

City of West Point

**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 West Point

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Walker	Mayor	January 4, 2016
Bruce Wellman	Mayor Pro Tem	January 4, 2016
John Brinck	Council Member	January 4, 2016
Larry Buchholz	Council Member	January 4, 2016
Brian Meierotto	Council Member	January 4, 2016
Dennis McGregor	Council Member	January 4, 2016
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

To the 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, 2013 through June 30, 2014. The City of West Point's management 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, 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 those parties specified in the report. 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 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 agreed-upon procedures. 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

December 18, 2014

Detailed Recommendations

City of West Point
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 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.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

(B) Employee Theft - The City received an anonymous tip regarding an employee who was using the City gas card for personal use. Upon admission, the employee was terminated from the City.

Recommendation - The City should establish procedures to monitor employees' usage of gas each month for City purposes.

Response - The City will consider this.

Conclusion - Response accepted.

(C) 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 2013 and June 2014 and noted a variance of \$24.02 between the investment schedule and the bank reconciliation in September 2013.

Recommendation - The City began reconciling the cash and investment balances following the prior year examination. The City should continue to 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.

**City of West Point
Detailed Recommendations
For the period July 1, 2013 through June 30, 2014**

- (D) Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the following functions:

<u>Function</u>	<u>Amount Exceeded</u>
Public Works	\$ 206
Debt Service	38,639

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.

- (E) Questionable Disbursements - We identified 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>
J&M Korner Shop	Pizza	\$ 24.05
Sonny's Supermarket	Cookies, coffee, etc.	37.90
The Flower Cottage	Memorial flowers	326.07

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.

- (F) Payroll - The cost of health insurance coverage for the City is capped at \$750 per month. If an employee's single coverage is less than \$750, the City will reimburse the employee for the difference up to \$750. There is no resolution or ordinance in place to support this reimbursement by the City.

Recommendation - The City should adopt a resolution for reimbursement of the difference between employees insurance premium and the \$750 maximum.

- (G) Local Option Sales Tax - Local option sales tax (LOST) collections are credited to the general fund and sewer fund according to the ballot, however they were not being originally receipted into the LOST fund and were transferred into these funds during July 2013.

Recommendation - The City has established a special revenue fund to account for local option sales tax receipts and disbursements. The City should monitor the account to ensure accurate reporting.

City of West Point
Detailed Recommendations
For the period July 1, 2013 through June 30, 2014

- (H) 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 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.

- (I) Payment of Sewer Revenue Bonds - Principal and interest on the City's sewer revenue bond were paid from the debt service fund. The loan agreement states the loan "shall be payable solely and only from the Net Revenues (as defined in the Resolution) of the Wastewater Treatment System of the City."

Recommendation - The City should comply with Resolution and payments on the sewer revenue bonds should be made from the sewer fund as required.

- (J) Financial Condition - The road use tax and sewer fund had a deficit balance at June 30, 2014 of (\$82,446.19) and (\$81,017.91), 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.

- (K) City Council Minutes - Expenditures did not agree to the amount reported in the Council minutes during the month of September.

Recommendation - The City should comply with Chapter 372.13 of the Code of Iowa and ensure accurate reporting of claims paid each month.

- (L) Debt - The refinance of the City's capital improvements loan was not discussed and approved by the City Council as required by Chapter 384.24A of the Code of Iowa.

Recommendation - The City should appropriately authorize future issuances of debt in compliance with Chapter 384.24A of the Code of Iowa.

- (M) Capital Projects - The City's capital project expenditures for the water main replacement project were not recorded in a capital project function in the City's chart of accounts. Classification of revenues and expenditures by function provides information on the purposes or objectives of expenditures and the related revenues.

Recommendation - The City should create an account with a capital project function within the water fund for these expenditures. Future projects not related to business type activities should be accounted for in the capital projects fund.

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

Summary of Agreed-Upon Procedures

Review of Minutes

A. Minutes

1. Scan minutes for significant or unusual items.
2. Select four (4) 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 of 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 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.

