

CITY OF STOUT, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
AUGUST 1, 2014 THROUGH JULY 31, 2015

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Officials

Name	Title	Term Expires
Officials		
Joe Rich	Mayor	December, 2015
John Ross	Council Member	December, 2015
Deanne Ross	Council Member	December, 2017
Shirley Rogers	Council Member	December, 2015
Celane Hauser	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 Stout, 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 Stout for the period August 1, 2014 through July 31, 2015. The City of Stout'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 to determine whether it was completed and accurately reflects the City's financial information.

To the Honorable Mayor and
Members of the City Council
City of Stout, Iowa
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7. 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.
8. 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.
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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Stout, 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 Stout and other parties to whom the City of Stout 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

Waterloo, Iowa

November 24, 2015

Detailed Recommendations

Detailed Recommendations

For the Period August 1, 2014 through July 31, 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, reconciling and recording.
- Receipts - opening mail, collecting, depositing, 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, 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 should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) **City Council Minutes** - 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.

Recommendation - The City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes that include total disbursements from each fund.

(C) **Bank Reconciliations** - Bank reconciliations and monthly Clerk's reports are not prepared.

Recommendation - The City should establish procedures to ensure that bank reconciliations and a Clerk's report are prepared each month and that there is an indication of review by an independent person on each report.

Detailed Recommendations

For the Period August 1, 2014 through July 31, 2015

- (D) **Petty Cash** - The City did not include petty cash in a general ledger account. In addition, the City did not maintain a log of petty cash receipts and disbursements.

Recommendation - To provide better control and overall accountability, the City should maintain a log of petty cash and reconcile petty cash in a timely manner as well as include the balance in the general ledger.

- (E) **Credit Card** - The City Clerk has a credit card for supplies and other miscellaneous purchases. Receipts are not kept as support for all purchases and, therefore, cannot be reviewed by the City Council for approval.

Recommendation - All receipts should be kept to support purchases made on the credit card. Each receipt should be reviewed by an independent person and initialed and dated as indication of review.

- (F) **Management Financial Information** - During 2015, the City implemented new accounting software but did not enter transactions from six months of the year until right before this exam. In addition, we found that the Clerk did not have an adequate working knowledge of new software. Further, the Clerk's financial reports to the City Council included the agenda for the meeting as well as a list of claims to be paid and support for those claims but no other financial reports were provided.

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 of actual disbursements to the certified budget by function and a Clerk's report including beginning cash balance by fund, receipts by fund, disbursements by fund, transfers and ending cash balance. We also recommend that the Clerk obtain additional training on the new software.

- (G) **Official Depositories** - A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

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.

- (H) **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 to the City's records.

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

- (I) **Financial Condition** - As of June 30, 2015, the City had a deficit balance in the Water Fund.

Recommendation - The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

Detailed Recommendations

For the Period August 1, 2014 through July 31, 2015

- (J) **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 with their 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.

- (K) **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.

- (L) **Debt** - Payments on the loan were not recorded to the Debt Service Fund, and an accurate amortization schedule was not available for observation. In addition, the payments were not allocated between principal and interest.

Recommendation - The City should acquire an updated amortization schedule and follow the payment schedule. Payments on the loan should be recorded in the Debt Service Fund.

- (M) **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.

- (N) **Journal Entries** - The City Clerk makes journal entries to the City's general ledger but they are not reviewed by anyone else. In addition, we were unable to observe a report with the journal entries made during the period of exam; therefore, we were unable to test any of the journal entries.

Recommendation - We recommend that an independent person review the journal entries on a monthly basis and indicate review by initialing and dating the report.

- (O) **Local Option Sales Tax (LOST)** - The City did not have a copy of the most recent LOST ballot or revenue purpose statement. In addition, the City has not been tracking the use of LOST receipts.

Recommendation - The City should retain a copy of the LOST ballot and revenue purpose statement. In addition, the City should implement procedures to track LOST disbursements and transfers to ensure LOST receipts are being used in accordance with the ballot.

Detailed Recommendations

For the Period August 1, 2014 through July 31, 2015

- (P) **Separately Maintained Records** - The City Fire Department maintains a separate bank account for certain transactions. The bank statement for this account was not available for observation. Supporting documentation was not maintained for any disbursements from the account, and payments were not approved by the City Council.

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 and all disbursements should be approved.

- (Q) **Payroll** - Documentation of approved pay rate was not available for all employees. In addition, timesheets of hourly employees did not include evidence of supervisory review, nor were timesheets completed for all pay periods. We also noted one employee's timesheet showed she worked more hours than she was paid for.

Recommendation - The City Council should approve all employee salaries and wages and document that approval as part of the minutes and in the employee's personnel file. In addition, timesheets should be prepared for all pay periods and all timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (R) **Certified Budget** - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety 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 be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

- (S) **Disbursements** - Supporting documentation was not available for 13 of 30 disbursements tested. In addition, we were unable to trace some of the disbursements through the general ledger due to lack of description for each entry.

Recommendation - The City should maintain supporting documentation for all disbursements and include a general ledger account coding or description on the invoice.

- (T) **Receipts** - We were unable to reconcile cash receipts for one month per the bank statement to the general ledger.

Recommendation - The City should prepare reconciliations each month to ensure that cash receipts per the bank statements agree to the receipts per the general ledger and address any variances in a timely manner.