



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

August 26, 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 Wellsburg's Periodic Examination Report dated August 12, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2018 through December 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 seven of the findings reported in the Periodic Examination Report dated August 12, 2016 and partially corrected one of the findings, one finding is no longer valid and four of the findings are reported as "not corrected". Three additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Wellsburg'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 WELLSBURG

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

**FOR THE PERIOD
JUNE 1, 2018 THROUGH DECEMBER 31, 2018**

City of Wellsburg



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Rob Sand
Auditor of State

July 26, 2019

Officials of the City of Wellsburg
Wellsburg, 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 Wellsburg, Iowa, for the period June 1, 2018 through December 31, 2018.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Wellsburg 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 Wellsburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Bernard 'Pat' Kennedy	Mayor	Jan 2018	Jan 2020
Steve Hippen	Council Member	Jan 2016	Jan 2020
Lance VanHeiden	Council Member	Jan 2016	Jan 2020
Dale Eilderts	Council Member	Jan 2018	Jan 2022
Terri Schierer	Council Member	Jan 2018	Jan 2022
Eric Minter	Council Member	Jan 2018	Jan 2022
Wendy Lage	City Clerk		Indefinite
Seth Schroeder	Attorney		Indefinite

City of Wellsburg



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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 August 12, 2016 on the City of Wellsburg, Iowa, covering the period July 1, 2015 through June 30, 2016 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.

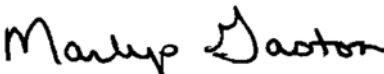
This report includes the findings and recommendations from the City's Periodic Examination Report date August 12, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2018 through December 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 August 12, 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 Wellsburg 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 26, 2019

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

City of Wellsburg

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through December 31, 2018

Findings Reported in the Periodic Examination Report dated February 2, 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, custody of investments, reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing and recording.
- (5) Payroll – recordkeeping, maintaining vacation balances, preparing, entering pay rates and distributing.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining accounts receivable records.
- (7) Long-term debt – recordkeeping and debt payment processing.
- (8) 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.

Current Status – Not corrected. While the monthly reconciling of cash and investments to book balances was reviewed and approved by the Mayor and City Treasurer during the period reviewed, the remaining segregation of duties findings have not been corrected. The recommendation is repeated.

(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.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger 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.

Current Status – Corrected. During the period reviewed, bank and investment balances were reconciled to the general ledger monthly. The reconciliations were reviewed by the Mayor and the City Treasurer.

City of Wellsburg

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through December 31, 2018

- (C) 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.

Recommendation – A listing of delinquent accounts should be prepared 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 monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Corrected. During the period reviewed, listings of delinquent accounts were prepared monthly and utility billings, collections and delinquent accounts were reconciled each billing period.

- (D) Payroll – The following were identified:

- Although timesheets are maintained for all employees, there was no indication the timesheets were reviewed and approved by appropriate supervisory personnel prior to the preparation of the payroll.
- An independent person does not review wage and withholding rates entered into the payroll system.
- Employee vacation hours are not adequately reviewed.

Recommendation – Timesheets and vacation hours should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll and wage and withholding rates in the payroll system should be independently reviewed. The reviews and approval 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, timesheets were reviewed and approved by the Mayor and a pay rate report was run and approved by the Mayor. However, employee vacation hours were not adequately reviewed. The recommendation is partially repeated.

- (E) Disbursements – Thirteen of the thirty disbursements tested were approved by City Council after the payment date.

Recommendation – The City should ensure all disbursements are properly approved in the City Council minutes prior to payment.

Current Status – Corrected. The City passed a resolution approving payment prior to City Council approval for certain monthly bills and during the period reviewed, disbursements tested were approved prior to payment or met the pre-approval resolution.

- (F) Separately Maintained Records – The City Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

City of Wellsburg

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through December 31, 2018

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.

Current Status – No longer valid. The Fire Association was legally separated from the City on July 1, 2015.

- (G) 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
Lance Van Heiden, Council Member, Owner of Van Heiden Tiling	Repair drainage ditch	\$ 5,168

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions may represent a conflict of interest since total transactions exceeded \$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.

Current Status – Not corrected. For the fiscal year ended June 30, 2018, disbursements to Van Heiden Tiling, Lance Van Heiden, Council Member, totaled \$4,712 and were not competitively bid. The recommendation is repeated. In addition, see finding (P).

- (H) Restrictive Endorsement – A restrictive endorsement is not placed on checks upon receipt.

Recommendation – A restrictive endorsement should be placed on all checks when received to help provide protection in case of theft or loss.

Current Status – Corrected. During the period reviewed, a restrictive endorsement was placed on checks when received.

- (I) Credit Cards – The City has credit cards for use by employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and has not established procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City’s credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Current Status – Not Corrected. While the City has adopted a credit card policy, the policy is lacking several areas such as the requirement for adequate supporting documentation, unallowable purchases and timely submittal for payment. The recommendation is repeated.

City of Wellsburg

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through December 31, 2018

- (J) Payment of General Obligation Bonds – One interest payment on the City’s general obligation water bonds was paid from the Enterprise, Water Fund. 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 tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Water Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

Current Status – Corrected. During the period reviewed, general obligation bonds were paid from the Debt Service Fund.

- (K) Council 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. The minutes for all meetings tested did not include total disbursement by fund.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements by fund, as required.

Current Status – Corrected. During the period reviewed, the City published total disbursements by fund.

- (L) Utility Rates – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. While the current utility rates were properly established by City ordinance, the ordinance allows future rates to be determined by the City Clerk.

Recommendation – The City Council should modify the utility rate ordinance to only allow approval of utility rates by City ordinance, consistent with the Code of Iowa requirements.

Current Status – Corrected. A new ordinance was adopted on September 6, 2016 establishing future rates within the ordinance.

- (M) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works, general government, capital projects and business-type activities functions prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public moneys 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. At June 30, 2018, the budget was not exceeded for any function. However, the public safety function exceeded the budget prior to the budget amendment. The recommendation is repeated.

City of Wellsburg

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through December 31, 2018

Additional Findings as a Result of Follow-up Procedures:

- (N) 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. Minutes for five meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish minutes within fifteen days, as required.

- (O) Annual Financial Report – The 2018 Annual Financial Report (AFR) did not accurately report the ending fund balances for fiscal year 2018. The total AFR balance was understated \$1,335 when compared to the general ledger.

Recommendation – The City should ensure Annual Financial Report fund balances agree with the City's records.

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Pat Kennedy, Mayor, Owner of Snittjer Grain	Gasoline and diesel	\$ 6,408

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions may represent a conflict of interest since total transactions exceeded \$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 Wellsburg

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy Auditor of State
Katherine L. Rupp, CPA, Manager
Erin J. Sietstra, Senior Auditor