



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ September 26, 2011 _____

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Auditor of State David A. Vaudt today released an agreed upon procedures report on the City of Woolstock, Iowa for the period July 1, 2009 through June 30, 2010. The agreed upon procedures were performed at the request of the City Council.

Vaudt recommended the City establish segregation of duties over financial reporting, investments, receipts, disbursements and payroll. Vaudt also recommended the City establish procedures to reconcile bank statements and utility billings, collections and delinquent accounts and establish separate funds to account for road use tax, local option sales tax, water, sewer, electric and sanitary receipts. Vaudt further recommended the City consult legal counsel to resolve improperly certifying and levying taxes to repay sewer revenue bonds. The City's responses are included in the report.

A copy of the report 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/1022-0955-BC00.pdf>.

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CITY OF WOOLSTOCK

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2009 THROUGH JUNE 30, 2010**

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City of Woolstock

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Conrad Grunwald, Sr.	Mayor	Jan 2012
Ethan Anderson	Council Member	Jan 2012
Randy Hilpipre	Council Member	Jan 2012
Nelson Mathiesen	Council Member	Jan 2012
Logan Harrison	Council Member	Jan 2014
Lucinda Stone	Council Member	Jan 2014
Pam Gearhart	Clerk	Indefinite
Debbie Grunwald	Treasurer	Indefinite
Gary Groves	Attorney	Indefinite

City of Woolstock



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Independent Accountant's Report on Applying Agreed Upon Procedures

To the Honorable Mayor and
Members of the City Council:

We have performed the following procedures, which were agreed to by the City of Woolstock, solely to assist you in evaluating the operations of the City for the period July 1, 2009 through June 30, 2010. The City of Woolstock's management is responsible for the operating practices and procedures followed by the City. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are as follows:

1. We obtained an understanding of the City's internal controls over cash, investments, receipts, disbursements and payroll.
2. We tested certain disbursements to determine if disbursements were properly approved, recorded and accounted for.
3. We tested certain receipts to determine if receipts were properly accounted for and used for a proper purpose.
4. We reviewed Council minutes to determine if payroll was approved.
5. We examined bank reconciliations to determine if the balances reconciled to the City's accounting records.
6. We reviewed financial statements to determine if fund balances were properly segregated.
7. We confirmed investments to determine they exist and are properly recorded.
8. We reviewed the Annual Financial Report submitted to the State.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination of the operations of the City of Woolstock, the objective of which would be the expression of an opinion on the financial statements of the City of Woolstock. Accordingly, we do not express such an opinion. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Woolstock, other matters might have come to our attention that would have been reported to you.

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 Woolstock and other parties to whom the City of Woolstock 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 assistance extended to us by personnel of the City of Woolstock. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 24, 2011

Detailed Recommendations

City of Woolstock

Detailed Recommendations

July 1, 2009 through June 30, 2010

(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. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual has control over each of the following areas with no compensating controls:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Investments – recordkeeping, investing and safeguarding.
- (3) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (4) Disbursements – check writing, signing, posting and reconciling.
- (5) Payroll – Preparation and distribution.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (6) Bank reconciliations – preparation and maintenance of accounting records.

Recommendation – We realize segregation of duties is difficult with a limited number of office 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. Evidence of various reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – Functions of the various areas described above will be shared so that one person is not responsible for all functions in that area.

The City Council has approved the purchase of the Summit software program. The software has functions for accounting, utility billing, payroll and budgeting/reporting. The program will be used by both the Clerk and the Utility Clerk/Treasurer. The Clerk will have responsibility for accounts payable and bank reconciliation, functions previously performed by the Treasurer/Utility Clerk.

Conclusion – Response accepted.

(B) Disbursements – Detailed supporting invoices were not retained for all disbursements.

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

Response – Vendors who haven't previously provided documentation have been told that they must do so in the future.

Conclusion – Response accepted.

City of Woolstock

Detailed Recommendations

July 1, 2009 through June 30, 2010

- (C) Fund Accounting – The City deposits road use tax, local option sales tax, water, sewer, electric and sanitary receipts in the General Fund of the City.

Recommendation – The City should establish Special Revenue Funds for road use tax and local option sales tax financial activity and Enterprise Funds for water, sewer, electric and sanitary financial activity to aid the City in tracking the receipts, disbursements and balances of those activities.

Response – This will be accomplished with the new software program and assistance from Data Tech’s support staff.

Conclusion – Response accepted.

