

**City of West Point**

**Independent Accountant's Report  
on Applying Agreed-Upon Procedures**

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

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## City of West Point

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Walker	Mayor	January 2, 2014
Bruce Wellman	Mayor Pro Term	January 2, 2014
John Brinck	Council Member	January 2, 2014
Larry Buchholz	Council Member	January 2, 2014
Melanie Schierbrock	Council Member	January 2, 2014
Dennis McGregor	Council Member	January 2, 2014
Gary Menke	City Administrator	Not Elected
Diane E Smith	City Clerk and Treasurer	Not Elected



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## **Independent Accountant's Report on Applying Agreed-Upon Procedures**

Honorable Mayor and Members of City Council  
City of West Point, Iowa

We have performed the procedures enumerated in Exhibit A, which were agreed to by the City of West Point and the Iowa Office of the Auditor of State, solely to assist in compliance with requirements for examination pursuant to Chapter 11.6 of the Code of Iowa. The procedures listed in Exhibit A were performed of the City of West Point (City) for the period July 1, 2012 through June 30, 2013. The City of West Point's management is responsible for the City's annual examination. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards for attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the agreed upon procedures program guide prepared by the Office of the Auditor of State. The sufficiency of these procedures is solely the responsibility of the Office of the Auditor of State. Consequently, we make no representation regarding the sufficiency of the procedures described in Exhibit A either for the purpose for which this report has been requested or for any other purpose.

Based on the performance of the procedures described in Exhibit A, 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 in Exhibit A.

We were not engaged to and did not conduct an audit of the operations of the City and component units of the City, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions of the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City, 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 and other parties to whom the City 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 during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*CPA Associates PC*

October 30, 2013

## **Detailed Recommendations**

**City of West Point**  
**Detailed Recommendations**  
**For the period July 1, 2012 through June 30, 2013**

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(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) Bank Reconciliations - The cash and investment balances in the City's general ledger were not properly reconciled to the bank and investment account balances throughout the year. We reviewed the months of September 2012 and May 2013 and noted a variance of \$11.81 between the investment schedule and the general ledger.

Recommendation - The City should utilize the "BKCASHRP" report to reconcile from the general ledger to the bank statement each month. Variances, if any, should be reviewed and resolved timely.

(C) Outstanding Checks - The outstanding check listing was not reviewed each month as a part of the bank reconciliation process.

Recommendation - The City should utilize the "BKOUTSRP" report to review the outstanding check listing each month to verify all checks have cleared the bank in subsequent months.

(D) Petty Cash - The cash drawer was over \$0.13 when counted during fieldwork on October 29, 2013.

Recommendation - The City should count the drawer daily and reconcile any discrepancies.

(E) Utility Rates - The utility rates are not tested to ensure proper utility calculations and billings.

Recommendation - The City should review the utility rates periodically and when rate changes occur to ensure proper utility billings.

(F) Property taxes - The property tax collections exceed the amount budgeted by \$4,954.10.

Recommendation - The budget should be amended for changes in receipts or tax levies.

**City of West Point  
Detailed Recommendations  
For the period July 1, 2012 through June 30, 2013**

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- (G) Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the following functions:

<u>Function</u>	<u>Amount Exceeded</u>
Public Works	\$ 5,684
Culture and Recreation	2,717
Community and Economic Development	15,000
General Government	2,864

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 be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

- (H) 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. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Petty Cash	Meals, food items	\$ 89
ShopKo	Christmas napkins, utensils, etc.	30

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.

- (I) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa requires the City to retain cancelled checks in an electronic format and requires retention in this matter 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.

- (J) Payroll - The timesheets of all City employees should be reviewed by supervisors of City personnel or a City Council member. The timesheet of the librarian for the September 7, 2012 payroll was not approved by a supervisor or a City council member. Additionally, longevity pay was not being calculated correctly for two employees selected.

Recommendation - The City Clerk should verify all timesheets are approved appropriately before completing payroll each pay period. We recommended that the City Clerk run a report within the system to verify that longevity is being calculated correctly for all employees eligible by comparing the hire date of the employee to the longevity pay noted in the resolution for the years of service. Upon review, the City should pay employees for any longevity pay errors discovered.

**City of West Point**  
**Detailed Recommendations**  
**For the period July 1, 2012 through June 30, 2013**

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- (K) Local Option Sales Tax - Local option sales tax collections are credited to the general fund and sewer fund according to the ballot, however they are not being originally receipted into the LOST fund and transferred into these funds. In addition, local option sales tax disbursements are not monitored or separately identified to determine if the disbursements comply with City's resolution No. 405.

Recommendation - The City should establish a Special Revenue Fund to account for local option sales tax receipts and disbursements and ensure disbursements comply with the City's resolution.

- (L) 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 to the City and all expenditures...." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with City records. In addition, the City's Annual Financial Report beginning and ending balances do not agree to the City's Treasurer's Report.

