

CITY OF READLYN
INDEPENDENT ACCOUNTANT'S
EXAMINATION REPORT

For the Period
July 1, 2013 through June 30, 2014

TABLE OF CONTENTS

| | <u>Page</u> |
|---|----------------|
| Officials | 1 |
| Independent Accountant's Report | 2-3 |
| Detailed Recommendations: | |
| | <u>Finding</u> |
| Segregation of Duties | A 4 |
| Deposits and Investments | B 4 |
| Separately Maintained Records | C 4 |
| Electronic Check Retention | D 4 |
| 1099s | E 5 |
| Accounting Policies and Procedures Manual | F 5 |
| Payroll | G 5 |
| Business Transaction | H 6 |
| Questionable Disbursements | I 6 |
| Travel | J 6 |
| Disbursements | K 6 |
| Library Board Minutes | L 6 |

City of Readlyn

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|-----------------------|---------------------|
| <u>(Before January 2014)</u> | | |
| Dan Wedemeier | Mayor | January 2014 |
| Barry Wittenburg | Council Member | January 2016 |
| Mike Hupfeld | Council Member | January 2014 |
| Tom Cozart | Council Member | January 2014 |
| Barry Fortsch | Council Member | January 2016 |
| Nicole Barnes | Council Member | January 2016 |
| Lois Buhr | City Clerk/ Treasurer | Indefinite |
| Beau Buchholz | Attorney | Indefinite |
| <u>(After January 2014)</u> | | |
| Dan Wedemeier | Mayor | January 2018 |
| Barry Wittenburg | Council Member | January 2016 |
| Mike Hupfeld | Council Member | January 2018 |
| Tom Cozart | Council Member | January 2018 |
| Barry Fortsch | Council Member | January 2016 |
| Nicole Barnes | Council Member | January 2016 |
| Lois Buhr | City Clerk/ Treasurer | Indefinite |
| Beau Buchholz | Attorney | Indefinite |

Independent Accountant's Examination Report

To the Honorable Mayor and
Members of the City Council:

I have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, I have applied certain tests and procedures to selected accounting records and related information of the City of Readlyn for the period July 1, 2013 through June 30, 2014. The City of Readlyn's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

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 sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I 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 I performed are summarized as follows:

1. I reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I 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. I reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I 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. I reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed timely and if it accurately reflect the City's financial information.
7. I reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. I 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 of the State of Iowa.
9. I 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.

10. I 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.
11. I 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.
12. I reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. I reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, I identified various recommendations for the City. My 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.

I was not engaged to and did not conduct an audit of the operations of the City of Readlyn, the objective of which is the expression of opinions on financial statements. Accordingly, I do not express opinions on the City's financial statements. Had I performed additional procedures, or had I performed an audit of the City of Readlyn, additional matters might have come to my 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 Readlyn and other parties to whom the City of Readlyn may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Readlyn during the course of my examination. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Keith Oltrogge
Certified Public Accountant

March 9, 2015

Detailed Recommendations

City of Readlyn

Detailed Recommendations

For the period July 1, 2013 through June 30, 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) 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 – I 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) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 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. I also noted the resolution approving amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa was adopted after the fiscal year end.

(C) Separately Maintained Records – The City of Readlyn Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records. I noted many problems with the Library records. The City should remove them from the Library and include them with the City clerk's bookkeeping.

(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.

City of Readlyn

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

(E) 1099 Forms – 1099 forms were not issued for labor paid in excess of \$600.

Recommendation – 1099 forms should be issued when required.

(F) 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 staff.
- 2) Help achieve uniformity in accounting and in application of policies and procedures.
- 3) Save supervisory time by recording decisions so that they will not have to be made each time the same, or a similar, situation arises.

(G) Payroll – 1) The salary resolution did not include the mayor and council members.

Recommendation – The annual salary resolution should include everyone who is paid a salary or hourly wage.

2) IPERS was calculated incorrectly for the library employees by the library staff.

Recommendation – All payrolls should be done by the City clerk.

3) There was no salary resolution by the Library board. The library employee salary/hourly wages were not written in the minutes. The library staff was not able to find them written anywhere.

Recommendation – The library employees should be included in the salary resolution approved by the City council.

4) I noted one library payroll record card used for 2 employees. The new director was added to the prior director's card.

Recommendation – All payrolls should be done by the City clerk.

5) Library timesheets for September 2013 could not be located.

Recommendation – All payrolls should be done by the City clerk.

City of Readlyn

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (H) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

| <u>Name, Title & Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|--------------------------------|---------------|
| Dan Wedemeier – Mayor, Owner of Weeds On Fire | Spraying | \$2,087 |

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

- (I) Questionable Disbursements – Certain disbursements I 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 were noted. They were paid from the separate library account. These are detailed as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|----------------------------|----------------|---------------|
| Iowa Workforce Development | Late fee | \$35 |

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.

- (J) Travel –The mileage rate on several travel reimbursement sheets I reviewed was changed by hand. The minutes did not indicate the rate being paid was changed. These were paid by the library.

Recommendation –All bills need to be paid by the City clerk and approved by the City council.

- (K) Disbursements – Invoices and other supporting documentation were not always available to support disbursements made from the Library separate account. I also noted they made credit card/charge account payments online.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. This should not be an issue once the records and transactions are handled by the City clerk.

- (L) Library Board Minutes – The Library Board went into closed session to discuss salaries. No record (minutes) of the closed session was kept. This is not one of the specific exemptions under Chapter 21.5 of the Code of Iowa for a closed session.

Recommendation – Library salaries/wages should be included in the salary resolution set by the City council each year.