



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

State Capitol Building  
Des Moines, Iowa 50319-0004

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Rob Sand  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

February 7, 2020

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 Ute's Periodic Examination Report dated March 9, 2017. 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. All nineteen findings reported in the Periodic Examination Report dated March 9, 2017 are repeated in this report. While the City corrected seven of the findings, partially corrected two of the findings and one finding is reported as "no longer valid", nine of the findings are reported as "not corrected". Four additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Ute'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 UTE**

**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 Ute**



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Rob Sand  
Auditor of State

December 3, 2019

Officials of the City of Ute  
Ute, 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 Ute, 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 Ute throughout the follow-up engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand  
Auditor of State

## Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on the Status of Periodic Examination Findings and Recommendations	5
Status of Findings and Recommendations Previously Reported in the City's Periodic Examination Report:	
	<u>Finding</u>
Segregation of Duties	A 7
Bank Reconciliations	B 7-8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C 8
Payroll	D 8
Certified Budget	E 8
Annual Financial Report	F 9
Journal Entries	G 9
Local Option Sales Tax	H 9
Compensatory Time	I 9-10
Financial Condition	J 10
Sick Leave Payout	K 10
City Council Meeting Minutes	L 10
Monthly City Clerk's Report	M 10-11
Uniform Chart of Accounts	N 11
Payment of General Obligation Bonds	O 11
Separately Maintained Records	P 11
Ambulance Disbursements	Q 11
Questionable Disbursements	R 12
Ambulance Trip Records	S 12
Additional Findings Identified During Follow-up Procedures:	
Bank Reconciliations	T 12
Accounting Procedures Manual	U 12-13
Financial Condition	V 13
Questionable Disbursements	W 13
Staff	14

## City of Ute

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Richard Hageman	Mayor	Jan 2018	Jan 2022
Becky Miller	Council Member/ Mayor Pro Tem	Jan 2016	Jan 2020
Mark Bretthauer	Council Member	Jan 2016	Jan 2020
Buddy Leisinger	Council Member	Jan 2016	Jan 2020
Matt Leitz	Council Member	Jan 2018	Jan 2022
Sue Kelm	Council Member	Jan 2018	Jan 2022
Leah Schwery	City Clerk/Treasurer		Indefinite
David Briese	Attorney		Indefinite

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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 March 9, 2017 on the City of Ute, Iowa covering the period January 1, 2016 through December 31, 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 March 9, 2017 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 March 9, 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 Ute 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.

A handwritten signature in black ink that reads "Marlys K. Gaston".

Marlys K. Gaston, CPA  
Deputy Auditor of State

December 3, 2019



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

City of Ute

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

For the Ute Ambulance, 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.
- (4) Payroll – recordkeeping, preparing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and Ambulance 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 – Not corrected. The recommendation is repeated.**

- (B) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual bank accounts, a complete reconciliation, including investments, petty cash and the Ambulance account, was not prepared. Also, the outstanding check listing does not include the date the check was written. In addition, bank reconciliations are not independently reviewed.

City of Ute

Report on the Status of Periodic Examination Findings and Recommendations

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

Recommendation – The City should establish procedures to ensure bank and investment account balances, including the Ambulance account and petty cash, are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. The outstanding check listing should include the date each check was written. In addition, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

**Current Status – Not corrected. The recommendation is repeated. In addition, see finding (T).**

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared and retained 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 date of the review.

**Current Status – Not corrected. The recommendation is repeated.**

- (D) Payroll – City employees do not prepare and submit timesheets to support hours worked.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and reviewed, approved and signed by the employee's immediate supervisor prior to submission.

**Current Status – Corrected. During the period reviewed, timesheets were maintained for each employee and were signed by the employee and the employee's immediate supervisor.**

- (E) Certified Budget – Disbursements at June 30, 2016 exceeded the amounts budgeted in the public safety, health and social services 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 – Corrected. Disbursements at June 30, 2018 did not exceed amounts budgeted.**

City of Ute

Report on the Status of Periodic Examination Findings and Recommendations

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

- (F) Annual Financial Report – Receipts and ending fund balances reported in the fiscal year 2016 Annual Financial Report (AFR) did not agree with the City's financial records. The ending fund balance of \$331,695 reported in the fiscal year 2016 AFR was \$11,793 less than the monthly City Clerk's report balance of \$343,488.

Recommendation – The City should establish procedures to ensure amounts reported on the AFR are supported by the City's records.

**Current Status – Not corrected. The beginning balances reported in the fiscal year 2018 Annual Financial Report (AFR) did not agree with the ending balances reported in the prior year AFR. The fiscal year 2018 AFR receipts are \$17,677 lower than the City's records. The 2018 AFR cash basis fund balance was \$18,108 lower than the City Clerk's report. The recommendation is repeated.**

- (G) Journal Entries – Supporting documentation is not maintained for journal entries and journal entries are not approved.

Recommendation – Supporting documentation should be maintained for all journal entries. In addition, journal entries should be reviewed and approved by an independent person. This review should be documented by the signature or initials of the reviewer and date of the review.

**Current Status – Not corrected. The recommendation is repeated.**

- (H) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 40% for property tax relief and 60% for infrastructure, including streets and water. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with ballot requirements.

Recommendation – The City should implement procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

**Current Status – Not corrected. The recommendation is repeated.**

- (I) Compensatory Time – City Resolution 2016-07 states the maintenance/water superintendent can accumulate compensatory time during an emergency or snow removal. This compensatory time must be included on the employee's time card and a reason documented for overtime. The Mayor must approve the compensatory time earned the next working day.

