	Jan 2016	Jan 2020
Alex Golly	Council Member	Jan 2018	Jan 2022
Charles Robertson	Council Member	Jan 2018	Jan 2022
Deb Hayes	City Clerk/Treasurer		Indefinite
Randal B. Caldwell	Attorney		Indefinite

City of Maxwell



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Rob Sand
Auditor of State

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 April 20, 2017 on the City of Maxwell, Iowa covering the period April 1, 2016 through March 31, 2017 pursuant to Chapter 11.6 of the Code of Iowa. The report included 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 date April 20, 2017 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for another issue identified during our follow-up procedures. This report covers the period June 1, 2018 through March 31, 2019.

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 April 20, 2017. 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 Maxwell 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.

Marlys K. Gaston, CPA
Deputy Auditor of State

July 18, 2019

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

City of Maxwell

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Findings Reported in the Periodic Examination Report dated April 20, 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, recording, reconciling and custody of the change fund.
 - (2) Receipts – opening mail, collecting, depositing, posting and reconciling.
 - (3) Utilities – billing, collecting, depositing, posting, maintaining detailed accounts receivable and write-off records and reconciling.
 - (4) Disbursements – purchasing, check preparation, signing, access to credit cards, recording and reconciling.
 - (5) Payroll – preparing checks, recording transactions, signing and distributing checks and monitoring compensated absences.
 - (6) Long-term debt – recording and reconciling.
 - (7) Journal entries – preparing and recording.
 - (8) Accounting system – performing of 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.

Current Status – Not corrected. During the period reviewed, checks were dual signed by the Mayor or Mayor Pro-Tem. However, the remaining segregation of duties findings have not been corrected. The recommendation is repeated.

- (B) 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. In addition, the City does not have a formal policy to approve write-offs of uncollectible accounts and account write-offs are not periodically reviewed for subsequent collectability.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or a City Council designated independent person should review the reconciliations and monitor delinquent accounts. The independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Partially corrected. As of the date of this report, a delinquent accounts listing is maintained. Also, during the period reviewed, the City attempted to reconcile utility billings, collections and delinquent accounts monthly. However, the reconciliations were incomplete, the beginning balances did not always agree to the prior month's ending balances and differences were not investigated and resolved. Also there is no evidence of independent review of the utility

City of Maxwell

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

reconciliations. The City has not adopted a formal policy to approve write-offs of uncollectible accounts and account write-offs are not periodically reviewed for subsequent collectability. The recommendation is partially repeated.

- (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 and a summary of all receipts. Minutes for three of four meetings tested were not published within fifteen days. Minutes of the special meeting held on July 21, 2016 were not published. Minutes publications did not include total disbursements from each fund or a summary of all receipts.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required. The publication should include disbursements by fund and a summary of all receipts.

Current Status – Not corrected. The recommendation is repeated.

- (D) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works, health and social services, community and economic development and business type activities functions prior to the budget amendment. At June 30, 2016, disbursements exceeded the amount budgeted in the general government 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.

Current Status – Not corrected. Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public safety function prior to the budget amendment. In addition, disbursements at June 30, 2018 exceeded the amount budgeted in the business type activities function. The recommendation is repeated.

- (E) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tony Ness, Public Works employee, father owns Ness Farm Supply	Supplies & parts	\$ 3,025

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

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

City of Maxwell

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Current Status – No longer valid. During the period reviewed, transactions with the vendor noted above are no longer related parties since the company is no longer owned by a related party.

(F) Computer System –

The following weaknesses in the City's computer system were noted:

- Software does not require the user to change logins/passwords periodically.
- Employee passwords are not set to a recommended minimum of eight characters.
- Password history is not used to prevent re-use of passwords.
- No policy exists instructing users to log off computer terminals prior to leaving them unattended for extended periods of time and the terminals do not use a time out/log off function to protect them if left unattended.
- The City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City's control over its computer system. A written disaster recovery plan should be developed.

Current Status – Partially corrected. As of this report date, the City has adopted a written disaster recovery plan. However, the weaknesses noted above in the City's computer system remain. The recommendation is partially repeated.

(G) Accounting Policies and Procedures Manual – The City does not have an 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 personnel and act as a quick reference for staff members and officials.
2. Help streamline accounting operations by achieving 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 similar situation arises.
4. Help preserve the key elements in the City's internal control.
5. Increase effectiveness and efficiency.

Current Status – Not corrected. The recommendation is repeated.

(H) Receipts – Pre-numbered receipts are not issued for all collections. In addition, receipts are not reviewed by an independent person to ensure proper deposit and coding in the accounting records.

City of Maxwell

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Recommendation – Pre-numbered receipts should be issued for all collections. The receipts should be reconciled by an independent person to the general ledger and deposit records to ensure they are properly recorded in the City’s records.

Current Status – Partially corrected. During the period reviewed, pre-numbered receipts were used. However, receipts were not reviewed by an independent person to ensure proper deposit and posting in the general ledger. The recommendation is partially repeated.

- (I) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from the fund as provided in Chapter 403.19 of the Code of Iowa. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such the County Auditor shall provide available incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

At June 30, 2016, the City had a cash balance of \$116,489 in the Special Revenue, Tax Increment Financing (TIF) Fund. However, the City had no outstanding TIF debt at year end. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the excess monies in the TIF Fund. If the City has no further TIF debt, the \$116,489 should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa.

Current Status – Not corrected. The Special Revenue, TIF Fund balance remains at \$116,489 with no outstanding TIF debt. The recommendation is repeated.

