**Auditor of State**



*City Examination
Example Findings*

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**SEGREGATION OF DUTIES:**

* 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. Debt – recordkeeping, compliance and debt payment processing.
7. Journal entries – preparing and journalizing.
8. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
9. Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
10. Computer system – performing all general accounting functions and controlling all data input and output.
11. Financial Reporting – preparing and reconciling.

For the XYZ City 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 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 and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

* 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. Bank reconciliations – Although prepared monthly, the bank reconciliations were not reviewed by an independent person.
2. Utility reconciliations – Although prepared monthly, the utility reconciliations were not reviewed by an independent person.

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 evidenced by the signature or initials of the reviewer and the date of the review.

* City Fire Department – The following were noted for the Fire Department:
* All accounting functions are handled by one individual without adequate compensating controls.
* Bank reconciliations are reviewed annually rather than monthly.
* Proper supporting documentation for disbursements is not maintained.

Recommendation - The Fire Department should segregate accounting duties to the extent possible, bank reconciliations should be reviewed monthly and proper supporting documentation should be maintained for disbursements.

* Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, no independent review of the bank reconciliations was performed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

**COMPUTER SYSTEMS:**

* Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

* + Password privacy and confidentiality.
	+ Requiring password changes every 60 to 90 days.
	+ Allowing only authorized personnel to request resetting their own passwords.
	+ Not allowing another employee to request a reset of a password for another employee and then having access to this password.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s internal control over its computer system.

* Computer System – The City does not have written policies for:
* Requiring password changes because software does not require the user to change log-ins/passwords and/or preventing the reuse of the same password.
* Requiring lock out if the password is incorrectly entered three times in a row.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer system.

**BANK TO BOOK RECONCILATIONS:**

* Bank Reconciliations – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year. However, for the two months reviewed, bank and book balances did not properly reconcile. Variances of $105.84 and $15.84 were not resolved. In addition, the bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

* 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. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

* Bank Reconciliations – Cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The “Bank Statement Reconciliation” reports generated from the City’s financial system include the City’s main checking account, but exclude the savings and investment accounts. For two months reviewed, November 2012 and June 2013, the “Ending Statement Balance” on the “Bank Statement Reconciliation” varied significantly from the checking account bank statement balance. In addition, the listings of outstanding checks and deposits in transit generated monthly do not properly cut-off at month end and include only checks outstanding from the current calendar year. Checks which may be outstanding from a previous calendar year are dropped from the listing.

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to the bank and investment account balances monthly. Outstanding check and deposit in transit listings should properly cut off at month end and should include all outstanding items through the end of the month. Consultation with the software provider is suggested, if needed, to understand how to generate the proper reconciling reports. Variances, if any, should be reviewed and resolved timely.

* Monthly Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations were not compared to the City’s general ledger fund balances. Disbursements in the reconciliations were adjusted to force the reconciliation to balance with the bank statement balance. Variances (adjustments) are not investigated and resolved.

Recommendation – To provide better control over financial transactions and overall accountability, the reconciliations should be compared with the City’s general ledger fund and account balances. Variances should be investigated and resolved monthly.

* Bank Reconciliations – Bank and investment balances were not reconciled to the book balances recorded in the City’s accounting system and the reconciliations were not reviewed by an independent person. Reconciliations attempted for two months during the year were incomplete and the variances of $5,874.36 and $879.91 were not resolved.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger balances monthly and the reconciliations should subsequently be reviewed by an independent person. Variances, if any, should be reviewed and resolved timely.

* Bank Reconciliations and Financial Reporting – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile. Also, $45,655 of receipts from the State of Iowa were deposited to the bank but were not recorded in the City’s financial accounting system and $13,128 was paid from the City’s bank account electronically but was not recorded as a disbursement in the City’s financial accounting system. Additionally, a receipt of $3,712 deposited to the City’s bank account was voided in the City’s financial accounting system. The City Clerk was unsure why the receipt entry had been voided.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances should be reviewed and resolved timely. Also, all receipts and disbursements recorded electronically to the City’s bank account should be recorded in the City’s financial accounting system. If receipts are voided in the City’s financial accounting system, the reason should be documented and the entry should be posted again.

* Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, no independent review of the bank reconciliations was performed. In addition, the outstanding check list did not contain the check number, payee and date written.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. The outstanding check list should detail the check number, payee and date written in addition to the amount outstanding.

* Bank Reconciliations – There was no evidence the cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year. For one of the two months reviewed, the bank balance was $981 higher than the book balance.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

* Bank Reconciliations – The balances in the City’s general ledger were not properly reconciled to bank and investment account balances throughout the year. The outstanding deposit and check listings generated by the financial system incorrectly included transactions occurring after the end of the month. Also, there is no independent review of the bank reconciliation.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Outstanding deposit and check listings should be prepared to cut-off at month end. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

* Bank Reconciliations – Bank and investment balances were not reconciled to the book balances recorded in the City’s accounting system for all months. For the months reconciliations were completed, there was no evidence the reconciliations were reviewed by an independent person.

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

* 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 done.

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.

**FINANCIAL REPORTING:**

* Financial Reporting – The total fund balance of $873,304 reported on the fiscal year 2013 Annual Financial Report (AFR) was $901 greater than the City’s general ledger and bank balance of $872,403. Although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting. The $901 represents liabilities remaining on the General Fund “Balance Sheet” report at June 30, 2013.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded and reported using the cash basis of accounting established by the City.

* Annual Financial Report – The 2013 Annual Financial Report omitted $1,748,053 in disbursements for the proprietary funds and $612 in receipts for the governmental funds, overstating the total ending fund balance by $1,747,441.

Recommendation – The City should ensure all receipts and disbursements are included on the Annual Financial Report by reconciling all totals to the City’s financial reports. An independent person should review the report for accuracy.

* Treasurer’s Monthly Report – The City Council does not review the Treasurer’s Monthly Report.

Recommendation – To improve financial accountability, the Treasurer’s Monthly Report should be reviewed by the City Council at each monthly meeting.

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…” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records.

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

* Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures…” Receipts and ending fund balances reported on the Annual Financial Report (AFR) did not agree with the City’s financial records. We were unable to determine the accuracy of disbursements reported on the AFR as the City’s financial records do not classify disbursements by function and information supporting the amounts reported was not retained.

Recommendation – The City should ensure the receipts and disbursements included in future Annual Financial Reports are supported by the City’s records.

* Financial Reporting – Chapter 312.14 of the Code of Iowa requires all cities to submit the Street Financial Report (SFR) to the Iowa Department of Transportation annually. The Street Financial Report submitted in September 2012 did not agree with the City’s financial records.

Recommendation – The City should consult with the Iowa Department of Transportation and an appropriate adjustment to the Street Financial Report should be completed to agree with the City’s financial records.

* Monthly Treasurer’s Report – The October 2012 Treasurer’s Report generated by the City’s software does not properly total the General and the Special Revenue, Road Use Tax Funds. The General Fund balance totaled to $437,578, $164 more than the reported balance of $437,393. The Road Use Tax Fund balance totaled to $121,577, $5 more than the reported balance of $121,572.

