

**CITY OF NORTH ENGLISH**

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

**FOR THE PERIOD  
JULY 1, 2013 THROUGH JUNE 30, 2014**

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## City of North English

### Officials

Name	Title	Term Expires
<b>Before January 1, 2014</b>		
Richard Henson	Mayor	January 1, 2014
Gerald Kerkove	Council Member	January 1, 2016
Wendell Marsh	Council Member	January 1, 2016
Ralph Rowe	Council Member	January 1, 2016
Scott Romine	Council Member	January 1, 2014
James Smith	Council Member	January 1, 2014
Kathy O'Rourke	City Clerk	Indefinite
Joshua Kraushaar	Attorney	Indefinite
<b>After January 1, 2014</b>		
Richard Henson	Mayor	January 1, 2016
Gerald Kerkove	Council Member	January 1, 2016
Wendell Marsh	Council Member	January 1, 2016
Ralph Rowe	Council Member	January 1, 2016
Scott Romine	Council Member	January 1, 2018
James Smith	Council Member	January 1, 2018
Tara Heyne	City Clerk	Indefinite
Joshua Kraushaar	Attorney	Indefinite



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

To the Honorable Mayor  
and Members of City Council  
City of North English, Iowa:

We have performed the procedures enumerated in Exhibit A, which were agreed to by the City of North English and the Iowa Office of 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 North English for the period July 1, 2013 through June 30, 2014. The City of North English'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 Auditor of State. The sufficiency of these procedures is solely the responsibility of the Office of 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 of North English, 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 North English, 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 North English and other parties to whom the City of North English 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 of North English 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.

Menke & Company, PC  
Certified Public Accountants  
West Point, Iowa  
January 06, 2015

## **Detailed Recommendations**

**City of North English**  
**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 – We realize segregation of duties is difficult with a limited number of employees. However, the City should continue to 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) Council Meeting Minutes – Council meeting minutes are not signed by the city clerk and the minutes do not list the reason for the claims allowed.

Recommendation – The city clerk should sign the minutes as required by the Code of Iowa and document the reason for the claims allowed.

- (C) City Policies and Procedures – The City does not have a written accounting policies and procedures manual, credit card policy, or a policy on the personal use of city computers.

Recommendation – The City should develop an accounting procedures manual to aid in training additional or replacement staff should the need arise. The City should also adopt a computer usage policy and credit card policy.

- (D) Countersignature of Checks – Checks are signed only by the Clerk/Treasurer, who has almost complete control over the accounting system of the City.

Recommendation – Checks should be prepared and signed by one individual and then the supporting documentation should be made available, along with the check, to a second independent individual for review and countersignature.

**City of North English**  
**Detailed Recommendations**  
**For the Period July 1, 2013 through June 30, 2014**

- (E) Revenue Bonds – The City has not established the sinking fund required by its water revenue bond resolutions. The water revenue bonds require that a sinking fund be setup and that sufficient monthly transfers shall be made to separate water revenue bond sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

Recommendation – The City should establish the sinking fund and make the appropriate transfers to the sinking fund.

- (F) Bond Payments – The City paid general obligation debt from the general fund. Chapter 384.4 of the Code of Iowa requires general obligation debt to be paid from the debt service fund. We also noted that water revenue debt was paid from the debt service fund. Revenue debt is typically paid from the enterprise fund the debt is associated with.

Recommendation – The City should pay the general obligation debt payments from the debt service fund as required in the future. Also, water revenue debt should be paid from the water fund.

- (G) Deposits and Investments – The City’s investment policy does not comply with Chapter 12B.10B of the Code of Iowa. In addition, the City has not approved a depository resolution.

Recommendation – The City should adopt a written investments policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve a depository resolution with amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (H) Wage Increases and Timecard Approval – All payrolls tested did not have the employee hours approved prior to payroll being processed. Also the city clerk is provided hours verbally in some cases. Additionally, we noted that wage increases are approved as a percentage rather than by specific amounts.

Recommendation – The City should have someone in authority review and approve employee hours on all timecards prior to payroll being processed each pay period. Also, City Council should approve specific pay rates when approving pay increases to ensure there is no question as to what the approved hourly or salary rates are. In addition, payrolls should not be processed with verbal hour information.

**City of North English**  
**Detailed Recommendations**  
**For the Period July 1, 2013 through June 30, 2014**

- (I) 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. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (J) Bank Reconciliations – The City does not retain a printed or electronic copy of the computer generated bank reconciliation reports after completing the bank reconciliation in the accounting software.

Recommendation – The City should retain the bank reconciliations for each month. Also, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (K) Unclaimed Property – The City has not remitted unclaimed property to the state treasurer by November 1 of each year as required by Chapter 556.1(12) of the Code of Iowa.

Recommendation – The City should remit unclaimed property each year to the state treasurer as required by the Code of Iowa.

- (L) Council Packets – The financial packets provided to council each month did not include a comparison of budget to actual disbursements by function.

Recommendation – The council packets should include the budget to actual comparison by function. This will make council aware on a monthly basis if there is a need for a budget amendment.