The maintenance/water superintendent accrued compensatory time multiple times per week when there were no emergencies or snow removal and there was no evidence of approval by the Mayor for the compensatory time earned. During the period reviewed, the City Council approved multiple compensatory time payouts to the maintenance/water superintendent, however, the hours paid were not accrued in accordance with the compensatory time resolution established by the City Council.

Recommendation – The City should comply with the resolution established by the City Council and allow the maintenance/water superintendent to accrue compensatory time only when the specified requirements are met.

City of Ute

Report on the Status of Periodic Examination Findings and Recommendations

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

**Current Status – Corrected. For the period reviewed, compensatory time was earned and approved according to the City resolution.**

- (J) Financial Condition – At June 30, 2016, the City had a deficit balance of \$39,584 in the Enterprise, Sewer Fund. At December 31, 2016, the deficit balance had decreased to \$29,787.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial condition.

**Current Status – Not corrected. As of December 31, 2018, the City had a deficit balance of \$47,749 in the Enterprise, Sewer Fund. In addition, see finding (V).**

- (K) Sick Leave Payout – The City has not established a policy allowing sick leave payouts or compensatory time accruals for the City Clerk. During the period reviewed, the City Council approved and paid \$2,069 to the prior City Clerk for a portion of her sick leave balance. Also, during our review, we noted the prior City Clerk accumulated compensatory time and used the accumulated time while away from work, rather than sick leave, resulting in a higher sick leave balance and, consequently, a higher sick leave payout.

Recommendation – The City should establish policies and procedures regarding sick leave payouts and compensatory time accruals for the City Clerk.

**Current Status – Not corrected. No instances of sick leave payouts during the period June 1, 2018 through December 31, 2018 were noted. However, the City has not established policies and procedures regarding sick leave payouts and compensatory time accruals for the City Clerk. The recommendation is repeated.**

- (L) 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. Two of four meeting minutes tested were not published within fifteen days and two meeting minutes tested were not published.

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

**Current Status – Not corrected. For the period reviewed, two of four meeting minutes tested were not published timely.**

- (M) Monthly City Clerk's Report – The monthly City Clerk's report presented to the City Council for approval does not include a comparison of total disbursements to the certified budget by function. In addition, for one month reviewed, amounts reported do not agree with the City's records.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes a comparison of total disbursements by function to the certified budget. In addition, amounts reported should agree with the City's records.

City of Ute

Report on the Status of Periodic Examination Findings and Recommendations

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

**Current Status – Partially Corrected.** For the period reviewed, the monthly City Clerk's reports agreed with the City's records. However, the City Council was not provided a comparison of actual disbursements to the certified budget by function. The recommendation is partially repeated.

- (N) Uniform Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) recommended by the City Finance Committee. As a result, the City recorded utility excise tax receipts and commercial/industrial replacement tax as property taxes rather than other city tax and intergovernmental receipts, respectively.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

**Current Status – Corrected.** During the period reviewed, the City utilized the Uniform Chart of Accounts recommended by the City Finance Committee.

- (O) Payment of General Obligation Bonds – During our review, we noted an additional principal payment on the City's general obligation bonds on November 30, 2015 that was paid from the General 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 taxes, must be deposited in the debt service fund."

Recommendation – General obligation bond payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

**Current Status – Corrected.** For the period reviewed, the general obligation bond payments were correctly recorded in the Debt Service Fund.

- (P) Separately Maintained Records – The Ute Ambulance maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records and were not included in the City's annual budget or monthly financial reports.

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 annual budget and reported to the City Council on a monthly basis.

**Current Status – Not corrected.** The recommendation is repeated.

- (Q) Ambulance Disbursements – Supporting documentation for five of seven transactions tested could not be located.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

**Current Status – Corrected.** For the period reviewed, disbursements tested were supported by invoices or other supporting documentation.

City of Ute

Report on the Status of Periodic Examination Findings and Recommendations

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

- (R) Questionable Disbursements – Certain disbursements by the Ute Ambulance 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
Bryce Reeves	Pop, water and cookies	\$ 188
Sparetire	Alcohol	45

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 and the Ute Ambulance 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 – Corrected. For the period reviewed, we did not identify any questionable disbursements paid by the Ute Ambulance. However, see finding (W).**

- (S) Ambulance Trip Records – Ambulance employees are paid \$40 for each ambulance trip. Employees can accrue the number of trips and periodically receive a total payment for their trips. Adequate records are not maintained to track ambulance trip balances.

Recommendation – Ambulance officials should establish written policies and procedures requiring the maintenance of records to support ambulance trips and balances.

**Current Status – Partially corrected. For the period reviewed, Ambulance officials tracked trip balances, however, written policies and procedures have not been established.**

**Additional Findings as a Result of Follow-up Procedures:**

- (T) Bank Reconciliations – Monthly bank reconciliations, including a list of outstanding checks, have not been prepared since July 2018.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including a list of outstanding checks, should be prepared and independently reviewed.

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

City of Ute

Report on the Status of Periodic Examination Findings and Recommendations

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

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.

- (V) Financial Condition – At December 31, 2018, the City had a deficit balance of \$11,553 in the Enterprise, Water Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

- (W) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General's opinion dated April 25, 1979, public funds may only be spent for public benefit. We believe the following disbursement may not meet the requirements of public purpose as defined in the Attorney General's opinion since the public benefits to be derived have not been clearly documented. The disbursement is detailed as follows:

Paid to	Purpose	Amount
Ute Senior Citizens	Monthly donation for senior center	\$ 840

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 should determine and document the public purpose served before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.



City of Ute

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy  
Katherine L. Rupp, CPA, Manager  
Taylor I. Cook, Senior Auditor