Recommendation – The City should establish procedures to ensure computer generated reports are accurate. The City should work with its software provider to determine the cause for the report errors and take immediate action to correct the reports.

* Financial Reporting – We reviewed financial reports for June 2013, and noted the following:
* The “Balance Sheet” report listing all cash and investment accounts at month end totaled $1,108,437 while the “Trial Balance” report listing each fund and fund balance at month end totaled $1,064,758, a variance of $43,679.
* The “Balance Sheet” reported the main checking account balance at $164,902. This amount varies from the “Bank Statement Reconciliation – Ending Statement Balance” (referred to in (B) above) of $204,772 by $39,870.
* The “The “Trial Balance” report does not add to the $1,064,758 shown on the report but instead adds to $1,044,082, a variance of $20,676.

Recommendation – The City should establish procedures to ensure all monthly reports reconcile, are accurate and adds properly. The City should work with its software provider to determine the cause of the report variances and inaccuracies and take immediate action to resolve the variances.

* Annual Financial Report – The beginning fund balances for the governmental and proprietary activities did not agree to the prior year ending balances reported in the June 30, 2012 Annual Financial Report.

Recommendation – The City should ensure the current year Annual Financial Report beginning balances agree with the prior year ending balances.

* Fund Balance Adjustments – The Annual Financial Report for the fiscal year ended June 30, 2012 reported balances by fund which varied from the final balances reported in the fiscal year 2012 audit report.

According to City personnel, balances were adjusted to eliminate negative balances and to reflect the fund balances reported in the new software system at July 1, 2012. The City could not provide support for the adjustments, including $161,978 transferred from the Special Revenue, Tax Increment Financing Fund, a fund restricted for the payment of loans, advances, indebtedness or bonds which qualify for payment from tax increment financing receipts.

Recommendation – The City should determine and document the proprietary of adjustments made to fund balances. The City should consult TIF legal counsel to determine the propriety of the $161,978 transferred from the Special Revenue, Tax Increment Financing Fund.

* Management Financial Information – The Clerk’s financial reports to the City Council included cash and investment balances and year-to-date receipts and disbursements, but did not include comparisons to the certified budget by function or a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, the monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

* Financial Reports – We noted certain errors in the financial reports. The Budget Report does not properly report balances in the correct disbursement function based on the account coding in the detailed Income Statement. The Balance Sheet totals for the Water Fund did not agree to the Treasurer’s Report. In addition, totals for receipts and disbursements per the detailed Income Statement did not agree to the totals on the Budget Report.

Recommendation - The Clerk should investigate and resolve the variances between the various reports. The City should enlist the help of the software vendor if necessary.

* Monthly Clerk’s Report – The Monthly Clerk’s Report presented to the City Council for approval does not contain beginning and ending fund balances for each fund.

Recommendation – The beginning and ending fund balances should be included in the monthly reports presented to the City Council for approval.

* Monthly Treasurer’s Report – The December 2012 Treasurer’s Revenue Report to the City Council generated by the City’s software did not include all receipts for the month. The December 2012 Treasurer’s Revenue Report totaled $49,578.42. The total receipts per the ledger activity totaled $68,399.01. Upon further review, the Treasurer’s Revenue Report did not include receipts for December 28, 2012.

Recommendation – The City should establish procedures to ensure reports are accurate. The City should work with its software provider to determine the cause of the omission and take action to correct the underlying issue.

* Annual Financial Report – The 2012 Annual Financial Report (AFR) did not accurately report the beginning and ending fund balances for fiscal year 2012. Beginning balances for the governmental funds of $500,495 and for the proprietary funds of $444,607 were not reported, which resulted in the ending balances not agreeing to the City’s June 30, 2012 general ledger.

 Recommendation – The City should establish procedures to ensure the AFR, including the beginning and ending fund balances, is accurate and supported. The City should ensure fund balances from the prior year are carried forward and ending fund balances agree with the June 30 general ledger balances.

* Annual Financial Report – The 2013 Annual Financial Report reported certain receipts in an incorrect fund and certain receipts could not be traced to the City’s financial records. The beginning and ending fund balances agreed in total to the City’s financial records but were allocated incorrectly between governmental and business-type activities.

Recommendation – The errors in the Annual Financial Report should be corrected and the report should be re-filed.

* Financial Reports – Although monthly Clerk’s reports are prepared, the reports do not agree with the general ledger or bank balances. In addition, receipts, disbursements and ending fund balances reported on the Annual Financial Report (AFR) did not agree with the City’s financial records and budget amounts reported on the AFR did not agree with the amended budget.

Recommendation – The City should establish procedures to ensure the monthly Clerk’s reports and Annual Financial Report reconcile to the general ledger and bank balances. In addition, the budget column in the Annual Financial Report should agree with the City’s amended budget.

* Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

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

* Financial Reporting – Bond proceeds of $1,277,700 were incorrectly coded as intergovernmental receipts rather than as other financing sources. Also, rent receipts of $1,130 from the use of land around the sewer lagoons was incorrectly coded as agricultural land taxes rather than as use of money and property.

Recommendation – The City should implement procedures to ensure receipts are properly coded.

* 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…” The City’s Annual Financial Report included receipts and disbursements which do not agree with the amounts recorded in the City’s records.

Recommendation – The City should ensure the receipts and disbursements included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.

* Monthly Clerk’s Report – A monthly Clerk’s report, including a summary of revenues, disbursements and ending balances by fund, is not prepared.

Recommendation – The City Clerk should prepare a monthly Clerk’s report which includes a summary of receipts, disbursements and ending balances by fund. The City Council should review and approve the Clerk’s report monthly.

**INVESTMENTS:**

* Investments – An accounting record/register is not maintained for each investment. Additionally, the location of the investment documentation for one City investment was not known or readily available.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained. Also, all investment documents should be under the control of a responsible official.

* Unrecorded Investments – The City holds a certificate of deposit valued at $140,000 which is not recorded in the City’s accounting records or balances.

Recommendation – The City should develop procedures to ensure all investments, including certificates of deposit, are properly reflected in the accounting records.

**PETTY CASH/CHANGE FUNDS:**

* Petty Cash – Petty cash funds on hand at City Hall and the Library were not maintained on an imprest basis and included receipts from copies, faxes, stamps and other fees not separately accounted for.

Recommendation - Cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Also, receipts for copies, faxes, stamps and other fees should be accounted for separately to facilitate the depositing of these collections intact.

* Change Fund – The City maintains a change fund for which no authorization could be located.

Recommendation – The change fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

* Petty Cash – The City’s petty cash funds were not included in the City's accounting records and resulting fund balances.

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 funds and accounts, including petty cash, should be included in the Clerk's accounting system.

* Petty Cash and Change Fund – The petty cash and change fund are not maintained at an authorized amount. The petty cash drawer included additional funds from bulk water sales. The receipts from bulk water sales were not deposited and recorded in the financial system.

