

**CITY OF MILLERSBURG, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

Table of Contents ---

Officials	1
Independent Accountant’s Report on the Status of Periodic Examination Findings and Recommendations	2
Status of Periodic Examination Findings and Recommendations.....	3-6

Officials

Name	Title	Term Expires
(Before January, 2016)		
Elected Officials		
William Montross Earle Hall Betty Husband Charles Gensley Michael Gorsch Donna Plummer	Mayor Council Member Council Member Council Member Council Member Council Member	December 31, 2015 December 31, 2017 December 31, 2015 December 31, 2015 December 31, 2015 December 31, 2017
Appointed Officials		
Sandy Hall	City Clerk/Treasurer	December 31, 2016
(After January, 2016)		
Elected Officials		
William Montross Earle Hall Charles Gensley Darla Gorsch Michael Gorsch Donna Plummer	Mayor Council Member Council Member Council Member Council Member Council Member	December 31, 2019 December 31, 2017 December 31, 2019 December 31, 2019 December 31, 2019 December 31, 2017
Appointed Officials		
Sandy Hall	City Clerk/Treasurer	December 31, 2016

Independent Accountant's Report on the Status of Periodic Examination Findings and Recommendations

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

Hogan - Hansen, P.C. issued a Periodic Examination Report dated September 9, 2014 on the City of Millersburg, Iowa, covering the period July 1, 2013 through June 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 9, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate that the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

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 Millersburg and other parties to whom the City of Millersburg 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

Mason City, Iowa
August 24, 2016

Status of Periodic Examination Findings and Recommendations 

Status of Periodic Examination Findings and Recommendations ---

Findings Reported in the Periodic Examination Report Dated September 9, 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. We noted that incompatible duties are being performed by the same person.

Recommendation - We realize that 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.

Current Status - Not corrected. The recommendation is repeated.

- (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, the resolution naming official depositories adopted by the City Council on January 7, 2013 does not indicate the deposit limit by individual institution for the checking and savings accounts as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - The City should adopt a written investment policy which complies with 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.

Current Status - Not corrected. The recommendation is repeated.

- (C) 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.

Current Status - Corrected. The City now receives images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

- (D) Bank Reconciliations - The cash balances in the City's general ledger were reconciled to bank account balances throughout the year. However, there were variances discovered in multiple accounts that were tested. In addition, no independent review of the bank reconciliations was performed.

Recommendation - An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Variances, if any, should be reviewed and resolved timely.

Current Status - Corrected. Cash balances in the City's general ledger were reconciled to bank account balances throughout the timeframe tested. No variances were noted in the accounts tested. Each reconciliation included evidence of independent review by the Mayor.

Status of Periodic Examination Findings and Recommendations —————

- (E) Sales Tax - One of the disbursements tested (paid to Alliant Energy) included sales tax. We noted sales tax was not included for subsequent bills, but the City did not apply for a refund of prior sales tax paid.

Recommendation - We recommend the City contact Alliant Energy to request a refund of sales tax paid.

Current Status - Corrected. For the disbursements tested, no additional sales tax was paid. However, the City did not request a refund of sales tax paid on the transaction with Alliant Energy.

- (F) Form 1099-MISC - The City paid Janet Montross more than \$600 during 2013 for cleaning services, but a Form 1099-MISC was not issued to her.

Recommendation - We recommend the City review the instructions for Form 1099-MISC and issue appropriate forms in the future.

Current Status - Corrected. The City issued appropriate Forms 1099-MISC for 2015. The forms were filed along with Form 1096 prior to the February 29, 2016 deadline.

- (G) Disbursements - No written documentation could be found supporting the 15% fuel/insurance surcharge paid to Cox Sanitation for solid waste and recycling collection.

Recommendation - The City should obtain a written agreement for all outsourced contracts that details duties, fees and other terms of the agreement.

Current Status - Corrected. The City provided the agreement between the City of Millersburg and Cox Sanitation and Recycling, Inc. dated October 7, 2013. The agreement includes a clause for additional fees, one being fuel surcharge, to be added to base monthly fees if certain conditions are encountered.

- (H) City Council Disbursement Approval - Documentation was not available to support City Council approval for 2 of the 30 disbursements tested.

Recommendation - All disbursements should be approved by City Council and documentation of City Council approval should be retained.

Current Status - Corrected. All disbursements tested were properly traced to City Council approval in the minutes.

- (I) Payroll - Timesheets for library employees did not include evidence of supervisory review.

Recommendation - All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

Current Status - Corrected. For the timeframe of the exam, all library employees' timesheets were properly approved by two members of the Millersburg Library Board, as evidenced by their signatures.

Status of Periodic Examination Findings and Recommendations ---

- (J) Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted for the community and economic development function. 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.

Current Status - Not corrected. Disbursements for the year ended June 30, 2015 exceeded the amounts budgeted for the public works and culture and recreation functions. The recommendation is repeated.

- (K) Questionable Disbursement - During the year, \$25 was disbursed for English Valley's P.A.C.E. after prom party. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

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 this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

Current Status - Corrected. All disbursements tested appear to meet the requirements of public purpose.

- (L) City Council Meeting Minutes - Although we were told that minutes of City Council proceedings were posted as designated in Chapter 20 of the City's Code of Ordinances and such minutes included a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa, the minutes included in the minute books did not include a summary of receipts.

Recommendation - A summary of receipts should be included in the signed minutes retained in the City's minute book.

Current Status - Corrected. All minutes tested properly included a summary of receipts in the signed minutes retained in the City's minute book.

- (M) 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 annually.

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

Current Status - Not corrected. The recommendation is repeated.

Status of Periodic Examination Findings and Recommendations —————

- (N) Journal Entries - Journal entries are not reviewed and approved by an independent individual.

Recommendation - An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Current Status - Not corrected. The recommendation is repeated.

- (O) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary of the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's general ledger.

Recommendation - The City should ensure that future Annual Financial Reports agree with the City's general ledger.

Current Status - Corrected. The City's Annual Financial Report for the year ended June 30, 2015 agreed with the City's general ledger.

- (P) Local Option Sales Tax (LOST) - The City's LOST ballot requires LOST receipts be used 25% for property tax relief and 75% for any lawful purpose. The City's LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation - The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement and balance of all LOST funds to document compliance with the LOST ballot referendum provisions.

Current Status - Partially corrected. LOST receipts during the year ended June 30, 2015 were expended in accordance with the LOST ballot. However, the City has not established a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement and balance of all LOST funds. The recommendation is repeated.

- (Q) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation - Procedures should be established to have an independent person or a City Council member review the reconciliation and monitor delinquent accounts each month. The review of the reconciliation should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status - Not corrected. In addition, reconciliations of utility billings, collections and delinquent accounts were not performed during the timeframe of testing. Procedures should be established to reconcile utility billings, collections and delinquent accounts on a monthly basis. Reconciliations should be reviewed by an independent person and review should be evidenced by the signature or initials of the reviewer and the date of the review.