Cash and Investments

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

NOTE: A "Clerks report" is a monthly report showing receipts, disbursements, transfers and balances for each fund and in total. Total fund balance for all funds should reconcile to the City's bank reconciliation.

C. Cash In Bank and Investments:

1. Determine whether bank reconciliations are performed monthly.

NOTE: The reconciliations should reconcile all bank and investment accounts to total fund balance for all funds.

2. Determine whether bank reconciliations are reviewed by an independent person.

Cash and Investments (continued)

3. Obtain bank reconciliations for two (2) months and perform the following:
 - a. Verify reconciling items to support.
 - b. Foot the bank reconciliation(s).
 - c. Consider confirming bank account and investment balances.
 - d. 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).
 - e. Trace reconciled balance for selected months to general ledger account balances and to monthly reports provided to the City Council.
4. 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.
5. 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.
6. Determine if the City has adopted a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.
7. 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.
8. 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

- 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):
 1. Determine whether the debt is properly accounted for.
 2. 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:
 1. Review authorization for any issuances during the year being examined.
 2. 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

- A. Determine the City is using fund accounting and each fund is properly classified in accordance with the City Finance Committee's recommended Uniform Chart of Accounts (COA).
- B. Determine and document the financial information provided to the City Council monthly. Ensure the information provided includes, at a minimum:
 - 1. A City Clerk's report showing receipts, disbursements, transfers and balances for each fund.
 - 2. Comparison of actual disbursements to budget by function.
- 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.
 - 1. Select specific journal entries and determine whether:
 - a. The journal entries are reasonable and are supported.
 - b. 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 the examination:
 - 1. Compare AFR to City's general ledger to determine if amounts agree.
 - a. Beginning and ending fund balances were reported accurately.
 - b. RUT transactions were reported accurately in the Special Revenue fund.
 - c. Total receipts and disbursements agreed with City records.
- H. Transfers:
 - 1. Obtain a list of all fund transfers during the year.
 - 2. Review transfers for propriety and document findings.
 - 3. Determine transfers were recorded in the proper fund.
 - 4. Trace transfers to approval in the minutes or budget, as applicable.

Receipts

- 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:
 - 1. Verify electronic deposit of eleven property tax payments during the year.
 - 2. Trace one month's property tax collections to general ledger posting.
 - 3. Total and trace to budget for reasonableness.

Receipts (continued)

D. Governmental Revenue:

1. Confirm revenue received from state sources and reconcile amounts per confirmation with the general ledger.

E. Enterprise Revenues (Water, Sewer, Electric, etc.):

1. 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.
2. Determine if monthly reconciliations of billings, collections and delinquent accounts are prepared.
 - a. If not available, perform analytical procedures to compare amounts billed to amounts collected and deposited.
3. Review City officials' accounts, including the Utility Clerk's account. Trace selected month(s) billing(s) to collection/deposit.

F. General:

1. Scan ledgers or receipts detail for unusual receipts. Investigate accordingly.
2. 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.

Disbursements

- A. 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. 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."
 1. Examine checks payable to the City Clerk and other personnel authorized to issue/sign checks.
 - a. Review amount and frequency of checks.
 - b. Determine if checks are appropriate.
 2. Select five (5) consecutive checks from alternating months (30 checks total) and verify:
 - a. The disbursement is adequately supported.
 - b. The amount and payee on the check match the general ledger posting.
 - c. Disbursement was authorized by the City Council.
 - d. The disbursement was properly classified by function in accordance with the recommended Uniform Chart of Accounts.
 - e. 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.

Disbursements (continued)

- E. 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.
- F. Budgets:
 - 1. Determine the annual budget and amendments, if any, were properly authorized and certified.
 - 2. Determine whether disbursements by function are within the budget or amended budget.
- G. Inquire of management and, when appropriate, those charged with governance, as to the existence of any agreements containing confidentiality clauses.

Payroll

- A. Select five (5) payroll transactions from throughout the year to test:
 - 1. Authorization for gross pay or hourly rate.
 - 2. Approval of hours worked.
 - 3. 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:
 - 1. 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 a percentage increase.
- D. Determine if Forms 941, W-2 and 1099 were filed with the IRS, as appropriate.