

CITY OF ANYWHERE

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

**FOR THE PERIOD
JUNE 1, 2015 THROUGH NOVEMBER 30, 2015**

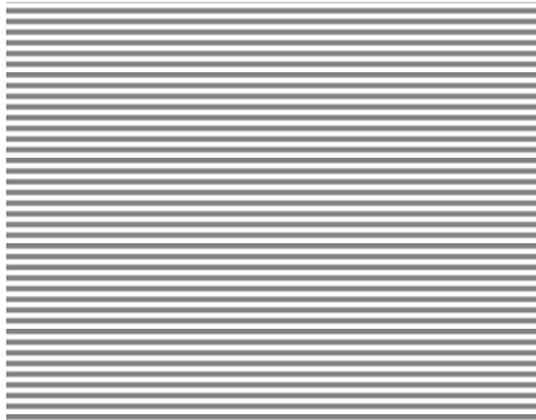
Office of

**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



Mary Mosiman, CPA
Auditor of State





OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
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Fellow CPAs:

This sample Report on the Status of Periodic Examination Findings and Recommendations is presented by the Office of Auditor of State pursuant to Chapter 11 of the Code of Iowa. In developing this report, we have made every effort to provide meaningful and useful information to the citizens, our ultimate client.

The format displays the information necessary to meet the requirements of this Office and is the minimum that will be acceptable. A sample such as this cannot present all situations or findings you may encounter, so the CPA's professional judgment must be used in determining the additional information or findings to be reported.

The report should include the status of all findings and recommendations from the most recent periodic examination. The report should also include all additional findings noted during the follow up procedures, unless clearly inconsequential.

We have also included a page for listing the staff actually performing the follow-up procedures. Although we have found this page to be helpful, you are not required to use it.

The news media are to be notified of the issuance of the report by the CPA firm unless the firm has made other arrangements with the City and/or separate Municipal Utility for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the City and/or separate Municipal Utility and a copy should be sent to this Office with two copies of the report issued by the CPA firm. Report filing requirements are detailed on the attached listing. We will make a copy of the report and news release available to the news media in this Office.

In accordance with Chapter 11 of the Code of Iowa, this Office is to be notified immediately regarding any suspected embezzlement, theft or other significant financial irregularities.

Finally, I would like to express my appreciation to all CPA firms who are providing audit, follow-up procedures or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.

MARY MOSIMAN, CPA
Auditor of State

Paper Copy Submission

Two paper copies of the report for the City and/or separate Municipal Utility are required to be filed with this Office upon issuance.

In addition to the copies of the report, a copy of the CPA firm's per diem billing, including total cost and hours, for the engagement should be submitted for payment in accordance with the terms agreed to by the CPA firm and this Office. The report and per diem billing, along with a copy of the news release or media notification, should be sent to:

Office of Auditor of State
State Capitol Building
Room 111
1007 East Grand Avenue
Des Moines, Iowa 50319-0001

Electronic Submission

The City and/or separate Municipal Utility or CPA firm must also e-mail a PDF copy of the report to the Auditor of State's Office at:

SubmitReports@auditor.state.ia.us

If you are unable to e-mail the file, you may mail a CD containing the PDF file to this office. You may direct any questions about submitting the electronic copy of the report to the above e-mail address.



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STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE _____

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations on the City of Anywhere's Periodic Examination Report dated September 5, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2015 through November 30, 2015.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. All eighteen findings reported in the Periodic Examination Report dated September 5, 2014 are repeated in this report. While the City partially corrected two of the eighteen findings, sixteen of the findings are reported as "not corrected". Six additional findings identified during the follow-up procedures are also included in this report.

A copy of the Report on the Status of Findings and Recommendations from the City of Anywhere's Periodic Examination Report dated September 5, 2014 is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index>.

