

**CITY OF MALLARD, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014**

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Officials

| Name | Title | Term Expires |
|-------------------------------|----------------------|---------------------|
| (Before January, 2014) | | |
| Elected Officials | | |
| Mike Hartman | Mayor | January, 2014 |
| Tara Hoch | Council Member | January, 2014 |
| Troy Auten | Council Member | January, 2016 |
| Glen Simonsen | Council Member | January, 2016 |
| Karl Johnson | Council Member | January, 2014 |
| Appointed Officials | | |
| Becky Larson | City Clerk/Treasurer | Indefinite |
| (After January, 2014) | | |
| Elected Officials | | |
| James Gehrt | Mayor | January, 2018 |
| Troy Auten | Council Member | January, 2016 |
| Glen Simonsen | Council Member | January, 2016 |
| Karl Johnson | Council Member | January, 2018 |
| Jerry Schuller | Council Member | January, 2018 |
| Amy Thompson | Council Member | January, 2018 |
| Appointed Officials | | |
| Becky Larson | City Clerk/Treasurer | Indefinite |

Independent Accountant's Report on Applying Agreed-Upon Procedures —

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

We have performed an agreed-upon procedures engagement of the City of Mallard 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 Mallard 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 tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
12. 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.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. 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 Mallard, 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 Mallard, 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 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
August 13, 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. 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.

- (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.

- (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.

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

- (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.

Detailed Recommendations

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

(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.

(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.

(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.

(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.

Detailed Recommendations

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

(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.

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

(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.

(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.

(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.