Recommendation – The City Council should approve an authorized amount to be maintained in the petty cash and change fund. Procedures should be established to ensure all receipts, including bulk water sales, are deposited intact and recorded in the financial system.

* Petty Cash and Change Funds – The petty cash and change funds did not reconcile to the authorized amounts. The City’s reconciliation was not performed in a timely manner for either the Petty Cash or Change Fund.

Recommendation – To provide better control and overall accountability, the petty cash and change funds should be reconciled in a timely manner.

**UTIITIES: RECONCILATIONS AND DELINQUENT ACCOUNTS:**

* 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 of the reconciliation should be evidenced by the signature or initials of the reviewer and the date of the review.

* 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, document their review and monitor delinquent accounts.

* Reconciliation of Utility Billings, Collections and Delinquent Accounts – While utility billings, collections and delinquent accounts were reconciled monthly, a clearing account reserve for one-time utility users has a delinquent balance of $375,742. This balance is not actually a delinquent account.

Recommendation – The City should establish procedures to ensure the delinquent accounts are accurate and resolve the delinquent balance in the clearing account.

* Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation – Procedures should be established to have an independent person or a Council member review the reconciliation and monitor delinquent accounts each month. The review of the reconciliation should be evidenced by the signature or initials of the reviewer and the date of the review.

* Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year. We performed a utility reconciliation for June 2013. The amount calculated to be in arrears differed by $81.35 from the amount in arrears reported by the City. We attempted to recalculate delinquent accounts for one month and certain balances did not recalculate properly. One Council Member had a delinquent bill of $80 at June 30, 2013. Utility bills are not periodically reviewed and tested to ensure calculations are correct.

Recommendation – The City should ensure information reported in the delinquent accounts listing is accurate. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. Any variances should be investigated and resolved in a timely manner. The City Council or other independent person designated by the City Council should review the reconciliations, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts. An independent individual should periodically review and test utility billings to ensure they are properly calculated.

* Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year. One Council Member had a delinquent bill of $14.50 at June 30, 2013.

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.

* Reconciliation of Utility Billings, Collections and Delinquent Accounts – While utility billings, collections and delinquent accounts were reconciled monthly, the beginning balance did not always agree to the prior month’s reconciliation ending balance. There is no evidence of independent review of the utility reconciliation.

Recommendation – As a part of the reconciliation process, the City should ensure the beginning balance used agrees to the ending balance from the prior month’s reconciliation. The City Council or other independent person designated by the City Council should review the reconciliations and sign or initial them to provide evidence of the review.

* 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, document their review and monitor delinquent accounts.

**RECEIPTS:**

* Prenumbered Receipts – Prenumbered receipts were not issued for all collections and an initial listing of collections was not prepared.

Recommendation – Prenumbered receipts should be issued for all collections and an initial listing of collections should be prepared. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

* Initial Receipts Listing – An initial listing of collections was not prepared.

Recommendation – An initial listing of collections should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented.

* Deposits – Four intergovernmental receipts were not deposited in a timely manner.

Recommendation – The City should establish procedures to ensure receipts are deposited in a timely manner.

**DISBURSEMENTS/CREDIT CARDS:**

* Monthly Disbursement Review – The City Council is provided a listing of receipts by fund and disbursements by vendor at each monthly meeting. The March 2013 disbursements listing by vendor did not reconcile to the Treasurer’s monthly report. This variance of $663.79 was not explained.

Recommendation – The City should establish procedures to ensure disbursements provided for review at each monthly meeting reconcile to information in the City’s accounting system. If the computer generated reports are not accurate, the City should work with its software provider to determine the cause for the report errors and take immediate action to correct the reports.

* Disbursements - Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for three transactions tested could not be located.

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

* City Council Disbursement Approval – The City Council approves disbursements at each monthly meeting after the invoices have been paid.

Recommendation – The City could adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

* Supporting Documentation – Supporting documentation was not initially available to support 2 of 30 disbursements tested in the amounts of $3,244 and $14.91. The invoices were subsequently obtained.

Recommendation – The City should maintain supporting documentation for all disbursements.

* Disbursements – Certain invoices were not approved by the City Council.

Recommendation – All invoices should be approved by the City Council.

* Disbursements - Supporting documentation for all credit card charges was not available. Also, certain consecutively numbered checks selected for testing could not be located and had not been recorded in the accounting system. The checks were not identified as voided in the City’s financial accounting system and had not cleared the bank.

Recommendation – The City should ensure supporting documentation for all credit card charges is retained. Also, the City should ensure gaps in the numerical sequence of checks issued are identified and resolved to help to prevent potential misuse.

* Disbursements – One disbursement tested was not properly supported by an invoice. Two credit card transactions tested were not supported by original receipts.

Recommendation – The City should retain original invoices for all disbursements. Purchases made with credit cards should be supported by original receipts and the original receipts should be reconciled to the statement monthly.

* Disbursements – Supporting documents are not furnished to the check co-signer prior to co-signing the checks. Approval of payments is not documented by the signature or initials of the reviewer and the date of review on the supporting documentation. Also, supporting documentation for claims is not cancelled to prevent reuse.

Recommendation – Supporting documents for disbursements should be reviewed by the check signers prior to co-signing checks. Payment approval should be documented by the signature or initials of the reviewer and the date of review on the supporting documentation. In addition, supporting documentation for claims should be cancelled to prevent reuse.

* Disbursements – While the City Council notes approval of claims in the minutes, a list of claims is not prepared and evidence of approval is not indicated on the invoices.

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

* Checks Signed in Advance – Certain checks are signed before the check payee and amount are completed.

Recommendation – Checks should not be signed in advance.

* Credit Cards – The City has bank credit cards and retail charge accounts for use by employees for City business. The City has not adopted a formal policy to regulate the use of bank credit cards or retail charge accounts nor established procedures for the proper accounting of credit card and retail charge account purchases.

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

* Credit Card – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish 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 card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to support the purchase.

* Credit Cards – The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. In addition, the City is using a debit card for certain transactions.

Recommendation – The City should remove the debit card capabilities to ensure the disbursements are not automatically deducted from the City’s bank account. The City should adopt a formal written policy regulating the use of City Credit cards. The policy, as a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges. The credit cards should only be used for City business and should only be signed by authorized individuals. All charges should be reviewed and scrutinized before being paid.

**PAYROLL:**

* Payroll – Timesheets did not include evidence of supervisory review. Additionally, the wage of one of five employees tested was not approved by the City Council, as required.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, procedures should be established to ensure approved payroll rates are entered and reviewed by an independent person, with the approval being documented.

* Payroll – Payroll checks are not kept in a secured location before they are distributed to employees. In addition, the review and approval of wage and withholding rates entered into the payroll system are not performed by an independent individual.

Recommendation – The City should secure payroll checks in a locked cabinet before distribution. Someone other than the employee entering the information should review and approve the wage and withholding rates entered in the payroll system.

