

CITY OF DUNLAP, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

CITY OF DUNLAP, IOWA
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CITY OF DUNLAP, IOWA
OFFICIALS
June 30, 2013

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|----------------|---------------------|
| Barney Murphy | Mayor | January, 2016 |
| Robert Steele | Council Member | January, 2015 |
| Maria Davie | Council Member | January, 2015 |
| Pete Seuntjens | Council Member | January, 2015 |
| Jay Schaben | Council Member | January, 2017 |
| Carol Gall | Council Member | January, 2017 |
| Nancy Baker | City Clerk | Indefinite |
| Meredith VanHouten | Deputy Clerk | Indefinite |
| Allen Nepper | City Attorney | Indefinite |

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT

To the Honorable Mayor
and Members of City Council

We have performed an examination of the City of Dunlap, Iowa pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Dunlap, Iowa for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.

To the Honorable Mayor
and Members of City Council

9. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

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 audit of the operations of the City of Dunlap, Iowa, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Dunlap, Iowa, additional 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 Dunlap, Iowa and other parties to whom the City of Dunlap, Iowa may report. This report is not intended to be and should not be used by anyone other than these specified parties.

G. M. M. M. M., Ben, Kyhn & Co. P. C.

Atlantic, Iowa
January 27, 2014

DETAILED RECOMMENDATIONS

CITY OF DUNLAP, IOWA

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (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) Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll - recordkeeping, preparation and distribution.
- (5) Utilities - billing, collecting, depositing and posting.
- (6) Financial reporting - preparing and reconciling.
- (7) Journal entries - preparing and journalizing.

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.

- (B) Trial Balance - The trial balances for several funds were out of balance.

Recommendation - Adjusting entries should be made to balance the trial balance for each fund of the City. The City should also ensure that transactions are properly recorded to keep the trial balances in balance.

- (C) Deficit Balances - There are several funds that have deficit cash balances at year end.

Recommendation - The City should make appropriate transfers to eliminate the deficit cash balances.

- (D) 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 for several bank accounts.

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.

- (E) Payment of General Obligation Bonds - Principal and interest on the City's general obligation debt is to be paid from the Debt Service fund in accordance with Chapter 384.4 of the Code of Iowa. One of the interest payments on the City's general obligation notes was paid from the Special Revenue, Road Use Fund.

Recommendation - All of the City's general obligation debt service payments should be made from the Debt Service Fund as required.

CITY OF DUNLAP, IOWA

Detailed Recommendations - Continued

For the period July 1, 2012 through June 30, 2013

- (F) Revenue Notes - The City is properly recording payments for revenue notes in the proper funds, however, the payments were not recorded in the proper accounts.

Recommendation - The City should record principal and interest payments in the proper accounts.

- (G) Water and Sewer Funds - Water and Sewer Funds have insufficient balances to pay revenue note obligations.

Recommendation - The City should make transfers to these funds to make sure the funds have sufficient balances to pay revenue note obligations.

- (H) 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 and monitor delinquent accounts.

- (I) Transfers - The City's records show that transfers between funds are not being recorded in the proper accounts and that amounts recorded as transfers do not balance.

Recommendation - The City should make sure that transfers are properly recorded in the appropriate accounts.

- (J) Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the debt service function. 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.

- (K) Annual Financial Report - The financial information of the City's Annual Financial Report for FY2013 does not agree with the receipts and disbursements from the City's records. There were also differences noted between the Annual Financial Report and the City's records for the beginning and ending fund balances.

Recommendation - The financial information of the Annual Financial Report should agree with the City's financial records.

- (L) Tax Increment Financing Certification - The City used an incorrect form to certify the amount of TIF collections for fiscal year 2015. The City did not reduce the anticipated obligation by the amount previously certified.

Recommendation - The City should use the proper forms when certifying TIF collections.

CITY OF DUNLAP, IOWA

Detailed Recommendations - Continued

For the period July 1, 2012 through June 30, 2013

- (M) Time Cards - Hours on time cards are not approved by a manager or supervisor.

Recommendation - A manager or supervisor should approve all employee hours on time cards for each payroll period.

- (N) Wage Increases - Wage increases are approved by the City Council on a percentage increase basis.

Recommendation - Wage increases should be approved by the City Council as an hourly rate or salary.

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

| <u>Name, Title, and Business Connection</u> | <u>Description</u> | <u>Amount</u> |
|---|--------------------|---------------|
| Jay Schaben, City Council Member, Owner of Mooses Fillin Station | Fuel | \$ 3,499 |

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.

- (P) Approval of Disbursements - Paid invoices do not include documentation of approval and are not being marked as paid.

Recommendation - Approval of invoices should be documented on the invoice by appropriate City personnel, prior to City Council approval, to identify that it is a proper City expenditure. After payment of the invoice, it should be marked as paid to prevent it from being paid twice.

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