CITY OF MELVIN, IOWA

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

Table of Contents

Officials 1

Independent Accountant's Report on Applying Agreed-Upon Procedures 2-3

Detailed Recommendations 4-6

Officials

Name	Title	Term Expires
	(Before January, 2014)	
	Elected Officials	
Gary Benz	Mayor	January, 2014
Lee Dau	Council Member	January, 2014
Steve Heitritter	Council Member	January, 2014
Dennis Holtz	Council Member	January, 2014
Becky Heitritter	Council Member	January, 2016
Allen Mastbergen	Council Member	January, 2016
	Appointed Officials	
Sandy Heitritter	City Clerk/Treasurer	Indefinite
	(After January, 2014)	
	Elected Officials	
Lee Dau	Mayor	January, 2016
Becky Heitritter	Council Member	January, 2016
Allen Mastbergen	Council Member	January, 2016
Mike Alesch	Council Member	January, 2018
Galen Bootsma	Council Member	January, 2018
Mike Wynja	Council Member	January, 2018
	Appointed Officials	
Sandy Heitritter	City Clerk/Treasurer	Indefinite

HOGAN • HANSEN
A Professional Corporation
Certified Public Accountants and Consultants

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

We have performed an agreed-upon procedures engagement of the City of Melvin 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 Melvin for the period July 1, 2013 through June 30, 2014. 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.

9. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.

10. 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.

11. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.

12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.

13. 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 Melvin, 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 Melvin, 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 Melvin and other parties to whom the City of Melvin 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
September 16, 2014

Detailed Recommendations

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:

- Accounting system - performing all general accounting functions, including journal entries, and having custody of assets.
- Cash - handling, reconciling and recording.
- Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- Utilities - billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- Debt - recordkeeping, compliance and debt payment processing.
- Journal entries - preparing and journalizing.
- Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- Payroll - entering rates into the system, recordkeeping, preparing, signing and distributing.
- Computer system - performing all general accounting functions and controlling all data input and output.
- Financial reporting - preparing and reconciling.

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 and journal entries should be evidence by the signature or initials of the reviewer and the date of the review.

(B) **City Council Minutes** - The following were identified:

- Chapter 21.3 of the Code of Iowa requires minutes of all City Council meetings to show the results of each vote taken and information sufficient to indicate the vote of each member present. Minutes for four of the meetings tested did not show sufficient information to indicate the vote of each member present.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City proceedings to include the total disbursements by fund. Minutes for four of the meetings tested did not include the total disbursements by fund.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within 15 days of the meeting. In the four meetings tested, none of the meetings were published within 15 days after the meeting.

Recommendation - The City should comply with Chapter 21.3 of the Code of Iowa and document sufficient information to indicate the vote of each member present. The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes within 15 days of the meeting and include total disbursements from each fund.

(C) **Bank Reconciliations** - The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. However, for the month reviewed, bank and book balances did not properly reconcile by $14.06 because outstanding checks were not recorded in the City's general ledger.

Recommendation - The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely.

(D) **Official Depositories** - Although a resolution naming official depositories has been adopted by the City Council, the resolution did not include a depository amount as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

(E) **Investment Policy** - The City has not adopted a written investment policy as required by Chapter 12B.10B 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.

(F) **Journal Entries** - There was no evidence to document that general ledger journal entries are being reviewed and approved by an independent individual.

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

(G) **Annual Financial Report** - The City's Annual Financial Report receipts, disbursements and fund balances do not reconcile with the City's general ledger.

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

(H) **Receipts** - During our testing of revenue received from the state, we noted a receipt for county road assistance had been incorrectly recorded as road use tax.

Recommendation - The Clerk should receipt revenue into the proper funds and reconcile to the State of Iowa's records at year end.

(I) **Financial Condition** - As of June 30, 2013, the City had a deficit balance of $4,957 in the Employee Benefits Fund.

Recommendation - The Clerk should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

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

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

Name, Title and Business Connection	Transaction Description	Amount
Steve Heitritter, Council Member, owner of Melvin Rebuilders	Vehicle repairs	$ 3,527
Gary Benz, former Mayor, owner of Benz Insurance	Insurance coverage	11,900

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than $2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation - The City should consult with legal counsel to determine the disposition of this matter.

(K) **Disbursements** - Invoices and other supporting documentation were not always available to support disbursements. Of the 30 disbursements tested, there were 4 disbursements which we were unable to obtain an invoice or supporting documentation from the City but were able to obtain needed information from the vendor.

Recommendation - The City should keep invoices or other supporting documentation for all disbursements.

(L) **Certified Budget** - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, culture and recreation 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.

(M) **Payroll** - The City Council approves each monthly pay check; however, the City Council has not authorized wage rates for several years.

Recommendation - The City Council should annually approve and document the specific hourly rate or salary of all City employees.

(N) **Form 1099** - The City did not issue any Form 1099's for calendar year 2013; however, there was not sufficient documentation maintained to determine if the City should have issued any Form 1099's.

Recommendation - The City should maintain proper documentation to determine compliance with filing Form 1099's is followed.