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CITY OF ANYWHERE

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

**FOR THE PERIOD
JUNE 1, 2015 THROUGH NOVEMBER 30, 2015**

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City of Anywhere

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|----------------------|---------------------|
| Leda Rouse | Mayor | Jan 2016 |
| Addison Schmitz | Council Member | Jan 2016 |
| Steven Wright | Council Member | Jan 2016 |
| Bailey Books | Council Member | Jan 2018 |
| Ella Fitzgerald | Council Member | Jan 2018 |
| Benny Hill | Council Member | Jan 2018 |
| Elle Mae Claver | City Clerk/Treasurer | Indefinite |
| Perry A. Lawyer | Attorney | Indefinite |

City of Anywhere



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

To the Honorable Mayor
and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated September 5, 2014 on the City of Anywhere, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date September 5, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Anywhere and other parties to whom the City of Anywhere may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Anywhere during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

MARY MOSIMAN, CPA
Auditor of State

April 1, 2016

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

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated September 5, 2014:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Journal Entries – preparing and journalizing.
- (7) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (8) Utilities – billing, collecting, depositing, posting and entering rates into the system.
- (9) Computer System – performing all general accounting functions, controlling all data input and output and having custody of assets.
- (10) Financial Reporting – preparing and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

(B) 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. In addition, the outstanding check listings do not include the check number, payee and date written.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. The bank reconciliations should be reviewed by an independent person and the reviews should be documented by the signature or initials of the reviewer and the date of the review. In addition, the outstanding check listings should include the check number, payee and date written.

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

City of Anywhere

Report on the Status of Periodic Examination Findings and Recommendations

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

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

Current Status – Not corrected. The recommendation is repeated.

- (D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s fiscal year 2013 AFR reported receipts, disbursements and fund balances which do not agree with the City’s records. In addition, the AFR was not filed by December 1, as required.

Recommendation – The City should establish procedures to ensure the AFR reconciles to the general ledger and bank balances. In addition, the City should ensure future Annual Financial Reports are filed by December 1.

Current Status – Not corrected. The receipts, disbursements and fund balances reported in the fiscal year 2015 AFR do not agree to the City’s records and the AFR was not filed by December 1, as required. The recommendation is repeated.

- (E) Tax Increment Financing Activity – The City records tax increment financing (TIF) receipts in the Special Revenue, Urban Renewal Tax Increment Fund. However, TIF related disbursements are recorded in the General Fund and the Enterprise, Water and Sewer Funds. As a result, the Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$1,564,810 at June 30, 2014 while the General Fund and the Enterprise, Water Fund had negative cash balances of \$1,253,366 and \$289,464, respectively, at June 30, 2014.

Recommendation – The City should reimburse the General Fund and the Enterprise, Water and Sewer Funds from the Special Revenue, Urban Renewal Tax Increment Fund for TIF related payments made by these funds in the current and prior years.

Current Status – Not corrected. Per discussion with the City Clerk and our review of the City’s general ledger and fiscal year 2015 Annual Financial Report, the City continues to make TIF disbursements from the General Fund. At November 30, 2015, the Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$1,662,497 while the General Fund and the Enterprise, Water Fund had negative cash balances of \$2,038,761 and \$492,226, respectively. The recommendation is repeated. In addition, see finding (T).

City of Anywhere

Report on the Status of Periodic Examination Findings and Recommendations

- (F) Business Transactions – Business transactions between the City and City officials or employees were noted, as follows:

On May 1, 2008, the City entered into an \$85,000 lease purchase agreement to sell a building to XYZ Law Firm, owned by the City Attorney. The initial term of the agreement was for five years with the final payment due May 1, 2013. In January 2014, the City extended the final payment to January 2015 and, as of the date of this report, the balance owed on the lease purchase agreement was \$21,100.

On October 3, 2013, the City entered into a \$50,000 loan agreement with MRD Properties, owned by the Mayor, to provide funds to repair the outside walls of the Water Street Bar and Grill. As of the date of this report, the balance of the loan was \$39,557.

In accordance with Chapter 362.5 of the Code of Iowa, these transactions may represent conflicts of interest.

Recommendation – The City should consult legal counsel, including the County Attorney, to determine the disposition of these matters.

Current Status – Not corrected. The obligations discussed above are still in effect. At November 30, 2015, the balance of the loan with MRD Properties was \$33,954. The recommendation is repeated.

- (G) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit outstanding obligations, including checks 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 are reviewed annually and amounts over two years old are remitted to the Office of Treasurer of State annually, as required.

Current Status – Not corrected. The recommendation is repeated.

- (H) 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.

Current Status – Not corrected. The recommendation is repeated.

- (I) Initial Receipt 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.

Current Status – Not corrected. The recommendation is repeated.

City of Anywhere

Report on the Status of Periodic Examination Findings and Recommendations

- (J) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Two of four monthly minutes reviewed were not published within fifteen days and two monthly minutes reviewed were not published.