- (J) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the Special Revenue, Local Option Sales Tax Fund. The LOST ballot requires the receipts to be allocated 100% for cultural and community betterment.

During the fiscal year, no disbursements were made directly from the Special Revenue, Local Option Sales Tax Fund. In addition, the City did not track eligible disbursements incurred in other funds which meet the specified criteria of cultural and community betterment as stated on the LOST ballot.

Recommendation – The City should track disbursements which may qualify as cultural and community betterment. These disbursements should be made from the Special Revenue, Local Option Sales Tax Fund, or monies should be transferred, subsequent to approval by the City Council, to the funds which made the qualifying disbursements.

City of Maxwell

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Current Status – Corrected. During the period reviewed, the City tracked eligible disbursements incurred in other funds which meet the specified criteria of cultural and community betterment as stated on the LOST ballot and only transferred amounts equal to those identified disbursements.

- (K) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

Current Status – Corrected. During the period reviewed, there were no outstanding checks over two years which should be remitted to the Treasurer of State.

- (L) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

Current Status – Corrected. During the period reviewed, the City restrictively endorsed checks immediately upon receipt.

- (M) Financial Condition – The Debt Service Fund had a deficit cash balance of \$96,734 at June 30, 2016. However, the cash balance at March 31, 2017 is in a positive position at \$15,293.

Recommendation – The City should continue to monitor fund balances and investigate alternatives to eliminate future deficit balances.

Current Status – Not corrected. At March 31, 2019, the Debt Service Fund had a deficit balance of \$1,199. The recommendation is repeated.

- (N) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) to contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due to the City, and all expenditures...” The Capital Projects Fund reported a deficit balance of \$8,675 on the June 30, 2015 AFR. This balance was reported as part of the total Proprietary Fund beginning balance on the June 30, 2016 AFR. According to the City Clerk, this was to correct for an error in reporting the sewer line rehabilitation project. In addition, all Enterprise, Sewer Fund disbursements were reported as current operations, including debt and capital projects payments that should be reported separately. Also, the AFR fund balances at June 30, 2016 do not agree with the City’s general ledger. The total AFR balance was understated \$42,945 when compared to the general ledger.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances. The City should also ensure receipts, disbursements and ending balances are reported correctly on the AFR and agree with the City’s general ledger. An independent person should review the AFR for accuracy. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Maxwell

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Current Status – Partially corrected. On the June 30, 2018 AFR, the Capital Projects Fund correctly reported a zero balance and all Sewer Fund disbursements were reported separately. However, the AFR fund balances at June 30, 2018 do not agree with the City’s general ledger. The total AFR balance was understated by \$9,421. The recommendation is partially repeated.

- (O) Internal Revenue Service Form 1099 – The City did not file Internal Revenue Service (IRS) Forms 1099 for payments to contractors totaling \$600 or more during calendar year 2016, as required.

Recommendation – The City should complete and file IRS Forms 1099, as required.

Current Status – Not corrected. The recommendation is repeated.

- (P) Payroll – Timesheets were not approved and initialed by the employee’s supervisor or other responsible official.

Recommendation – Timesheets should be approved and initialed by the employee’s supervisor or other responsible official who is not involved with payroll.

Current Status – Not corrected. During the period reviewed, the Mayor approved timesheets and reviewed payroll journals as evidenced by the Mayor’s signature and the date. However, for one of four pay periods tested, there is no evidence of approval or review of timesheets by the Mayor. The recommendation is repeated.

- (Q) Sinking Account – The City has not established a sewer revenue sinking account as required by the provisions of the Sewer Revenue Capital Loan Notes, Series 2015.

Recommendation – The City should establish the sewer revenue sinking fund and make the monthly transfers to the fund, as required.

Current Status – Not corrected. The recommendation is repeated.

- (R) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee. As a result, certain funds created in 2015 to set-aside excess funds for future Fire, EMS and Library capital purchases were not correctly classified. The funds were classified and reported as Special Revenue Funds on the 2016 Annual Financial Report (AFR). However, since the source of the funds is the General Fund, the monies are not legally restricted and can be used for other purposes by future City Councils. For this reason, these funds should be classified as part of the General Fund for budgeting and reporting purposes.

Recommendation – To provide better information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments. The set-aside funds should be classified as part of the General Fund for budgeting and reporting purposes.

Current Status – Corrected. During the period reviewed, the City implemented the Chart of Accounts to record and report receipts and disbursements.

City of Maxwell

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

- (S) Disbursement Approval – While the City Council notes approval of claims in the City Council meeting minutes, the claims list provided to the City Council is not signed to authenticate the record.

Recommendation – The City should establish procedures to authenticate a detailed list of claims or document approval on each invoice.

Current Status – Not corrected. The recommendation is repeated.

- (T) Financial Reporting – Although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting, evidenced by liabilities remaining in the fund “Balance Sheet” report at each month end reviewed. Also, other errors exist in the “Balance Sheet” report causing the “cash” balance to disagree with the “fund” balance in certain funds.

Recommendation – The City should establish procedures to ensure financial transactions are properly recorded and are reported using the cash basis of accounting. Liability accounts in the “Balance Sheet” report should be zeroed out each month. The City should also contact their software provider to obtain help in determining the other reasons for the variance between the “cash” balance and the “fund” balance in certain funds.

Current Status – Not corrected. The recommendation is repeated.

Additional Finding as a Result of Follow-up Procedures:

- (U) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B 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.

City of Maxwell

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy Auditor of State
Katherine L. Rupp, CPA, Manager
Nicole L. Roethlisberger, Senior Auditor