* Payroll – City employees are required to complete time cards. The City Council approves all pay increases. The following were identified:
* Although time cards are maintained for all employees, there was no indication the time cards had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll. In addition, employees do not sign their time cards.
* Employee vacation and compensatory time hours are not adequately tracked or reviewed.
* The hiring salary and subsequent wage increase for the City Clerk was not documented in the City Council minutes. In addition, annual salary increases for all City employees were approved based upon a percentage and the actual approved wages were not documented in the City Council minutes.

Recommendation – Time cards and vacation and compensatory time should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be evidenced by the signature or initials of the reviewer and the date of the review. The City should adhere to its policy for compensated absences. Salaries of employees should be adequately documented in the City Council minutes.

* Scheduling and Overtime – The Employee Handbook requires a member of the City Council to act as a department head to schedule all hours to be worked. Also, the Employee Handbook requires overtime hours to be reviewed as of the first day of each month and be paid at the end of the following month unless compensatory time off has been approved. Work schedules have not been established for City employees and the procedures prescribed by the Employee Handbook were not followed for overtime hours.

Recommendation – Work schedules should be established for City employees and the procedures prescribed by the Employee Handbook should be followed.

* Health Savings Account – In lieu of providing a group health insurance policy, the City Council approved providing up to $6,000 to reimburse individual employees for health insurance premiums and/or deductibles.

During the year ended June 30, 2012, one employee established a Health Savings Account (HSA) at Houghton State Bank. Contributions to an HSA must comply with federal guidelines. We were unable to review the information necessary to determine if the HSA established by the employee complied with federal requirements. In addition, the employee received the contribution and was not required to provide documentation the contribution was deposited to the HSA. The Employee Handbook does not offer an HSA as an option in lieu of a health insurance policy.

Recommendation – If the City offers an HSA in the future, the City should establish policies and procedures and take appropriate steps to ensure the HSA has been established in compliance with federal guidelines. The employee should provide documentation the contribution was deposited to the HSA.

* Timesheets - Timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be evidenced by the supervisor’s initials and the date approved.

* Payroll – Time cards are not always approved and initialed by the employee’s supervisor.

Recommendation – Time cards should be approved and initialed by the employee’s supervisor or by an independent official who is not involved with payroll.

* Payroll – Hours worked are not reviewed and approved for the City’s part-time employee. Written approval is not required for payroll deductions. There is no independent review of wages and withholding rates entered into the system. An independent person does not test wages and withholdings to ensure proper payroll calculations. We could not locate City Council approval of the wage rate for one employee tested.

Recommendation – Hours worked by City employees should be reviewed and approved by a supervisor. Written approval should be retained for all payroll deductions. An independent person should periodically review and test wage and withholding rates entered in the system for proper calculations. Evidence of testing should be retained. The City Council should approve pay rates for City employees at the time of hiring and when raises occur.

* Timesheets – Although timesheets were prepared for all employees, there was no indication the timesheets were reviewed and approved. Also, vacation earned and used is not formally tracked.

Recommendation – The City should review and update payroll policies to ensure all employees submit detailed timesheets and timesheets are reviewed and approved. Also, vacation earned and used should be formally tracked for all employees.

* Payroll – The City Clerk reviews all employees’ work hours reported for reasonableness. However, the City Clerk’s hours are not reviewed by an independent person. Also, an independent person does not review and approve new hire pay rates entered on the computer system.

Recommendation – Procedures should be established to ensure independent review of all employee hours worked. Also, an independent person should review and approve new hire pay rates entered in the computer system.

* Payroll – There is no independent review of wages and withholding rates entered into the system. An independent person does not test wages and withholdings to ensure proper payroll calculations. Employee timesheets tested were not signed or initialed to evidence approval and one employee tested did not submit a timesheet to support hours worked.

Recommendation – Hours worked by City employees should be reviewed and approved by a supervisor. An independent person should periodically review and test wage and withholding rates entered in the system for proper calculations. Evidence of testing should be retained.

* Approval of Time Records – Time records and vacation/comp time usage are not reviewed and approved by supervisory personnel prior to processing payroll.

Recommendation – Employee time records and vacation/comp time usage should be reviewed and approved by their supervisor prior to processing payroll, with the supervisory approval being documented.

* Payroll – Timesheets did not include evidence of supervisory review.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Supervisory approval should be documented by the signature or initials of the supervisor and the date of approval.

* Payroll – Although time sheets were maintained for all employees, there was no indication the time sheets had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.

In addition, the annual salary increases for all Library employees were based upon a specific amount per hour. The actual approved total wages were not indicated in the Library Board minutes.

Recommendation – Time sheets should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. Salaries of Library employees should be adequately documented in the minutes.

* Payroll – Employees do not prepare and submit timesheets to support hours worked. In addition, vacation and compensatory time usage and balances are not reviewed and approved by supervisory personnel prior to processing payroll.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and the employee’s immediate supervisor prior to submission. The timesheets should support all hours worked and all hours taken as vacation, sick leave and compensatory time.

**LIBRARY:**

* Financial Records – The Library has a separate savings account. In August 2012, the librarian withdrew $165 from the savings account to purchase items. Supporting documentation for this withdrawal was not maintained. In addition, the cash withdrawal was incorrectly coded as a negative receipt.

Recommendation – The City should establish policies regarding the proper coding of disbursements by the Library and ensure all withdrawals from the savings account are properly supported.

* Library – The Library allows citizens to order books and materials using library vendor accounts to benefit from the City Library’s discounts and non-tax status.

Recommendation – The City should establish policies to preclude citizens from ordering books and materials using the City’s non-tax status. The City should contact the vendor to determine whether private citizens may use the City’s library vendor discounts.

**SEPARATELY MAINTAINED RECORDS:**

* Separately Maintained Records – The Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

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.

* Separately Maintained Records – The XYZ City Fire Department maintains a bank account for activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and 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.

* Separately Maintained Records – The City of XYZ Fire Department and First Responders maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

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.

* Separately Maintained Records – The City of XYZ Fire Department and the Municipal Swimming Pool maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records. Supporting documentation was not maintained for all disbursements from the accounts.

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. Supporting documentation should be maintained to support all disbursements.

**OTHER INTERNAL CONTROL:**

* Bank Signature Card – The bank signature card included a former employee as an authorized check signer for one bank account tested.

Recommendation – The City should ensure the bank signature card is accurate and updated timely.

* Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt and deposited on a timely basis.

* 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 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.
* Transfer and Journal Entry Documentation – Supporting documentation was not maintained for interfund transfers and journal entries. Additionally, transfers and journal entries are not approved.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers and journal entries. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable. Journal entries should be approved by an independent person and evidence of the approval should be documented.

* Utility Rates – The utility rates entered into the system are not reviewed and approved to ensure proper utility calculations and billing.

Recommendation – An independent individual should review and approve the utility rates periodically and when rate changes occur to ensure proper utility billings.

* Transfers - One of four transfers between funds selected for testing was not approved by the City Council and interfund transfers are not balanced monthly.

Recommendation - The City Council should approve all interfund transfers prior to the actual transfer and document approval and amounts as part of the minutes' record. Interfund transfers should be balanced monthly.