Recommendation - The Annual Financial Report should be amended to correct material errors and the amounts should be supported by the City's records. The City should ensure the balances of the Treasurer's report agree to the Annual Financial Report.

- (M) 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. We acknowledged the City is in the process of adopting a written investment policy.

- (N) Payment of General Obligation Bonds - Principal and interest on the City's general obligation bond were paid from the Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, "Money's 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 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.

- (O) Financial Condition - The Road Use Tax and Sewer Fund had a deficit balance at June 30, 2013 of (\$93,551.29) and (\$97,957.58), respectively.

Recommendation - The City should monitor the progress of the collections and expenses in these funds and review the control procedures throughout the period so the collections cover the expenses in these funds.

**City of West Point  
West Point, Iowa  
Exhibit A**

**Summary of Agreed-Upon Procedures**

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**Minutes**

- ◆ Scan minutes for significant or unusual items.
- ◆ Select four (4) meetings during the year being examined to review whether:
  - Minutes were properly signed as required by Chapter 380.7 of the Code of Iowa.
  - Meetings were preceded by proper notice. (Chapter 21.4 of the Code of Iowa).
  - The minutes show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.
  - The passage of ordinances, amendments or resolutions were by a majority vote of all the members of the City Council rather than a majority vote of a quorum of the City Council as required by Chapter 380.4 of the Code of Iowa.
  - Minutes document the City Council followed proper proceedings for any closed sessions. (Chapter 21.5 of the Code of Iowa)
    - ◇ The session was closed by affirmative roll call vote of the \_\_\_\_\_.
    - ◇ The specific exemption under Chapter 21.5 of the Code of Iowa.
    - ◇ Final action was taken in open session.
  - Minutes were published (or posted) within 15 days of the meeting as required by Chapter 372.13(6) of the Code of Iowa and included:
    - ◇ Total disbursements from each fund.
    - ◇ A list of all claims allowed (including the reason for the claim).
    - ◇ A summary of all receipts.
    - ◇ A summary of ordinances or amendments adopted.
- ◆ Obtain copy of City's June 30 financial statement(s) and/or reports.
- ◆ Verify and review surety bond coverage for compliance with statutory requirements for all officials and employees as required by Chapters 64.13 and 64.15 of the Code of Iowa.
- ◆ Request the City Clerk complete an internal control checklist.

**Cash and Investments**

- ◆ Observe cash on hand, if any.
- ◆ Obtain one (1) monthly Clerk's report and determine the report foots and trace ending fund balances to the general ledger.

## Cash and Investments (continued)

- ◆ Cash In Bank and Investments:
    - Determine whether bank reconciliations are performed monthly.
    - Determine whether bank reconciliations are reviewed by an independent person.
    - Obtain bank reconciliations for two (2) months and perform the following:
      - ◇ Verify reconciling items to support.
      - ◇ Foot the bank reconciliation(s).
      - ◇ Consider confirming bank account and investment balances.
      - ◇ Obtain a list of outstanding checks at the end of the selected month(s). Ensure the list of outstanding checks includes check number, amount and date written for each listed check and verify listed outstanding checks cleared the bank after the selected month(s).
      - ◇ Trace reconciled balance for selected months to general ledger account balances and to monthly reports provided to the City Council.
    - Determine unclaimed property per Chapter 556.1(12) of the Code of Iowa has been reported to the State Treasurer annually before November 1 as required by Chapter 556.11 of the Code of Iowa.
    - Determine a depository resolution which includes all depositories used by the City has been approved as required by Chapter 12C.2 of the Code of Iowa.
    - Determine if the City has adopted a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.
    - Obtain a schedule of investment transactions for the same two (2) months (selected in procedure 3 above) and trace investment balances to the bank reconciliations.
    - Determine investments held at the end of the selected months complied with the City's adopted investment policy and statutory provisions of Chapter 12B.10 of the Code of Iowa, as applicable.
- NOTE: Chapter 12B.10(5) of the Code of Iowa provides a definitive list of allowable investments for cities.

## Long-Term Debt

- ◆ For general obligation, special assessment and revenue bonds or notes:
  - Determine general obligation debt payments were recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.
  - Determine and document procedures for bonds or notes sold during the current year were in compliance with Chapters 75, 384 and 403.9 of the Code of Iowa.
- ◆ Determine whether other long-term debt exists (lease-purchase agreements, deferred payment contracts, real estate contracts, loans, TIF development agreements, local option sales tax debt) and whether the debt is accounted for accurately.
- ◆ Issuance of Debt:
  - Review authorization for any issuances during the year being examined.
  - Determine debt proceeds were properly recorded and trace proceeds to cash receipts record and bank statement.