- (M) Document Retention – The City does not retain the lists of claims allowed for paid bills or all approved resolutions.

Recommendation – The City should retain the lists of claims allowed approved by council as well as all approved resolutions so they can be easily located if requested.

- (N) Transfers – Fund transfers are not reported properly on the annual financial report or the city financial statements.

Recommendation – The City should report fund transfers as other financing sources or uses on the annual financial report and in the city's internal financial statements.

**City of North English**  
**Detailed Recommendations**  
**For the Period July 1, 2013 through June 30, 2014**

- (O) Employee Policies and Procedures – The City has not formally adopted revised employee policies and procedures since 1993. The policy does not address cell phone reimbursements or uniform allowances which are currently being paid to city employees.

Recommendation – The City should update its employee policies to include cell phone reimbursements and uniform allowances. The City should review all of the policies and update all that are not in line with current practice.

City of North English  
Exhibit A

The procedures performed for the City of North English are listed below:

**MINUTES & MISCELLANEOUS PROCEDURES:**

- A. Scan minutes for significant or unusual items.
- B. Select four meetings during the year being examined to review whether:
  - a. Minutes were properly signed as required by Chapter 380.7 of the Code of Iowa.
  - b. Meetings were preceded by proper notice in accordance with Chapter 21.4 the Code of Iowa.
  - c. The minutes show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.
  - d. 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.
  - e. Minutes document the city council followed proper proceedings for any closed sessions in accordance with Chapter 21.5 of the Code of Iowa.
    - i. The session was closed by affirmative roll call vote of at least two-thirds of the members.
    - ii. The specific exemption under Chapter 21.5 of the Code of Iowa was identified and documented.
    - iii. Final action was taken in open session.
  - f. 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:
    - i. Total disbursements from each fund.
    - ii. A list of all claims allowed, including the reason for the claim.
    - iii. A summary of all receipts.
    - iv. A summary of ordinances or amendments adopted.
- C. Obtain copy of City's June 30 financial statements and/or reports.
- D. Verify and review surety bond coverage for reasonableness and compliance with statutory requirements for all officials and employees as required by Chapters 64.13 and 64.15 of the Code of Iowa.

**CASH & INVESTMENTS PROCEDURES:**

- A. Observe cash on hand, if any.
- B. Obtain one monthly clerk's report provided to the city council and determine the report foots and trace ending fund balances to the general ledger.
- C. Cash In Bank and Investments:
  - a. Determine whether bank reconciliations are performed monthly.
  - b. Determine whether bank reconciliations are reviewed by an independent person.
  - c. Obtain bank reconciliations for two months and perform the following:
    - i. Verify reconciling items to support.
    - ii. Foot the bank reconciliations.
    - iii. Consider confirming bank account and investment balances.
    - iv. Obtain a list of outstanding checks at the end of the selected months. 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 months.

City of North English  
Exhibit A

The procedures performed for the City of North English are listed below (Continued):

- v. Trace reconciled balance for selected months to general ledger account balances and to monthly reports provided to the city council.
- d. 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.
- e. 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.
- f. Determine if the City has adopted a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.
- g. Obtain a schedule of investment transactions for the same two months (selected in procedure c above) and trace investment balances to the bank reconciliations.
- h. 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.

**LONG-TERM DEBT PROCEDURES:**

- A. Determine whether long-term debt exists (bonds, notes, lease-purchase agreements, deferred payment contracts, real estate contracts, loans, TIF development agreements, local option sales tax debt):
  - a. Determine whether the debt is properly accounted for.
  - b. Determine general obligation debt payments were recorded in the debt service fund as required by Chapter 384.4 of the Code of Iowa.
- B. Issuance of Debt:
  - a. Review authorization for any issuances during the period being examined.
  - b. Determine and document procedures for bonds or notes sold during the period were in compliance with Chapters 75, 384 and 403.9 of the Code of Iowa.
  - c. Determine debt proceeds were properly recorded and trace proceeds to cash receipts records and bank statement.
- C. Determine if the City has established written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Federal Internal Revenue Service Rules.

**FUND BALANCE PROCEDURES:**

- A. Determine the City is using fund accounting and each fund is properly classified in accordance with the City finance committee's recommended chart of accounts.
- B. Determine and document the financial information provided to the city council monthly. Ensure the information provided includes, at a minimum.
  - a. A city clerk's report showing receipts, disbursements, transfers and balances for each fund.
  - b. Comparison of actual disbursements to budget by function.

City of North English  
Exhibit A

The procedures performed for the City of North English are listed below (Continued):

- C. 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.
- D. Determine if deficits exist in other funds and comment, if appropriate.
- E. Determine projects are appropriately accounted for in separate capital projects accounts.
- F. Examine journal entries and other adjustments made directly to the general ledger.
  - a. Select specific journal entries and determine whether:
    - i. The journal entries are reasonable and are supported.
    - ii. The journal entries are approved by an independent person and there is documented evidence of the approval.
- G. For the Annual Financial Report (AFR) for the year ended June 30 falling in the period covered by examination:
  - a. Compare AFR to City's general ledger to determine whether amounts agree.
    - i. Beginning and ending fund balances were reported accurately.
    - ii. RUT transactions were reported accurately in a special revenue fund.
    - iii. Total receipts and disbursements agreed with City records.
- H. Transfers:
  - a. Obtain a list of all fund transfers during the year.
  - b. Review transfers for propriety and document findings.
  - c. Determine transfers were recorded in the proper fund.
  - d. Trace transfers to approval in the minutes or budget, as applicable.