- (D) Utility Reconciliations – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – The City should ensure utility billings, collections and delinquent accounts are reconciled monthly. Variances should be investigated in a timely manner. An independent person should review the reconciliations and document the review by initialing and dating the monthly reconciliation.

Responses - A reconciliation report is part of the utility billing function of Summit software and monthly reports will be provided to the City Council. The reconciliation will be reviewed by an independent person.

Conclusion – Response accepted.

- (E) Annual Financial Report – The Annual Financial Report (AFR) submitted to the State of Iowa had material errors in receipts, disbursements and fund balances and did not include a certificate of deposit with a balance of \$6,232.

Recommendation – The City should review the Annual Financial Report, make appropriate corrections and resubmit the corrected report to the State. Also, all certificates of deposit should be included in the appropriate fund balances.

Response – An amendment to the fiscal year 2010 AFR will be completed.

Conclusion – Response accepted.

City of Woolstock

Detailed Recommendations

July 1, 2009 through June 30, 2010

- (F) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Conrad Grunwald, Jr., owner of JR's Repair, Inc., son of Mayor Conrad Grunwald, Sr. and spouse of City Treasurer Debbie Grunwald	Repair service, snow removal	\$ 1,836

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions do not appear to represent conflicts of interest since total transactions with the individual were less than \$2,500 during the year.

- (G) Questionable Disbursements - We noted 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 derived have not been clearly documented. These disbursements are detailed as follows:

Paid To	Purpose	Amount
Flower Cart	Plant for former City Clerk	\$ 35
Flower Cart	Plant for former City Clerk	48

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 subjected to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

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

Responses - The City Council has been advised this type of disbursement was not appropriate and will not allow them in the future. Public funds will not be used for a non-public purpose.

Conclusion - Response accepted.

- (H) Accounting Policies and Procedures Manual - The City does not have an accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in application of policies and procedures.

City of Woolstock

Detailed Recommendations

July 1, 2009 through June 30, 2010

- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.

Responses – The City Clerk and Utility Clerk/Treasurer have begun work on creating accounting policies and procedure manuals. The goal is to write training manuals for all aspects of the Clerk, Treasurer, and Utility Clerk’s job so that a replacement will be able to perform those functions.

Conclusion - Response accepted.

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

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Responses – The City Council adopted an Investment Policy at the June 15, 2011 Council meeting.

Conclusion - Response accepted.

- (J) City Street Financial Report (Road Use Tax Report) – The fiscal year 2010 City Street Financial Report beginning and ending balances do not agree to amounts reported on the City’s Annual Financial Report (AFR).

Recommendation – The City should review the fiscal year 2010 City Street Financial Report and AFR and contact the Iowa Department of Transportation (DOT) to resolve discrepancies. The City should ensure amounts reported agree in future years.

Responses - The City will review the City Street Financial Report and AFR and work to resolve discrepancies.

Conclusion - Response accepted.

- (K) Sewer Revenue Bond – In 1975, the City entered into a \$188,000 sewer revenue bond agreement with the United States Department of Agriculture (USDA) for improvements to the City’s sewer utility. Although we were unable to locate a complete resolution establishing the agreement, the available sewer revenue bond documentation states the City will fix rates for the use and service of the sewage works and facilities and will collect and account for the revenues sufficient to pay the principal and interest and the City is not to be liable in any manner by reason of the earnings being insufficient to pay the bonds. Rather than pay the principal and interest from the net earnings of the sewer utility as required by the revenue bond agreement, the City improperly certified and levied taxes on all property within the City to satisfy the repayment of the sewer revenue bonds.

Also, the City has not established and made the required transfers to sewer revenue bond sinking and reserve accounts as required by the sewer revenue bond agreement.

City of Woolstock

Detailed Recommendations

July 1, 2009 through June 30, 2010

Recommendation – The City should work with the USDA and legal counsel to resolve the matter of improperly certifying and levying taxes on all property within the City to satisfy the repayment of the sewer revenue bonds. Also, the City should establish sewer revenue bond sinking and reserve accounts and make the required transfers.

Response – The City paid off the USDA Sewer Loan on May 18, 2011. The USDA has sent the paid-off bonds to the City, thereby closing the matter. In the future, the City will follow all requirements of the loan resolution and create the required sinking and reserve funds. In addition, the City will only pay revenue bond debt with revenues earned from activities associated with the debt.

Conclusion – Response acknowledged. The City should continue to work with legal counsel to resolve this matter.

City of Woolstock

Staff

This agreed upon procedures engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Donald J. Lewis, CPA, Senior Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State