

**CITY OF DONNELSON**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
JULY 1, 2014 THROUGH JUNE 30, 2015**

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## City of Donnellson

### Officials

Name	Title	Term Expires
Dave Ellingboe	Mayor	January 1, 2018
Jan Fraise	Council Member	January 1, 2016
Deb Nagel	Council Member	January 1, 2018
Kevin Schneider	Council Member	January 1, 2018
Jermi Wolken	Council Member	January 1, 2016
John Yoder-Schrock	Council Member	January 1, 2018
Jane Krebill	City Clerk	Indefinite
Greg Johnson	Attorney	Indefinite



**Menke & Company**  
CERTIFIED PUBLIC ACCOUNTANTS

### **Independent Accountant's Report On Applying Agreed-Upon Procedures**

To the Honorable Mayor  
and Members of City Council  
City of Donnellson, Iowa:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Donnellson for the period July 1, 2014 through June 30, 2015. The City of Donnellson's management, which agreed to the performance of the procedures performed, 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 and the standards for attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 below either for the purpose for which this report has been requested or for any other purpose.

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 recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report 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.

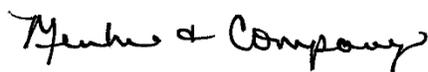
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384, and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended chart of accounts.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the 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.
12. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification, and timely amendment.

Based on the performance of the procedures described in 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 non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Donnellson, 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 Donnellson and other parties to whom the City of Donnellson 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 Donnellson during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Menke & Company  
Professional Corporation  
Certified Public Accountants  
West Point, Iowa  
June 08, 2016

## **Detailed Recommendations**

**City of Donnellson**  
**Detailed Recommendations**  
**For the Period July 1, 2014 through June 30, 2015**

- (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 continue to 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.

- (B) Accounting Procedures Manual – The City does not have a written accounting procedures manual.

Recommendation – The City should develop an accounting procedures manual to aid in training additional or replacement staff should the need arise.

- (C) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (CFC) on September 25, 2002.

Recommendation – To provide better financial information and control, the CFC chart of accounts, or equivalent, should be followed.

- (D) Management Financial Information – The Clerk’s financial reports to the City Council include cash and investment balances and year-to-date receipts and disbursements, but did not include comparisons to the certified budget by function. Also, the city library information was not included in the financial information provided to council.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function. Additionally, the library financial information should be included in this information on a monthly basis.

**City of Donnellson**  
**Detailed Recommendations**  
**For the Period July 1, 2014 through June 30, 2015**

- (E) Financial Reporting – The City has seven bank accounts and a petty cash fund for the city library which were not recorded in the City’s accounting system or reports to the council. The total balance in these accounts at year end was \$433,110. These accounts were included in the budget and annual financial report.

Recommendation – The City should record all City owned accounts in its accounting system.

- (F) Reconciliation of Utility Billings, Collections, and Delinquent Accounts – Utility billings, collections, and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review of the reconciliation should be evidenced by the signature or initials of the reviewer and the date of the review.

- (G) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for two transactions tested could not be located. Also, we noted the city paid sales tax on invoices for lawn mowing services and reimbursements to employees totaling \$28.21.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Also, the City should not pay sales tax to its vendors as it is exempt from sales tax.

- (H) Checks Signed in Advance – Certain checks are signed before the check payee and amount are completed.

Recommendation – Checks should not be signed in advance.

- (I) Payroll – One payroll tested did not have approval for the employee hours worked. Also, we noted one wage increase approved by council referred to a recommendation of the salary committee but did not specifically state the dollar amount of the new approved salary.

Recommendation – The City should have someone in authority review and approve employee hours on all timecards prior to payroll being processed each pay period. Also, City Council should approve specific pay rates when approving pay increases to ensure there is no question as to what the approved hourly or salary rates are.