**RECEIPTS PROCEDURES:**

- A. Verify the City is using the Uniform Chart of Accounts to classify receipts in the general ledger.
- B. 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.
- C. Property Tax:
  - a. Verify electronic deposit of twelve property tax payments during the year.
  - b. Trace one month's property tax collections to general ledger posting.
  - c. Total and trace to budget for reasonableness.
- D. Governmental Revenue:
  - a. Confirm revenue received from state sources and reconcile amounts per confirmation with the general ledger.

City of North English  
Exhibit A

The procedures performed for the City of North English are listed below (Continued):

- E. Enterprise Revenues (Water, Sewer, Electric, etc.):
  - a. 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.
  - b. Determine if monthly reconciliations of billings, and collections and delinquent accounts are prepared.
    - i. If not available, perform analytical procedures to compare amounts billed to amounts collected and deposited.
    - ii. If available:
      - 1. Apply procedures to determine the accuracy and completeness of the reconciliation for one month and/or at year-end.
      - 2. Comment accordingly if variances have not been adequately resolved.
  - c. Review City officials' accounts including the utility clerk's account. Trace selected month(s) billing(s) to collection/deposit.
- F. General:
  - a. Scan ledgers or receipt detail for unusual receipts. Investigate accordingly.
  - b. Scan deposit tickets and evaluate the reasonableness of amounts of currency deposited, considering the types of receipts expected to be received in currency.
- G. 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.

**DISBURSEMENT PROCEDURES:**

- A. Obtain a schedule of all related party transaction with officials or employees and review for compliance with Chapter 362.5 of the Code of Iowa. Include finding(s) for noted conflicts of interest.
- B. Scan disbursement journal for unusual disbursements. Investigate accordingly.
- C. Scan all cancelled checks/images looking for checks to City personnel, unusual vendors and "cash."
  - a. Examine checks payable to the city clerk and other personnel authorized to issue/sign checks.
    - i. Review amount and frequency of checks.
    - ii. Determine if checks are appropriate.
  - b. Select five consecutive checks from alternating months (30 checks total) and verify:
    - i. The disbursement is adequately supported.
    - ii. The amount and payee on the check match the general ledger posting.
    - iii. The disbursement was authorized by the city council.
    - iv. Credit card transactions are approved and properly supported.
    - v. The disbursement was properly classified by function in accordance with the recommended Uniform Chart of Accounts.

City of North English  
Exhibit A

The procedures performed for the City of North English are listed below (Continued):

- vi. 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.
- D. Review all bank statements for erasures/alterations and scan for unusual withdrawals and/or checks.
- E. If cancelled 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.
- F. 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.
- G. Budgets:
  - a. Determine the annual budget and amendments, if any, were properly authorized and certified.
  - b. Determine whether disbursements by function are within budget or amended budget.
- H. Inquire of management and, when appropriate, those charged with governance, as to the existence of any agreements contain confidentiality clauses.
  - a. Determine if legal counsel agreed to insertion of the clauses.
  - b. Determine if agreements were properly approved by the city council.
  - c. Review the funding source for the payments(s) made under the agreements.

**PAYROLL PROCEDURES:**

- A. Select five payroll transactions from throughout the year to test:
  - a. Authorization for gross pay or hourly rate.
  - b. Approval of hours worked.
  - c. Accuracy of the number of hours paid per the payroll journal to hours worked per approved timesheets for hourly employees.
- B. City Clerk and/or Payroll Clerk Pay:
  - a. If salaried, reconcile the approved salary for the city clerk and payroll clerk to the city council approved salary.
  - b. 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.
- C. Ensure wage increases are approved by the city council as an hourly rate or salary and not just as a percentage increase.
- D. Determine if Forms 941, W-2 and 1099 were filed with the Internal Revenue Service, as appropriate.

City of North English  
Staff

This examination was performed by:

Ann M Menke, CPA  
Carol Ross, CPA  
Kelly Nelton, CPA  
Kristy Adams, Staff Auditor  
Kimberly Settles, Staff Auditor

## NEWS RELEASE

### FOR RELEASE

Menke & Company, PC today released an examination report on the City of North English, Iowa for the period July 1, 2013 through June 30, 2014. The examination was performed pursuant to Chapter 11.6 of the Code of Iowa.

Menke & Company, PC recommended the city update its depository resolution and investment policy. The City should also provide council with a report of monthly revenues and expenses as well as a budget comparison schedule.

A copy of the examination 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 website at <http://auditor.iowa.gov/reports/index.html>.