## **Fund Balance**

- ◆ Determine the City is using fund accounting and each fund is properly classified in accordance with the Uniform Chart of Accounts.
- ◆ For enterprise funds with deficit balances, determine if there is a net earnings violation (book transfers are made to sinking accounts per the bond/note resolution, but if the operating accounts are in a deficit position, the sinking accounts are not backed by cash) and comment if appropriate.
- ◆ Determine projects are appropriately accounted for in separate capital projects accounts.
- ◆ Examine journal entries and other adjustments made directly to the general ledger.
  - Select specific journal entries and determine whether:
    - ◇ The journal entries are supported.
    - ◇ The journal entries are approved by an independent person and there is documented evidence of the approval.
- ◆ Annual Financial Report (AFR):
  - Compare AFR to City's general ledger to determine if amounts agree.
    - ◇ Beginning and ending fund balances were reported accurately.
    - ◇ RUT transactions were reported accurately in the Special Revenue fund.
    - ◇ Total receipts and disbursements agreed with City records.
- ◆ Transfers:
  - Obtain a list of all fund transfers during the year.
  - Review transfers for propriety and document findings.
  - Determine transfers were recorded in the proper fund.
  - Trace transfers to approval in the minutes or budget, as applicable.

## **Receipts**

- ◆ Verify the City is using the Uniform Chart of Accounts to classify receipts in the general ledger.
- ◆ Perform a receipts to deposit test for one month (reconciling deposits per the bank statement to general ledger receipts) and consider the possibility of undeposited receipts.
- ◆ Property Tax:
  - Verify electronic deposit of twelve property tax payments during the year.
  - Trace one month's property tax collections to general ledger posting.
  - Total and trace to budget and determine if there is a variance considering increase in property tax levies.
- ◆ Governmental Revenue:
  - Confirm revenue received from state sources and reconcile amounts per confirmation with the general ledger.

## Receipts (continued)

- ◆ Enterprise Revenues (Water, Sewer, Electric, etc.):
  - Determine if a monthly and/or year-end list of delinquent accounts is maintained and obtain a copy of the listing. If not available, comment accordingly.
  - Determine if monthly reconciliations of billings and collections are prepared.
    - ◇ If not available, perform analytical procedures to compare amounts billed to amounts collected and deposited.
    - ◇ If available:
      - < Apply procedures to determine the accuracy and completeness of the reconciliation for one month and/or at year-end.
      - < Comment accordingly if variances have not been adequately resolved.
  - Review City officials' accounts (including the Utility Clerk's account). Trace selected month(s) billing(s) to collection/deposit.
- ◆ General:
  - Scan ledgers or receipts detail for unusual receipts. Investigate accordingly.
  - Scan deposit tickets and evaluate the reasonableness of amounts of currency deposited, considering the types of receipts expected to be received in currency.
- ◆ Determine local option sales tax receipts were expended as required by local ballot provisions. Review a copy of the ballot authorizing the local option tax.

## Disbursements

- ◆ Obtain a schedule of all related party transactions with officials or employees and review for compliance with Chapter 362.5 of the Code of Iowa.
- ◆ Scan disbursement journal for unusual disbursements. Investigate accordingly.
- ◆ Scan all cancelled checks/images looking for checks to City personnel, unusual vendors and “cash.”
  - Examine checks payable to the City Clerk and other personnel authorized to issue/sign checks.
    - ◇ Review amount and frequency of checks.
    - ◇ Determine if checks are appropriate.
  - Select five (5) consecutive checks from alternating months and verify:
    - ◇ The disbursement is adequately supported.
    - ◇ The amount and payee on the check match the general ledger posting.
    - ◇ Disbursement was authorized by the City Council.
    - ◇ Credit card transactions are approved and properly supported.
    - ◇ The disbursement appears to meet the test of public purpose. For those items which are questionable, the City should have adequate documentation as to how the expenditure(s) meet the test of public purpose.
- ◆ Review all bank statements for erasures/alterations and scan for unusual withdrawals and/or checks.

### **Disbursements (continued)**

- ◆ If canceled checks are not received, determine whether both the front and back of electronic check images are received as required by Chapter 554D.114(5) of the Code of Iowa.
- ◆ Determine the City applied for and received sales tax refunds on completed projects unless an exemption certificate was issued by the City for the contractor as required by Chapter 423.3(80)(b) of the Code of Iowa.
- ◆ Determine if disbursements by function are within the budget or amended budget.

### **Payroll**

- ◆ Select five (5) payroll transactions from throughout the year to test:
  - Authorization for gross pay or hourly rate.
  - Approval of hours worked.
  - Accuracy of the number of hours paid per the payroll journal to hours worked per approved timesheets (for hourly employees).
- ◆ City Clerk and/or Payroll Clerk Pay:
  - If salaried, reconcile the approved salary for the City Clerk and payroll clerk to the City Council approved salary.
  - If hourly, test selected paychecks for the City Clerk and payroll clerk to determine if the hourly rate paid agrees to the approved hourly rate.
- ◆ Ensure wage increases are approved by the City Council as an hourly rate or salary and not just a percentage increase.
- ◆ Determine if Forms 941, W-2 and 1099 were filed with the IRS, as appropriate.