**City of Donnellson  
Detailed Recommendations  
For the Period July 1, 2014 through June 30, 2015**

- (J) Separately Maintained Records – The library maintains separate accounting records for its operations. These transactions are resulting balances are not included in the City’s accounting records. Additionally, the library board approves the payment of all library bills including payroll. City Council does not review or approve the library claims.

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. Additionally, City Council should approve all city disbursements, including library disbursements.

- (K) Certified Budget – Disbursements at year end exceeded the amount budgeted in the general government 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 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (L) Business Transactions – Business transactions between the City and City officials are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dave Ellingboe, Mayor Owner, Donnellson Tire and Service	Fuel and repairs	\$15,990

In accordance with Chapter 362.5(k) of the Code of Iowa, these 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 legal counsel to determine the disposition of this matter.

- (M) Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include a list of all claims allowed and the reason for the claim. One meeting tested had no proof of publication, one meeting tested was published late. The minutes published did include a list of claims allowed but many of the claims listed did not list a reason or purpose for the claim. Additionally, the library claims are not included in the claims that are published.

Recommendation – The City should comply with the Code of Iowa and publish minutes within fifteen days as required and include the reason or purpose with the list of claims allowed as well as all claims, including library claims.

**City of Donnellson**  
**Detailed Recommendations**  
**For the Period July 1, 2014 through June 30, 2015**

- (N) Revenue Bonds Debt Service – The City paid the sewer revenue bonds from a special revenue fund, debt service account. The bond resolution requires the bonds to be paid from a sewer sinking account. Also, the annual financial report lists the incorrect amount for the current year debt issuance and balance of the SRF debt. Additionally, the annual financial report reports all debt as revenue debt when only the SRF debt is revenue debt. The remaining debt consists of bank loans which should be reported as general obligation debt.

Recommendation – The City should establish and pay the SRF sewer revenue bonds from the Enterprise Fund, Sewer Sinking Account and properly report debt transactions and balances on the annual financial report.

- (O) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (P) City Code of Ordinances – The City has not compiled the City ordinances within the past five years.

Recommendation – The City should obtain compile a code of ordinances at least once every five years in accordance with Chapter 380.8(1)(c) of the Code of Iowa.

- (Q) Issuance of Forms 1099 – The City paid an individual \$8,845 during the fiscal year for services performed for the City's water utility. These payments were not paid through payroll and no 1099 was issued to the individual as required by IRS regulations.

Recommendation – The City should issue 1099's to all individuals performing services for the City in excess of \$600 per calendar year. Additionally, the City should review IRS publications 15 and 1779 to determine if the individual should be paid as an independent contractor or employee.

**City of Donnellson**  
**Detailed Recommendations**  
**For the Period July 1, 2014 through June 30, 2015**

- (R) Insurance Reimbursements – The City reimbursed one employee for individual health insurance premiums. These payments were approved by council through a resolution.

IRS Notice 2015-17 and 2013-54 conclude that arrangements constituting employer payment plans such as those listed above fail to comply with market reforms established by the Affordable Care Act and may subject employers to the excise tax of \$100 per affected employee per day the employer is in violation of the market reforms. The IRS did offer small employer transition relief through June 30, 2015 during which time penalties would not be imposed.

Recommendation – The City should discontinue the practice of reimbursing employees for individual insurance plans and consult with legal counsel to determine the disposition of this matter.

- (S) Medical Expense Reimbursements – The City reimbursed or paid directly numerous prescription drug and medical bills for three full-time city employees. All of these payments were approved by council through a resolution. Payments such as these are considered stand-alone Health Reimbursement Arrangements under the Affordable Care Act and may subject employers to the excise tax of \$100 per affected employee per day the employer is in violation of the market reforms. These payments do not qualify for the small employer transition relief.

Recommendation – The City should discontinue the practice of reimbursing employees or paying directly employee prescription drug and medical bills. The City should also consult with legal counsel to determine the disposition of this matter.

City of Donnellson  
Staff

This examination was performed by:

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Kristy Adams, Staff Auditor