

**CITY OF RIDGEWAY, 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		
Paul Stevens	Mayor	December, 2015
Allyn Linderbaum	Council Member	December, 2015
Sue Schnur	Council Member	December, 2015
Rosemary Vopava	Council Member	December, 2015
Ethan Novotny	Council Member	December, 2016
Scott Engelhardt	Council Member	December, 2016
Sharla Berns	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 Ridgeway, 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 Ridgeway for the period August 1, 2014 through July 31, 2015. The City of Ridgeway'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 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 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 Ridgeway, 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 Ridgeway and other parties to whom the City of Ridgeway 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 25, 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.
- Debt - recordkeeping, compliance and debt payment processing.
- Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- 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) **General Ledger** - The City was unable to produce a general ledger detail report. This prevented us from being able to determine whether certain transactions were properly recorded.

Recommendation - The City should ensure that the City Clerk has adequate training and resources available to prepare necessary reports and operate the City's accounting software.

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

- Chapter 372.13(6) of the Code of Iowa requires minutes to include the total disbursements by fund. In the four meetings tested, minutes for none of the meetings included total disbursements by fund.
- 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 none of the meetings included a summary of all receipts.

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 and a summary of all receipts.

Detailed Recommendations

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

(D) **Bank Reconciliations** - While bank reconciliations were prepared, the following were identified:

- For the two months reviewed, there was no indication of an independent review of the bank reconciliations.
- Bank reconciliations are not properly prepared taking the bank balance, detailing reconciling items and agreeing the result to the general ledger.
- For one month reviewed, one of eight reconciled book balances did not agree to the City's reports.
- For the two months reviewed, the investment balances were not reported on the bank reconciliations and a schedule of investments was not prepared.
- For the two months reviewed, the outstanding checks and deposit listing included old outstanding deposits that were improperly included on the bank reconciliation.

Recommendation - The City should establish procedures to ensure that bank reconciliations are prepared in the proper format and amounts reported on the bank reconciliations agree to the City's records, bank statements, investment statements and any other supporting documentation. In addition, the City should establish procedures to ensure that variances are reviewed and resolved in a timely manner. Also, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

(E) **Unclaimed Property** - Chapter 556.11 of the Code of Iowa requires all 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 annually.

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

(F) **Monthly Clerk's Report** - A monthly clerk's report is not prepared.

Recommendation - A monthly clerk's report should be prepared and should include beginning fund balances, receipts, disbursements and transfers and should agree to ending fund balances. All fund balances should agree to monthly bank reconciliations. In addition, the report should be presented to the City Council for approval. The report should also include comparisons of actual disbursements to the certified budget by function.

(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.

Detailed Recommendations

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

- (H) **Investment Policy** - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (I) **Financial Condition** - As of July 31, 2015, the City had deficit balances in the Community Center, Road Use Tax, Water and School Building Funds.

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

- (J) **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 ending fund balances to the City's general ledger.

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

- (K) **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 its 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.

- (L) **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.

- (M) **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

- (N) **Prenumbered Receipts** - Prenumbered receipts were not issued for all collections and an initial listing of daily collections was not prepared.

Recommendation - Prenumbered receipts should be issued for all collections and an initial listing of daily collections should be prepared. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (O) **Debt** - Payments of debt were not allocated between principal and interest within the general ledger.

Recommendation - The City should allocate debt payments between principal and interest in the general ledger.

- (P) **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 agreements.

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.

- (Q) **Journal Entries** - Journal entries made to the general ledger are not reviewed and approved by an independent individual.

Recommendation - An independent individual should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (R) **Reconciliation of Utility Billings and Collections** - Utility billings and collections were not reconciled throughout the year. When we performed analytical procedures to test utility billings, we found a significant variance between actual revenue and the receipt listing. Also, we were unable to review City officials' accounts in order to test selected billings to collection and deposit to the bank.

Recommendation - Procedures should be established to reconcile utility billings and collections for each billing period. The City Council or another independent individual designated by the City Council should review the reconciliations and document their review. In addition, all billing and collection documentation should be retained.

- (S) **Receipts** - We performed a test of receipts from bank deposits to the revenue guideline report for one month. We noted that the bank deposits exceeded the revenue guideline report total by \$422.98.

Recommendation - The City should establish procedures to ensure deposits are reconciled to the City's general ledger.

- (T) **Property Tax Receipts** - Property tax receipts for the period of this report, per the bank statements, exceeded receipts per the revenue guideline reports by \$182.90.

Recommendation - Property tax receipts should be reconciled to the general ledger each month.

Detailed Recommendations

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

- (U) **Disbursements** - Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for 4 of 30 disbursements selected could not be located. We were also unable to trace 4 of 30 disbursements to the claims listing approved by the City Council. In addition, we noted one disbursement that exceeded the amount of the invoice by \$250.

Recommendation - All disbursements should be supported by invoices or other supporting documentation before checks are issued and the documentation then filed in a logical order. All disbursements should be reviewed and approved by the City Council.

- (V) **Questionable Disbursements** - During the year, City funds were disbursed to pay 100% of the cost of cell phones used by two City employees. Neither employee has a separate cell phone for personal use. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The City should determine a reasonable percentage of cell phone usage which was personal and seek reimbursement for that portion of the disbursement.

- (W) **Payroll** - The City does not maintain supporting documentation to indicate the approved salaries and wages for its employees. We also noted that raises are indicated in the minutes as a percentage increase. Timesheets were not available for all pay periods for some employees and none of the timesheets included evidence of supervisory review. However, all payroll claims are published in the minutes which are approved by the City Council.

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 employees and should be reviewed and approved by supervisory personnel prior to processing payroll.

- (X) **Nonpayroll Transactions** - The City was unable to provide support for two nonpayroll transactions with City employees totaling \$20.

Recommendation - The City should maintain supporting documentation for all disbursements.

- (Y) **Budget** - The budget approved on March 10, 2014 for the fiscal year 2015 did not agree with the budget column of the 2015 Annual Financial Report, and no amendments were passed during the year.

Recommendation - The City should file amendments if changes to the budget are necessary in accordance with Chapter 384.18 of the Code of Iowa, or ensure that accurate budget amounts are being used on the Annual Financial Report.