

**CITY OF MORAVIA, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

Table of Contents ---

Officials	1
Independent Accountant’s Report on Applying Agreed-Upon Procedures	2-3
Detailed Recommendations	4-8

Officials

Name	Title	Term Expires
Officials		
Irene Brooks	Mayor	December, 2015
Charles Turner	Council Member	December, 2015
Mike Gray	Council Member	December, 2015
G. E. Luse	Council Member	December, 2017
Kenneth Martin	Council Member	December, 2017
John Baty	Council Member	December, 2017
Sharla Stogdill	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 Moravia, 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 Moravia for the period July 1, 2014 through June 30, 2015. The City of Moravia'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 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.

7. 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.
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 recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA 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.

These agreed-upon procedures did not constitute an audit of the 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 Moravia, 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 Moravia and other parties to whom the City of Moravia 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

Traer, Iowa
October 27, 2015

Detailed Recommendations

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:

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

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.

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

- Chapter 380.7 of the Code of Iowa requires the Clerk to authenticate all measures except motions with a signature. In the four meetings tested, the minutes for three of the meetings were not signed by the Clerk.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include total disbursements from each fund. In the four meetings tested, the minutes for one meeting were not published within 15 days.
- Chapter 372.13(6) of the Code of Iowa requires minutes to include the total disbursements by fund. In the four meetings tested, the minutes for none of the meetings included total disbursements by fund.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- Chapter 372.13(6) of the Code of Iowa requires the publication of City Council minutes to include a list of claims allowed, including the reason for the claims. In the four meetings tested, the minutes for none of the meetings included the reason for all the claims.
- Chapter 372.13(6) of the Code of Iowa requires the publication of City Council minutes to include a summary of all receipts. In the four meetings tested, the minutes for two of the meetings did not include a summary of all receipts.

Recommendation - The City should comply with Chapter 380.7 of the Code of Iowa and ensure that the Clerk authenticates all measures except motions with a signature. The City should also comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes within 15 days and include total disbursements from each fund, the reason for the claims allowed and a summary of all receipts in the City Council minutes.

- (C) **Bank Reconciliations** - The cash balances in the City's general ledger were reconciled to bank account balances throughout the year. However, for the two months reviewed, bank and book balances did not properly reconcile. Variances of \$7,542.20 and \$130.77 were not resolved.

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

- (D) **Management Financial Information** - The Clerk's financial reports to the City Council did not include comparisons to the certified budget by function or a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund.

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. Also, for better financial information, the monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (E) **Official Depositories** - While a resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa, the resolution did not specify the maximum amount that may be kept on deposit at all depositories.

Recommendation - The City Council, by resolution, should specify the maximum amount that may be kept on deposit at all depositories as required by Chapter 12C.2 of the Code of Iowa.

- (F) **Certified Budget** - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works, 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

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (G) **Annual Financial Report** - Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city and all expenditures..." We were unable to agree beginning and ending fund balances, receipts or disbursements because City records were not available. In addition, we were unable to determine if Road Use Tax transactions were reported accurately in a Special Revenue Fund.

Recommendation - The City should ensure that the City's records from prior years are retained.

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

Recommendation - To provide better financial information and control, the COA or its equivalent should be followed.

- (I) **Receipts** - We performed a test of receipts per the general ledger compared to deposits to the bank for one month and noted a variance of \$484.35.

Recommendation - The City should establish procedures to ensure that all deposits are recorded in the City's records.

- (J) **Disbursements** - The following were identified:

- 11 of the 30 disbursements tested were transactions of the City Fire Department and Library, which were not included in the City's records. None of these transactions were approved by the City Council. In addition, we were unable to determine if these disbursements met the test of public purpose because there were no invoices or other supporting documentation available.
- 6 of the remaining 19 disbursements in our sample of 30 tested did not have invoices or other supporting documentation available.
- 1 of the 30 disbursements tested was not authorized by the City Council.

Recommendation - All disbursements should be supported by invoices or other supporting documentation. Also, the City should establish procedures to ensure that all disbursements are approved by the City Council. In addition, all disbursements of the City should be recorded in the City's books and records.

- (K) **Nonpayroll Transactions** - We reviewed nonpayroll disbursements to City personnel, 10 of the 28 disbursements tested did not have supporting documentation.

Recommendation - All disbursements should be supported by invoices or other supporting documentation.

- (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 for two of their three bank statements.

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

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (M) **Payroll** - Supporting documentation for the authorization of hourly rates was not available for four of the five employees tested.

Recommendation - The City Council should approve each employee's salary and document approval and hourly rate amounts as part of the minutes and in the employee's personnel file.

- (N) **Transfers** - The City transfers money to and from various funds periodically. However, these transfers were not approved by the City Council.

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.

- (O) **Accounting Policies and Procedures Manual** - The City does not have an accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- Aid in training additional or replacement staff.
- Help achieve uniformity in accounting and in the application of policies and procedures.
- Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.

- (P) **Petty Cash** - The City's petty cash funds were not included in the City's accounting records and resulting fund balances.

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 funds and accounts, including petty cash, should be included in the Clerk's accounting system.

- (Q) **Separately Maintained Records** - The City of Moravia Fire Department and Library maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records. Supporting documentation was not maintained for all disbursements from these accounts.

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. Supporting documentation should be maintained to support all disbursements.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (R) **General Obligation Bond** - Chapter 384.4 of the Code Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.” The City paid general obligation debt from funds other than the Debt Service Fund.

Recommendation - In the future, the City should transfer funds to the Debt Service Fund and pay general obligation debt principal and interest only from the Debt Service Fund.

- (S) **Payment of Debt** - Principal and interest payments of a loan for one month were not included in the City’s records.

Recommendation - The City should establish procedures to ensure that all debt payments are included in the City’s records.

- (T) **Section 148** - The City does not have written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code as it relates to debt obligations.

Recommendation - The City should establish written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code.