

**CITY OF WHITTEMORE, IOWA  
INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES  
FOR THE PERIOD  
JULY 1, 2012 THROUGH JUNE 30, 2013**

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# Officials

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Name	Title	Term Expires
<b>Elected Officials</b>		
Daniel J. Elbert	Mayor	January 31, 2014
Stuart Simonson	Council Member	January 31, 2014
Kathleen J. Fraser	Council Member	January 31, 2016
Rodney D. Johnson	Council Member	January 31, 2016
Craig Brownell	Council Member	January 31, 2014
Rebecca Lancaster	Council Member	January 31, 2016
<b>Appointed Officials</b>		
Linda Farrell	City Clerk	Indefinite

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

To the Honorable Mayor and  
Members of the City Council  
City of Whittemore, Iowa

We have performed an agreed-upon procedures engagement of the City of Whittemore pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Whittemore 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 and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 surety 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 investments to determine compliance with Chapter 12B of the Code of Iowa.
8. 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.

To the Honorable Mayor and  
Members of the City Council  
City of Whittemore, Iowa  
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9. We reviewed debt, including general obligation and revenue 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 repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 noncompliance 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 City of Whittemore, the objective of which is the expression of opinions on the City's 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 Whittemore, 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 Whittemore and other parties to whom the City of Whittemore may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Clear Lake, Iowa  
September 25, 2014

**Detailed Recommendations**



## Detailed Recommendations

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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. We noted that incompatible duties are being performed by the same 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.

- (B) **Bank Reconciliations** - While money market and savings accounts were reconciled to bank account balances throughout the year, we noted variances related to interest income for the months tested. We tested December, 2012 and June, 2013 and noted variances of \$3.73 and \$8.77, respectively. We also noted, no independent review of the bank reconciliations was performed.

**Recommendation** - The City should post interest income in the month received, and a second person should review each bank account reconciliation and document that review by signing each reconciliation.

- (C) **Certified Budget** - We tested the Annual Financial Report for the year ended June 30, 2013 which was filed during the period of our engagement. Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the culture and recreation, community and economic development and general government 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.

- (D) **Financial Condition** - As of June 30, 2013, the City had a deficit balance of \$1,076,033 in the General Fund and deficit balances of \$151,311 and \$174,355 in the Enterprise Electric and Water Funds, respectively.

**Recommendation** - The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

- (E) **Deposits and Investments** - While the City has adopted a written investment policy, it is not in compliance with Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa; however, it did not state the maximum amounts that are allowed to be invested in each depository.

**Recommendation** - The City should update its written investment policy to comply 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.

## Detailed Recommendations

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

- (F) **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.

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

<b>Name, Title and Business Connection</b>	<b>Transaction Description</b>	<b>Amount</b>
Daniel Elbert, Mayor, owner of Elbert Chevrolet, Inc.	Parts, labor and services	\$ 3,399

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.

- (H) **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 15 days of the meeting and include total disbursements for each fund. The minutes for all meetings tested did not include total disbursements for each fund.
- The City Council went into closed sessions on June 4, 2013. The minutes did not document affirmative roll call vote as required under Chapter 21.5 of the Code of Iowa.

**Recommendation** - The City should comply with the Code of Iowa and ensure the minutes contain list of claims, summary of receipts and total disbursements by fund. The minutes should also document the affirmative roll call vote of each member.

- (I) **Reconciliation of Utility Billings, Collections and Delinquent Accounts** - Utility billings, collections and delinquent accounts were not reconciled throughout the year. We were told billing registers were kept for three months then destroyed and could not be reprinted from the software. We performed analytical testing of the utility accounts comparing fiscal year 2012 and 2013. We noted water revenue decreased approximately \$49,000 from 2012 to 2013; sewer revenue increased approximately \$2,900; electric revenue increased approximately \$22,000; gas revenue decreased approximately \$132,000; and garbage revenue increased approximately \$2,400. We did not have sufficient records to determine the causes of the above fluctuations.