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

Current Status – Not corrected. The publication for two of six meetings tested during our follow up procedures could not be located. Publications for the remaining four meetings tested were not timely. The recommendation is repeated. In addition, see finding (V).

- (K) 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.

Current Status – Not corrected. The recommendation is repeated.

- (L) Credit Card – The City has a credit card for use by the Library Director 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.

Current Status – Not corrected. The recommendation is repeated.

- (M) Timesheets – City employees are not required to complete timesheets to substantiate hours worked.

Recommendation – Timesheets should be prepared by all employees to support hours worked. Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be documented by the supervisor's initials and the date approved.

Current Status – Not corrected. The recommendation is repeated.

City of Anywhere

Report on the Status of Periodic Examination Findings and Recommendations

- (N) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation bonds was paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part, “Money 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 – As of June 30, 2014, the City had not established a Debt Service Fund. General obligation bond payments should be recorded in a Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Current Status – Partially corrected. As of the date of this report, the City has established a Debt Service Fund and a portion of the general obligation bond principal and interest was correctly paid from the Debt Service Fund during the period reviewed. The remaining portion, however, was incorrectly paid from the General Fund in violation of Chapter 384.4 of the Code of Iowa. The recommendation is repeated.

- (O) Financial Reports – The City Clerk’s monthly financial reports to the City Council did not agree with the general ledger.

Recommendation – The City should establish procedures to ensure the City Clerk’s monthly reports reconcile to the general ledger.

Current Status – Not corrected. The recommendation is repeated.

- (P) Local Option Sales Tax (LOST) – The City’s LOST ballot requires 50% of LOST receipts be used for community betterment and 50% be used for property tax relief. The City’s LOST receipts are recorded in the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for a specific purpose.

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

Current Status – Not corrected. The recommendation is repeated.

City of Anywhere

Report on the Status of Periodic Examination Findings and Recommendations

- (Q) Revenue Bonds – The provisions of the water and sewer revenue bond resolutions require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they come due. The City’s fiscal year 2014 net water and sewer receipts were less than 110% of the water and sewer revenue bond principal and interest due during fiscal year 2014.

In addition, the water and sewer revenue bonds require the City to maintain water and sewer sinking and surplus accounts. The City has not established these accounts.

Recommendation – The City should adjust user rates or reduce expenses to ensure net receipts equal at least 110% of the principal and interest due each year. The required sinking and surplus accounts should be established.

Current Status – Partially corrected. At June 30, 2015, the City’s net sewer receipts were greater than 110% of the sewer revenue bond principal and interest due during fiscal year 2015. However, at June 30, 2015, the City’s net water receipts were less than 110% of the water revenue bond principal and interest due during fiscal year 2015 and the sinking and surplus accounts have not been established, as required. The recommendation is repeated.

- (R) 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.

In addition, the disbursements and 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 records.

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.

Current Status – Not corrected. The fiscal year 2015 AURR due December 1, 2015 had not been submitted as of January 6, 2016. As a result, data reported on the Levy Authority Summary could not be tested or verified to the City’s records. The recommendation is repeated.

Additional Findings as a Result of Follow-up Procedures:

- (S) Outstanding Check Listings – The City did not prepare and maintain monthly outstanding check listings.

Recommendation – The City should prepare and maintain monthly outstanding check listings to facilitate and support monthly bank reconciliations.

- (T) Financial Condition – At June 30, 2015, the City had deficit balances of \$2,038,761 and \$492,226 in the General Fund and the Enterprise, Water Fund, respectively.

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

City of Anywhere

Report on the Status of Periodic Examination Findings and Recommendations

- (U) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires publications of City Council proceedings include “total expenditures from each City fund”. Minutes publications during the period reviewed did not include total disbursements from each fund, as required.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements from each City fund.

- (V) Utility Penalties – The City’s Code of Ordinances, Chapter 92.04(3), requires a 5% penalty be assessed on utility bills not paid by the 15th of each month. Per discussion with the City Clerk and a review of the June 2015 penalty register, the City Clerk does not assess penalties until one to two weeks after utility bills are due.

Recommendation – The City should assess penalties on bills not paid by the 15th of each month as required by City ordinance.

City of Anywhere

Staff

This engagement was performed by:

Marcy Q. Reviewer, CPA, Director

Leslie N. Charge, CPA, Senior Auditor II

Marlys K. Gaston, CPA
Director