* 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.

* Transfers – The City transfers money to and from various funds periodically. However, these transfers were not always approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record.

* Journal Entries – Supporting documentation was not always retained for journal entries.

Recommendation – The City should retain supporting documentation for all journal entries.

* Journal Entries – Journal entries are not reviewed and approved by an independent person.

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

* Transfers – Transfers, while approved by the City Council, are not recorded timely.

Recommendation – Transfers should be recorded timely.

**CERTIFIED BUDGET:**

* Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the capital projects function prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the public works, community and economic development and debt service 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.

* Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the community and economic development and culture and recreation 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.

* Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, culture and recreation and community and economic development functions before the budget was amended on May 22, 2013. 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.

* Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the public safety function prior to the budget amendment and disbursements at year end exceeded the amount budgeted in the general government function.

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.

**QUESTIONABLE DISBURSEMENTS:**

* Questionable Disbursement – During the year, $95 was disbursed from the XYZ City Fire Department account for beer. This disbursement may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

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

* Questionable Disbursements – During the year, $33 was disbursed for candy for employees and visitors to City Hall. This disbursement may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

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 this disbursement 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.

* 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:

Paid to Purpose Amount

Joe Smith Reimbursement for food purchased at
 Wal-Mart for volunteers at cleanup day $ 55

Joe Smith Reimbursement for flowers
 purchased 28

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.

* Questionable Disbursement – One expenditure 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 benefit to be derived has not been clearly documented was noted. This expenditure is detailed as follows:

Paid to Purpose Amount

Visa Meals and alcohol during travel $ 45

A police officer was out of town for training and charged meals, including alcohol, for himself and a guest on the City’s credit card.

Recommendation – The City should seek reimbursement from the officer for the cost of the guest’s meal and the alcohol.

* Questionable Disbursement – During the year, $75 was donated to the XYZ Community School District after prom committee. This disbursement may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

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 this disbursement 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.

* Questionable Disbursements – During the year, $88 was disbursed for funeral plants and flowers and $214 was disbursed for pizza for a City Council meeting. These disbursements 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.

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.

Although the City has adopted a policy allowing the use of public funds for employee flowers or plants, sustenance supplies (coffee, coffee supplies, paper products, etc. deemed necessary by the City Clerk or Department Head) and meals for City budget work sessions, the policy does not document the public purpose served by these disbursements (i.e., how the public benefits from the use of public funds for these purposes).

Recommendation – The City should amend its policy allowing disbursements of public funds for flowers, plants, sustenance supplies and meals to include documentation of the public purpose served by the disbursements.

* Questionable Disbursements – A disbursement for flowers for a Board member’s death may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

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

* Questionable Disbursements – One disbursement tested, for flowers for the death of a board member’s father, may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

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.

**BUSINESS TRANSACTIONS:**

* Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Transaction
  Business Connection   Description Amount

Joe Smith, City Council, Baseball field lights,
owner of Lillie Plumbing, light replacements,
Heating and Electric repair and miscellaneous
 services 16,093

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

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

* Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Transaction
   Business Connection    Description Amount

Joe Smith, Mayor, Parts to rebuild a
 owner of Smith Engineering, Inc. bridge in City park  $ 5,014

In accordance with Chapter 362.5 of the Code of Iowa, the above transactions may represent a conflict of interest since the contract totals more than $2,500 and the contract was not competitively bid.

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

* Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Transaction
  Business Connection   Description Amount

Joe Smith, Council Member, Gas purchases and
Fire Chief, Employee at Pro Co-op vehicle repair  $ 10,746

In accordance with Chapter 362.5(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.

* Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Transaction
  Business Connection   Description Amount

|  |  |  |
| --- | --- | --- |
| Joe Smith, Council Member,  Owner of Smith Equipment Company | Materials and mower |  $6,241 |

In accordance with Chapter 362.5(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.

* Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Transaction
  Business Connection    Description Amount

Joe Smith, Utility Clerk, Water line and fire
Spouse is owner of Smith Tiling    hydrant installation  $ 14,850

In accordance with Chapter 362.5(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.

* Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Transaction
  Business Connection   Description Amount

Joe Smith, City Council Member,
 father-in-law owns Smith Backhoe

 and Trenching Repair and snow removal $6,707

In accordance with Chapter 362.5(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.

* Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Transaction
  Business Connection   Description Amount

Joe Smith, Council Member, Water line, culvert and

Owner of Earth Works lagoon repairs $ 23,782

In accordance with Chapter 362.5(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.

* Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Transaction
  Business Connection   Description Amount

Joe Smith, Council Member, Supplies for the

Owner of Jamboree Foods community pool $ 8,426

In accordance with Chapter 362.5(k) of the Code of Iowa, these 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.

**COUNCIL MINUTES:**

* City 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. One of four monthly minutes reviewed were not published within fifteen days. Also, three of four monthly minutes reviewed did not include total disbursements from each fund. In addition, meeting minutes and several resolutions were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days and include total disbursements by fund in the minutes. In addition, all minutes and resolutions should be signed to authenticate, as required.

* City 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 a summary of all receipts. The minutes for all meetings tested did not include a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and publish a summary of receipts in the City Council minutes, as required.

* City Council Minutes – The following were identified:
* 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 one meeting tested were not published within fifteen days.
* Minutes for the March 11, 2013 City Council meeting were not printed and signed as required by Chapter 380.7 of the Code of Iowa.
* The City did not publish annual gross salaries for the year ended June 30, 2013 as required by an Attorney General’s opinion dated April 12, 1978.
* The City Council went into closed sessions on July 8, 2013, July 25, 2013 and July 29, 2013. The specific exemption under Chapter 21.5 of the Code of Iowa was not identified or documented as required.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. The City should also comply with Chapter 21 of the Code of Iowa. In addition, the City should ensure the minutes, list of claims, summary of receipts, total disbursements by fund and annual individual gross salaries are published as required.

* City 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. Minutes for one meeting 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.

* 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 three meetings tested were not published within fifteen days.

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

* City Council Minutes Publication – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council minutes include “a list of all claims allowed and a summary of all receipts.”

The City’s publication of claims does not include Automatic Clearing House (ACH) claims and a summary of receipts is not published as required.

Recommendation – The City should publish all claims, including ACH claims, and a summary of all receipts, as required.

* 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. Selected meeting minutes were not published within fifteen days. Also, the minutes record of one meeting reviewed was not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. Also, the minutes record should be signed to authenticate the actions taken, as required.

* City Council Meeting Minutes – Although minutes of City Council proceedings were published, the City did not publish a summary of receipts as required by Chapter 372.13 (6) of the Code of Iowa.

Recommendation – A summary of receipts should be published as required.

* 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 receipts. Minutes for one of four meetings tested were not published within fifteen days. Minutes publications for three of four meetings tested did not include total disbursements from each fund or a summary of receipts.

