

**CITY OF MALLARD, 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		
James Gehrt	Mayor	December 31, 2017
Troy Auten	Council Member	December 31, 2015
Karl Johnson	Council Member	December 31, 2017
Jerry Schuller	Council Member	December 31, 2017
Glen Simonsen	Council Member	December 31, 2015
Amy Thompson	Council Member	December 31, 2017
Appointed Officials		
Becky Larson	City Clerk	Indefinite
(After January, 2016)		
Elected Officials		
James Gehrt	Mayor	December 31, 2017
Tara Hoch	Council Member	December 31, 2019
Karl Johnson	Council Member	December 31, 2017
Jerome Schuller	Council Member	December 31, 2017
Glen Simonsen	Council Member	December 31, 2019
Amy Thompson	Council Member	December 31, 2017
Appointed Officials		
Becky Larson	City Clerk	Indefinite

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 Mallard, Iowa

Hogan - Hansen, P.C. issued a Periodic Examination Report dated August 13, 2014 on the City of Mallard, 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 August 13, 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 Mallard and other parties to whom the City of Mallard 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 Mallard during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 11, 2016

Status of Periodic Examination Findings and Recommendations 

Status of Periodic Examination Findings and Recommendations ---

Findings Reported in the Periodic Examination Report Dated August 13, 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 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) 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, as of June 30, 2014, bank and book balances did not properly reconcile. We noted a variance of \$15,987.15, which consisted of \$15,493.24 held as separately maintained records not included in the City's balance (see Comment (H)) and \$493.91 was not resolved. In addition, the bank reconciliations are not independently reviewed by someone other than the preparer.

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 reconciled timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

Current Status - Not corrected. During the timeframe of testing, the cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances. The recommendation is repeated.

- (C) Financial Reporting - The June 30, 2013 Clerk's Report presented to the City Council for approval reconciles in total to the Annual Financial Report for June 30, 2013 but does not reconcile by fund or fund type.

Recommendation - The Clerk should investigate and resolve the variances between the various reports presented to the City Council for approval.

Current Status - Not corrected. The fund balances and expenditures reported on the Annual Financial Report for June 30, 2015 could not be reconciled to City records. The recommendation is repeated.

- (D) Transfers - The City transfers money to and from various funds periodically. However, these transfers were not always shown in the financial statements presented to the City Council for approval.

Recommendation - The City Clerk should ensure all transfers to and from various funds are properly shown on financial statements presented to the City Council for approval.

Current Status - Corrected. During the timeframe of testing, the City Council received financial statements at each City Council meeting that properly included all transfers between funds.

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

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts - The City Clerk had a significantly past-due balance for City utilities and has not been current in over one year. One Council member also had a past-due bill as of June 30, 2014. It was also noted that the utility billings, collections and delinquent accounts did not reconcile as of June 30, 2014 by \$268.24 and the beginning June, 2014 balance did not agree to prior month's ending balance by \$120.00.

Recommendation - As a part of the reconciliation process, the City should ensure monthly reconciliations of the utility billings, collections and delinquent accounts are being prepared and ensuring the beginning balances used agree to the ending balances from the prior month's reconciliation. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. In addition, the City employees and officials should return their utility accounts to a current status by paying the overdue amounts.

Current Status - Partially corrected. For the May, 2016 reconciliation tested, it was noted that the utility billings, collections and delinquent accounts properly reconciled and the beginning balance tied to the prior month's ending balance. However, the reconciliation included adjustments that were made to a City employee's account without proper documentation of approval. In addition, one City Council member had a past-due bill as of May 31, 2016. The recommendation is repeated.

- (F) Payroll - The following were identified:

- We could not locate the approved hourly or salary rate for City employees, as the City Council had only documented a percentage increase for wages.
- The City Council had approved a significant increase in one employee's wages equal to the amount of insurance that the City had been paying for them; however, there was not sufficient evidence in the minutes documenting the approval of the pay increase, nor was there sufficient evidence to document the amount of the pay increase.
- The City Clerk reviews all employee work hours reported for reasonableness. However, the City Clerk's hours are not reviewed by anyone for reasonableness or accuracy.