**Recommendation** - Billing registers should be kept for a minimum of five years and 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.

## Detailed Recommendations

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

- (J) **Disbursements** - Certain invoices were not approved by the City Council and we noted one disbursement approved at the monthly City Council meeting after the invoice was paid. We also noted three disbursements where the payee or check number did not agree to the general ledger. Lastly, due to the City not fully utilizing their computer system and maintaining disbursement listings on manual spreadsheets, the City is not classifying disbursements by function in accordance with the recommended Chart of Accounts.

**Recommendation** - All invoices should be approved by the City Council and payee and check number should agree to the check written. We also recommend that City employees obtain training to utilize the computer system to provide the City Council with more detailed reports.

- (K) **Payroll** - We noted the wage rates of library employees were approved by the library trustees as a percentage increase and the increase was not approved by the City Council. It was also noted the pay rate for one part-time employee tested was documented in a memo signed by the Mayor but could not be found in the minutes. In addition, the City Clerk began receiving her fiscal year 2013-2014 pay rate on June 1, 2013 rather than July 1, 2013.

**Recommendation** - Procedures should be established to ensure all payroll rates are approved by the City Council as a dollar amount, not a percentage increase, and documented in the minutes. Procedures should also be established for pay rates to be entered and reviewed by an independent person, with the approval being documented.

- (L) **Water Revenue Bonds and Notes** - The City's 2009 water revenue note resolution requires repayment solely from the net receipts of the Enterprise, Water Fund and states 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. The City has not established the water sinking account and transfers were not made.

Further, the 2009 water revenue note 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.

In addition, we noted that the City did not have an audit for the year ended June 30, 2009, as required by the bond document.

**Recommendation** - The City should establish a sinking fund and make monthly transfers equal to 1/12th and 1/6th of the principal and interest payments coming due, respectively, and future 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.

## Detailed Recommendations

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

- (M) **Petty Cash** - Petty cash funds on hand at City Hall were not maintained on an imprest basis and included cash to be reimbursed to employees and receipts for items already paid by the employee.

**Recommendation** - Cash funds should be maintained on an imprest basis to provide control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Employees should use petty cash as needed and then place a receipt for the amount used into petty cash. Weekly or monthly the petty cash should be counted and receipts added. The combined total of cash and receipts should equal the starting petty cash balance. A check should then be issued to Petty Cash to replenish the cash and record the receipts to the proper expense account.

- (N) **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.

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

- (O) **Receipts** - We obtained from the State of Iowa a list of all revenue paid to the City during the fiscal year ended June 30, 2013. We noted the November, 2012 Local Option Sales Tax payment of \$6,216.82 was incorrectly recorded in the Road Use Tax Fund, and the November, 2012 Road Use Tax payment of \$3,712.49 could not be traced to the City's manual spreadsheets. The \$3,712.49 payment appeared on the bank statement but did not appear to be posted to the City's records. For the month of November, we compared all receipts posted to the City's financial records with the total deposits reported on the bank statement within a variance of \$29.97.

**Recommendation** - The City should establish procedures to reconcile state payments and ensure payments are posted to the proper fund.

- (P) **Annual Financial Report** - The 2013 Annual Financial Report General Fund revenue did not agree to the City's financial records by \$48.

**Recommendation** - The Annual Financial Report should be carefully reconciled to the City's financial records prior to filing.

- (Q) **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

**Recommendation** - The City should obtain and retain images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

## Detailed Recommendations

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

- (R) **Approval of Bank Loan** - The City's operating note which matured on August 14, 2012 was refinanced with another \$200,000 operating note in which \$123,559.24 was advanced to directly repay the maturing note. 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. We also noted this note was not documented as approved in the City Council minutes.

**Recommendation** - The City should comply with the Code of Iowa requirements before entering into future loan agreements and all bank loans should be approved by the City Council and documented in the minutes.