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

* City 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 a list of claims, a summary of receipts, total disbursements by fund, a summary of ordinances or amendments adopted and annual individual gross salaries are published as required. All City Council meeting minutes tested were properly published within fifteen days of the meeting. However, none of the minutes included the total disbursements from each fund.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. The City should ensure the minutes, list of claims, summary of receipts, total disbursements by fund, summary of ordinances or amendments adopted and annual individual gross salaries are published as required.

**DEPOSITS AND INVESTMENTS:**

* Investment Policy - 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 that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

* Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

* Investments – The City currently holds 100 shares of stock, which is not included in the list of allowable investments of public funds specified in Chapter 12B.10(5) of the Code of Iowa.

Recommendation – The City should consult legal counsel and determine the disposition of the stock.

* Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, the resolution naming official depositories adopted by the City Council on January 7, 2013 does not indicate the deposit limit by individual institution for the checking and savings accounts as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

* Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 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. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

* Unrecorded Investments – The City holds a certificate of deposit valued at $140,000 which is not recorded in the City’s accounting records or balances.

Recommendation – The City should develop procedures to ensure all investments, including certificates of deposit, are properly reflected in the accounting records.

**REVENUE BONDS/DEBT:**

* Payment of Water Revenue Bonds – The City’s water revenue bond resolution requires the City to establish a reserve fund of $68,935 until the bonds are fully paid. The reserve fund has not been established.

Recommendation – The City should comply with the water revenue bond requirements and establish the reserve fund.

* Revenue Bonds – The provisions of the water revenue bond resolution require the City produce net operating revenues equal to at least 110% of the principal and interest on the bonds as they become due. For the year ended June 30, 2013, the City’s Enterprise, Water Fund had a net loss of $3,888.

Recommendation – The City should consult legal counsel and review the City’s utility rates to ensure the rates are adequate to produce the required net operating revenues.

* Revenue Bonds – The provisions of the water revenue bonds require sufficient monthly transfers be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

The City has established a water revenue bond sinking account. However, monthly transfers were not made to this account until January 2013.

Recommendation – The City should make sufficient monthly transfers to the water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

* Water Revenue Bonds – During the year ended June 30, 1999, the City issued water revenue bonds for the construction of a water tower under an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo, N.A. As part of the continuing disclosure requirements of the bonds, the City agreed to have an annual audit performed during the term of the loan. The last audit of the City was for the year ended June 30, 2012.

Recommendation – The City should comply with the continuing disclosure requirements in the water revenue bond resolution and have an annual audit performed.

* Debt Service Levy – The City levied debt service tax for its Series 2000 general obligation bonds and its Series 2008 general obligation note, but also certified and received tax increment financing (TIF) receipts for the bonds and note. During the year ended June 30, 2013, principal and interest on the bonds and note were paid from the Debt Service Fund.

In addition, the City’s water revenue bond resolution requires principal and interest on the bonds be paid solely from water net receipts. While principal and interest were correctly paid from the Enterprise, Water Fund, the City also levied debt service tax for the bond payments.

Recommendation – The City should consult TIF and bond legal counsel to determine the disposition of these matters, including reviewing current and past Debt Service Fund activity to determine whether a future reduction in the debt service tax levy is appropriate and to determine whether corrective transfers should be made to reimburse the Debt Service Fund from the Special Revenue, Tax Increment Financing (TIF) and the Enterprise, Water Funds.

* Water Revenue Bonds and Notes – The City’s 2002 water revenue bond and 2004 water revenue note resolutions require repayment solely from the net receipts of the Enterprise, Water Fund and state the debt repayments are not payable in any manner by taxation. The City is required to establish a water sinking account and make sufficient monthly transfers to this account from the Enterprise, Water Fund for making the required debt payments. While the City has established the water sinking account, transfers to the sinking account were incorrectly made from the Debt Service Fund rather than from the Enterprise, Water Fund.

The electronic payment of principal and interest for the 2002 water revenue bond was not recorded in the City’s general ledger. Additionally, the water sinking account maintains a balance because the 2002 water revenue bond was not recorded in the general ledger and the 2004 water revenue note payments were made from the Enterprise, Water Fund, not from the sinking account.

Further, the 2002 water revenue bond requires the City to maintain user rates at a level to ensure net receipts are equal to at least 110% of the principal and interest due in that year. Since the City’s Enterprise, Water Fund is in a deficit position, the City has not maintained sufficient user rates.

Recommendation – The City should make a correcting transfer from the water sinking account to the Debt Service Fund. The City should transfer from the Enterprise, Water Fund to the water sinking account monthly and future bond and note payments should be made from the sinking account, as required.

The City should adjust user rates or reduce other expenses to ensure net receipts equal at least 110% of the principal and interest due each year.

* Revenue Bonds – The City’s water revenue bond resolution requires the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers to produce net operating receipts equal to at least 110% of the principal and interest coming due in each fiscal year. The City’s fiscal year 2013 net water receipts of $40,008 were less than 110% of the $37,110 of water revenue bond principal and interest due during fiscal year 2013.

In addition, although a sewer reserve account has been established, the balance in the account has not reached the minimum required by the sewer revenue bond resolution and the City did not make the required monthly transfers to the reserve account during fiscal year 2013.

Recommendation – The City should review its water rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments due in the fiscal year. In addition, the City should make the required monthly transfers to the sewer reserve account until the account balance reaches the minimum required by the sewer revenue bond resolution.

* Revenue Bonds – The City has not established an electric revenue bond sinking account and has not made the required monthly transfers to the account.

Recommendation – The City should establish an electric revenue bond sinking account and ensure monthly transfers are made to the electric revenue bond sinking account as required.

* Revenue Bonds – The provisions of the water revenue bond resolution require the City pay for its water usage from the General Fund. For the year ended June 30, 2013, the City did not pay for its water usage.

Recommendation – The City should ensure City water usage is paid from the General Fund as required by the bond resolution provisions.

**OTHER LONG-TERM DEBT:**

* Payment of General Obligation Bonds – Principal and interest on the City’s general obligation sanitary sewer bonds were paid from the Enterprise, Sewer 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, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

* Payment of General Obligation Capital Loan 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 year ended June 30, 2013, the City paid a portion of the general obligation capital loan note from the Enterprise, Water Fund.

Recommendation – The City should transfer funds to the Debt Service Fund to pay the general obligation capital loan notes in the future.

* Bank Loan Agreement – On April 27, 2011, the City entered into a bank loan for $24,686 for a tractor. 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.

* Debt Service – For the year ended June 30, 2012 and for two months of the year ended June 30, 2013, the City collected a debt service levy of $6,027 without appropriate general obligation debt.

Recommendation – The City should consult legal counsel regarding this matter.

* Debt Service – A portion of the general obligation street improvement note payment was recorded in the General Fund rather than the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

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

* Debt Service Levy – The City levied debt service tax for its Series 2000 general obligation bonds and its Series 2008 general obligation note, but also certified and received tax increment financing (TIF) receipts for the bonds and note. During the year ended June 30, 2013, principal and interest on the bonds and note were paid from the Debt Service Fund.