Recommendation - The City Council should approve and document the specific hourly rate or salary of all City employees instead of just a percentage increase. The City should also establish procedures to ensure independent review of all employee timecards.

Current Status - Partially corrected. It was noted that the City Clerk's timesheets were properly reviewed and approved by the Mayor. The City approved hourly rates for City employees via resolution on June 8, 2015. However, during the timeframe of testing, three employees received paychecks who had not been included on the resolution. The City was unable to provide any other documentation for approval of their rates. The City should approve and document the specific hourly rate or salary for all City employees.

- (G) Library Disbursements - While the City's Library Board approves all purchases for the Library, the City Council does not.

Recommendation - The City should establish procedures for the City Council to specifically approve all Library purchases as they are paid for with public funds.

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

Current Status - Corrected. Library disbursements are included with other City claims on the monthly claims listing approved by the City Council.

- (H) Separately Maintained Records - The City Clerk maintains a bank account which was opened several years ago under the City's tax identification number. Public donations have been deposited to the account and the funds used for general needs throughout the City. These transactions and the account balance 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 and reported to the City Council on a monthly basis.

Current Status - Not corrected. As of May 31, 2016, the account had not been included in the City's accounting records or reported to the City Council. In addition, another bank account funded by public donations and set up under the City's name for cleanup efforts around town was discovered. As of May 31, 2016, the cleanup account had not been included in the City's accounting records or reported to the City Council. The recommendation is repeated.

- (I) Certified Budget - We tested the Annual Financial Report for the year ended June 30, 2013 which was filed during the period of our engagement. Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, capital projects and business-type activities 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.

Current Status - Not corrected. Disbursements for the year ended June 30, 2015 exceeded the amounts budgeted in the general government and capital projects functions. The recommendation is repeated.

- (J) 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 380.7 of the Code of Iowa requires minutes of all City Council meetings to be signed by the City Clerk. Minutes of the four meetings tested were not signed.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City proceedings to include a list of claims that includes the reason for claim, total disbursements by fund and a summary of receipts. Minutes for four of the meetings tested did not include the reason for the claims, total disbursements by fund or a summary of receipts.
- 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, one of the meetings was not published until 16 days after the meeting.

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

Recommendation - The City should comply with the Code of Iowa with respect to City Council minutes.

Current Status - Partially corrected. All minutes tested were properly signed and were published within 15 days of the meeting. In addition, the minutes tested included sufficient evidence to indicate votes and the published minutes included a list of claims and reason for each claim. However, the published minutes tested did not include a summary of disbursements by fund or a summary of receipts. The recommendation is repeated.

- (K) Annual Urban Renewal Report (AURR) - We tested the AURR for the year ended June 30, 2013 which was filed during the period of our engagement. The City understated the amount reported as TIF debt outstanding on the AURR Levy Authority Summary by \$4,817. Additionally, the ending TIF balance as of June 30, 2013, per the AURR, did not reconcile to the Clerk's report presented to the City Council for approval.

Recommendation - The City should ensure amounts reported on the AURR Levy Authority Summary agree with the City's records.

Current Status - Not corrected. For the year ended June 30, 2015, the AURR filed by the City understated the amount reported as TIF debt outstanding by \$6,666. In addition, the ending TIF balance as of June 30, 2015, per the AURR, did not reconcile to City records. The recommendation is repeated.

- (L) 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 - Not corrected. The recommendation is repeated.

- (M) Transfers - The City transfers money to and from various funds periodically. However, these transfers were not always approved by the City Council prior to the actual transfer.

Recommendation - The City Council should approve all fund transfers prior to the actual transfer and document approval and amounts as part of the minutes record.

Current Status - Not corrected. During the timeframe of testing, all transfers were approved by the City Council as part of the budget or by resolution. However, one transfer was recorded prior to approval and two transfers were approved without an amount. The recommendation is repeated.

Additional Finding as a Result of Follow-up Procedures:

- (N) Debit Card - The City is using a debit card for certain transactions made from the Library bank account.

Recommendation - The City should remove the debit card capabilities to ensure amounts are not automatically deducted from the City's bank account without prior approval or without proper supporting documentation.