

**CITY OF WHITTEMORE, 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.....	4-7

Officials

Name	Title	Term Expires
Elected Officials		
Daniel J. Elbert	Mayor	December, 2017
Stuart Simonson	Council Member	December, 2017
Tim Schneider	Council Member	December, 2015
Rodney D. Johnson	Council Member	December, 2015
Karla Walker	Council Member	December, 2017
Rebecca Lancaster	Council Member	December, 2015
Appointed Official		
Linda Farrell	City Clerk	Indefinite

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

To the Honorable Mayor and
Members of the City Council
City of Whittemore, 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 Whittemore for the period July 1, 2014 through June 30, 2015. The City of Whittemore'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.

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 COA.
11. 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.
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 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 Whittemore, 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 Whittemore and other parties to whom the City of Whittemore 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

Clear Lake, Iowa
January 6, 2016

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:
- (1) Accounting system - performing all general accounting functions, including journal entries, and having custody of assets.
 - (2) Cash - handling, reconciling and recording.
 - (3) Investing - recordkeeping, investing, custody of investments and reconciling earnings.
 - (4) Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (5) Utilities - billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (6) Journal entries - preparing and journalizing.
 - (7) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (8) Payroll - entering rates into the system, recordkeeping, preparing, signing and distributing.
 - (9) Computer system - performing all general accounting functions and controlling all data input and output.
 - (10) Financial reporting - preparing and reconciling.

Recommendation - We realize that segregation of duties is difficult with the 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 and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) **Bank Reconciliations** - While money market and savings accounts were reconciled to bank account balances throughout the year, we noted variances related to interest income for the months tested. We tested December, 2014 and June, 2015 and noted variances of \$59.83 and \$85.21, respectively.

In addition, we reviewed the checking account for December, 2014 and June, 2015 and noted variances of \$54.22 and \$1.49, respectively, were not resolved. We also noted, no independent review of the bank reconciliations and monthly reconciliation of the investment accounts was performed.

Each outstanding check list reconciliation groups the long-outstanding checks into one amount and does not include the dates that checks were written.

Detailed Recommendations

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

Recommendation - The City should post interest income in the month received. The City should establish procedures to ensure that bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely. The outstanding check list should include each check listed individually and include the check number, date written and amount. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

- (C) **Certified Budget** - We tested the Certified Budget and Certified Amended Budget for the year ended June 30, 2015 which was filed during the period of our engagement. Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, community and economic development and general government functions and business-type/enterprises. 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.

- (D) **Financial Condition** - As of June 30, 2015, the City had a deficit balance of \$1,200,483 in the General Fund and a deficit balance of \$135,233 in the Water Fund.

Recommendation - The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

- (E) **Deposits and Investments** - While the City has adopted a written investment policy, it is not in compliance with Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa; however, it did not state the maximum amounts that are allowed to be invested in each depository.

Recommendation - The City should update their written investment policy to comply with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (F) **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.

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

- 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 for each fund. The minutes were properly published for all meetings tested but did not include total disbursements for each fund.
- The City Council went into closed session on June 1, 2015. The minutes did not document the affirmative roll call vote as required under Chapter 21.5 of the Code of Iowa.

Detailed Recommendations

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

Recommendation - The City should comply with the Code of Iowa and ensure that the minutes contain a list of claims, summary of receipts and total disbursements by fund. The minutes should also document the City Council's approval of all activity and the affirmative roll call vote of each member.

- (H) **Disbursements** - Aflac and Welmark BlueCross payments were considered regular monthly disbursements, but there is no resolution approving payment of regular monthly disbursements prior to City Council approval. These payments are never specified in the minutes.

During our testing of other disbursements, we noted one disbursement that was approved at the monthly City Council meeting after the invoice was paid. We also found two invoices which were adjusted and lowered after City Council approval but before checks were written. The City Council never approved the new amount. Lastly, due to the City maintaining disbursement listings on a manual spreadsheet, the City is not classifying disbursements by function in accordance with the recommended COA.

Recommendation - All invoices should be approved by the City Council and documented in the minutes at the actual amount paid. If regular monthly disbursements are paid before the City Council meeting, there should be a resolution allowing this, and those amounts should still be included in the minutes. We also recommend that City employees obtain training to utilize the computer system to better maintain the City's accounting records.

- (I) **Water Revenue Bonds and Notes** - The City's 2009 water revenue note resolution requires repayment solely from the net receipts of the Enterprise, Water Fund and states the debt repayments are not payable in any manner by taxation. The City is required to establish a water sinking account and make sufficient monthly transfers to this account from the Enterprise, Water Fund for making the required debt payments. The City has not established the water sinking account and transfers were not made.

Further, the 2009 water revenue note requires the City to maintain user rates at a level to ensure net receipts are equal to at least 110% of the principal and interest due in that year. Since the City's Enterprise, Water Fund is in a deficit position, the City has not maintained sufficient user rates.

Recommendation - The City should establish a sinking fund and make monthly transfers equal to 1/12th and 1/6th of the principal and interest payments coming due, respectively, and future note payments should be made from the sinking account, as required.

The City should adjust user rates or reduce other expenses to ensure net receipts equal at least 110% of the principal and interest due each year.

- (J) **Unclaimed Property** - Chapter 556.11 of the Code of Iowa requires cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State.

Recommendation - Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State.

Detailed Recommendations

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

- (K) **Cash Receipts** - For the month of June, we compared all cash receipts posted to the City's financial records with the total deposits reported on the bank statement and noted a variance of \$200.

Recommendation - The City should reconcile cash receipts to bank deposits each month.

- (L) **Annual Financial Report** - The 2015 Annual Financial Report General Fund receipts and disbursements included the equipment account activity. Since the equipment account is already part of the General Fund, both receipts and disbursements were overstated by \$39,709.

Recommendation - The City should ensure that all receipts and disbursements are properly included on the Annual Financial Report by reconciling all totals to the City's financial reports and having an independent person review the report for accuracy.

- (M) **Monthly Clerk's Report** - The monthly Clerk's report presented to the City Council for approval does not include comparisons to the certified budget by function.

Recommendation - To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly Clerk's reports to the City Council should include comparisons to the certified budget by function.