In addition, the City’s water revenue bond resolution requires principal and interest on the bonds be paid solely from water net receipts. While principal and interest were correctly paid from the Enterprise, Water Fund, the City also levied debt service tax for the bond payments.

Recommendation – The City should consult TIF and bond legal counsel to determine the disposition of these matters, including reviewing current and past Debt Service Fund activity to determine whether a future reduction in the debt service tax levy is appropriate and to determine whether corrective transfers should be made to reimburse the Debt Service Fund from the Special Revenue, Tax Increment Financing (TIF) and the Enterprise, Water Funds.

* Payment of General Obligation Bonds/Notes – Although principal and interest on general obligation bonds/notes were properly paid from the Debt Service Fund, the payments were recorded incorrectly in the general ledger. Principal recorded was understated and interest recorded was overstated by $6,754.

Recommendation – Principal and interest on general obligation bonds/notes should be properly recorded.

* Payment of General Obligation Notes – Principal and interest on the City’s 2010 general obligation note were paid from the Special Revenue, Tax Increment Financing Fund. Principal and interest on the City’s 2012 general obligation sewer improvement note were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Special Revenue, Tax Increment Financing and the Enterprise, Sewer Funds to the Debt Service Fund for future funding contributions. Payments on the notes should then be made from the Debt Service Fund as required.

* General Obligation Bonds – 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.” The City paid general obligation debt from funds other than the Debt Service Fund.

Recommendation – In the future, the City should transfer funds to the Debt Service Fund to pay general obligation debt.

**TAX INCREMENT FINANCING:**

* Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. 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(6)(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.

During the current and prior years, the City paid principal and interest on its 2011 general obligation bonds from the Special Revenue, Tax Increment Financing Fund through transfers to the Debt Service Fund. However, based on the review of the County Auditor’s “Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation” prepared in November 2012, the 2011 general obligation bond principal of $1,270,000 and interest of $154,638 have not been certified to the County Auditor as a TIF obligation.

Recommendation – The City should certify the 2011 general obligation bond principal and interest expected to be repaid, including past principal and interest amounts paid, with TIF collections to the County Auditor as a TIF obligation.

* Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. 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(6)(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.

During the current and prior years, the City paid principal and interest on its 2011 general obligation bonds from the Special Revenue, Tax Increment Financing Fund through transfers to the Debt Service Fund. However, based on the review of the County Auditor’s “Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation” prepared in November 2012, the 2011 general obligation bond principal of $1,270,000 and interest of $154,638 have not been certified to the County Auditor as a TIF obligation.

Recommendation – The City should certify the 2011 general obligation bond principal and interest expected to be repaid, including past principal and interest amounts paid, with TIF collections to the County Auditor as a TIF obligation.

* Tax Increment Financing (TIF) Indebtedness Certification – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. 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 TIF increment 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 December 2013, the City certified two internal loans for $30,364 and $100,114, respectively, which were previously certified in December 2008.

Recommendation – The City should certify a reduction of $130,478 of TIF indebtedness internal loans certified in 2008 and again in 2013.

* Tax Increment Financing Fund Disbursements – Chapters 403.19(10)(b) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable LMI assistance.

During the year ended June 30, 2013, the City paid $402 of claims from the TIF Fund. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for these costs. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

* Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. 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(6)(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.

The City had a cash balance of $149,270 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) at June 30, 2013. However, the City had no outstanding TIF obligations at that date. 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.

The City has not submitted the Urban Renewal Annual Report required by Chapter 384.22 of the Code of Iowa to the Iowa Department of Management.

Recommendation – The City should consult legal counsel to determine the disposition of the excess monies in the Special Revenue, Urban Renewal Tax Increment Fund. If the City has no further tax increment financing debt, the $149,270 should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa. The City should submit the Urban Renewal Annual Report, as required.

* Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. 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(6)(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.

The City had a cash balance of $39,447 at June 30, 2013 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund). However, the City had no outstanding TIF obligations at that date. 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 legal counsel to determine the disposition of excess monies in the Special Revenue, Urban Renewal Tax Increment Fund. If the City has no further tax increment financing debt, the $39,447 should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa.

* Tax Increment Financing Certification – Although the City appropriately used Form 3 to decertify debt previously certified, the amount decertified was $92,770 less than the correct amount.

Recommendation – The City should decertify an additional $92,770 on Form 3.

* Tax Increment Financing – The City credited interest earned on the balance of the Special Revenue, Tax Increment Financing (TIF) to the General Fund rather than the Special Revenue, TIF fund as required by 403.19(10) of the Code of Iowa.

Recommendation – The City should credit interest to the Special Revenue, TIF Fund as required. Amounts credited to the TIF Fund should be decertified by the City to the County Auditor in accordance with Chapter 403.19(6)(b) of the Code of Iowa.

**ANNUAL URBAN RENEWAL REPORT:**

* Urban Renewal Annual Report (URAR) – The City understated the amount reported as TIF debt outstanding on the URAR Levy Authority Summary by $139,938.

Recommendation – The City should ensure amounts reported on the AURR Levy Authority Summary agree with the City’s records.

* Annual Urban Renewal Report (AURR) – The AURR report was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1. The report was certified on February 5, 2013.

In addition, the amount reported as TIF debt outstanding on the Levy Authority Summary was understated by $13,050.

Recommendation – The City should approve and file the AURR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City’s records.

* Urban Renewal Annual Report – The City’s TIF revenues and ending cash balance of the Special Revenue, Tax Increment Fund reported on the Levy Authority Summary do not agree with the City’s records.

Recommendation – The City should ensure the balances reported on the Levy Authority Summary agree with the City’s records.

* Urban Renewal Annual Report – The Urban Renewal Annual Report was not properly approved and certified to the Department of Management on or before December 1. In addition, the amount reported by the City as TIF debt outstanding was understated by $37,700.

Recommendation – The City should file the Urban Renewal Annual Report timely and ensure the debt reported on the Levy Authority Summary agrees with the City’s records.

* Annual Urban Renewal Report (AURR) – The AURR report was not approved and certified to the Iowa Department of Management on or before December 1. The report was approved on December 12, 2012 and certified on December 13, 2012.

In addition, the following reporting exceptions on the Levy Authority Summary were noted:

* The City understated the amount reported as TIF debt outstanding by $32,599.
* Activity of the Special Revenue, Tax Increment Financing (TIF) Fund, including beginning and ending cash balances, receipts and disbursements, does not agree with the City’s general ledger.
* The City overstated the amount reported as year-end outstanding TIF obligations, net of the TIF Fund cash balance, by $124,464. The amount reported was $107,316 and should have been a deficit of $17,148, an indication the City has collected more TIF receipts than needed for outstanding TIF obligations.

Recommendation – The City should approve and file the AURR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City’s records. The City should decertify and return any TIF receipts collected in excess of TIF obligations to the County Treasurer.

* Urban Renewal Annual Report (URAR) – The beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the December 1, 2013 Levy Authority Summary of the URAR did not agree with the City’s general ledger. The ending cash balance was reported as $0 but the actual balance was $39,447. Also, the receipts and disbursements reported were understated.

Recommendation – The City should ensure cash balances, receipts and disbursements reported on the URAR Levy Authority Summary agree with the City’s records.

* Annual Urban Renewal Report – The City did not submit an Annual Urban Renewal Report to the Department of Management by December 1st as required by Chapter 403.19 of the Code of Iowa.

Recommendation – The City should submit its Annual Urban Renewal Report to the State of Iowa Department of Management before December 1st as required by the Code of Iowa.

* Urban Renewal Annual Report – The City’s ending cash balance of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary did not agree with the City’s general ledger. Also, the amount reported by the City as outstanding TIF debt did not include rebate agreements.

Recommendation – The City should ensure the cash balance and debt amounts reported on the Levy Authority Summary agree with the City’s records.

* Annual Urban Renewal Report (AURR) – The City understated the amount reported as TIF debt outstanding at July 1, 2011 on the AURR Levy Authority Summary by $50,000.

Recommendation – The City should ensure amounts reported on the AURR Levy Authority Summary agree with the City’s records.

**FINANCIAL CONDITION:**

* Financial Condition – At June 30, 2013, the City had a deficit balance of $225 in the Debt Service Fund.

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

* Financial Condition – At June 30, 2013, the City had deficit balances in the following funds:

|  |  |
| --- | --- |
| Fund | Amount |
| General | $690,890  |
| Special Revenue: |  |
|  Road Use Tax | 278,093 |
|  Employee Benefits | 1,524 |
|  |  |
| Debt Service | 1,831 |

In addition, the City’s Local Option Sales Tax (LOST) Fund had a balance of $602,785 at June 30, 2013. Per the LOST ballot, these funds are to be used 60% for curb and gutter, streets and sidewalk improvements, 20% for property tax relief and 20% for community betterment.

Recommendation – The City should take immediate steps to reduce and eventually eliminate these deficits to return the funds to a sound financial condition. The City should also investigate whether some of the disbursements from the funds with deficit balances listed above meet the requirements of the LOST ballot. If so, the City could reimburse those funds from the Local Option Sales Tax Fund to begin to eliminate some the deficit fund balances.

* Financial Condition – At June 30, 2013, the City had deficit balances of $147,819 and $5,129 in the Capital Projects and Debt Service Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

* Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance at June 30, 2013 of $18,399.

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

* Financial Condition - The City had deficit balances of $4,248, $10,338, $23,627, $67,704 and $73,927 in the Road Use Tax, Emergency, Debt Service, Fire Station Debt Service and Sanitary Sewer Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

* Financial Condition – At June 30, 2013, the City had deficit balances of $463,282 and $66,255 in the Capital Projects Fund and the Special Revenue, Employee Benefits Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial condition.

**LOCAL OPTION SALES AND SERVICES TAX:**

* Local Option Sales and Services Tax – The City imposed a local sales and services tax in the City with receipts to be allocated as follows: 60% for property tax relief and 40% for human service agencies, the arts and community betterment. Documentation was not maintained to demonstrate the tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

* Local Option Sales Tax (LOST) – The LOST ballot requires 50% of LOST collections be allocated for the payment of principal and interest on bonds, as long as such principal and/or interest remains unpaid, issued for the construction of a new county jail in XYZ County. The City may use the remaining funds for any other lawful purpose. For the year ended June 30, 2013, $42,794 of LOST was collected and credited to the Special Revenue, Local Option Sales Tax Fund. However, payments totaling $18,955 for the City’s share of the XYZ County jail bonds were made from the General Fund.

Recommendation – The City should make a corrective transfer to the General Fund for current ($18,955) and past payments, if any, made from the General Fund to the County for the City’s share of the jail bonds. Future payments on the jail bonds should be made from the Special Revenue, Local Option Sales Tax (LOST) Fund as required.

* Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 50% for property tax relief, 25% for capital improvements and 25% for community improvements. 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.

* Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 50% for community betterment, 25% for infrastructure and 25% for property tax relief. The City has not been tracking the use of LOST receipts.

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

* Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the General Fund. The LOST ballot requires the receipts be used for specified purposes. During the year, LOST disbursements were not tracked in a manner which documented compliance with the LOST ballot referendum provisions and annual City Council resolutions.

Recommendation – The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement and balance of all LOST funds to document compliance with the LOST ballot referendum provisions.

**OTHER NON-COMPLIANCE:**

* 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 as required by Chapter 554D.114 of the Code of Iowa.

* Deposits – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

* Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

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

* Garbage Collection – The City passed an ordinance setting the rate for garbage collection, including the assessment of an administration fee. However, the administration fee is not defined in the ordinance.

Recommendation – The City Council should review the ordinance setting garbage rates and consult legal counsel for clarification on how the administration fee should be assessed.

* I-JOBS Funding – As part of the 2009 I-JOBS legislation, cities receiving I-JOBS funding were required to identify and report quarterly to the Iowa Department of Transportation the specific projects or activities undertaken, their status and the amount of I-JOBS funding spent to date. In addition, cities were required to expend the I-JOBS funding received within two years of receipt. The City did not submit the required reports and the City did not appropriately track expenditures related to the I-JOBS funding within two years as required.

Recommendation – The City should contact the Iowa Department of Transportation to determine the disposition of this matter.

* 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 Fire Department does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The Fire Department should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

* Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained for the year ended June 30, 2013 as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

* Employee Benefits Levy – The City levies property tax for insurance purposes. The property tax levy produced tax collections of $52,852 recorded in the Special Revenue, Employee Benefits Fund. Insurance premiums paid from the Special Revenue, Employee Benefits Fund totaled $45,328, indicating excess property tax is being levied for this purpose.

Recommendation – The property tax levy should be reduced to the estimated disbursements for insurance premiums. Amounts collected in excess of insurance premiums in the Special Revenue, Employee Benefits Fund should be used only for allowable purposes.

* Employee Benefits Levy – Tax collections were properly receipted into the Special Revenue, Employee Benefits Fund. However, there were no disbursements recorded in this fund or transfers to reimburse the General Fund or the Special Revenue, Road Use Tax Fund for employee benefits related to employee salaries paid from those funds.

Recommendation – The City should determine the amount of employee benefits attributable to General Fund and Special Revenue, Road Use Tax Fund employees and reimburse those funds through transfers from the Special Revenue, Employee Benefits Fund.

* Public Improvements – For road improvements completed during the fiscal year, the City did not comply with the public hearing and bidding requirements in Chapters 26.3 through 26.13 of the Code of Iowa.

Recommendation – The City should comply with the public hearing and bidding requirements in the Code of Iowa.

* Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City Clerk to report and remit outstanding obligations, including checks, trusts and bonds, held for more than two years to the Office of Treasurer of State annually. The City has not remitted unclaimed property to the Office of Treasurer of State annually.

Recommendation – The City should implement procedures to ensure outstanding checks, trusts, and bonds are reviewed annually and amounts over two years old are remitted to the Office of Treasurer of State, as required.