

**CITY OF SPILLVILLE, 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		
Jeff Ira	Mayor	December, 2015
Renee Wagner	Council Member	December, 2015
Darrell Schmitt	Council Member	December, 2015
Ben VanHorn	Council Member	December, 2017
Scott Balik	Council Member	December, 2017
Tom Straube	Council Member	December, 2017
Joane Kulish	City Clerk	Indefinite

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

To the Honorable Mayor and
Members of the City Council
City of Spillville, 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 Spillville for the period August 1, 2014 through July 31, 2015. The City of Spillville'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 Spillville, 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 Spillville and other parties to whom the City of Spillville 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 17, 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:

- Cash - handling, reconciling and recording.
- Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- Payroll - recordkeeping, preparing and distributing.
- Utilities - billing, collecting, depositing and posting.
- Financial reporting - preparing and reconciling.
- Journal entries - preparing and journalizing.

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 documented by the signature or initials of the reviewer and the date of review.

(B) **City Council Minutes** - 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, none of the minutes included the reasons for the claims.

Recommendation - The City should comply with Chapter 372.13(6) of the Code of Iowa and include a list of all claims allowed, including the reason for each claim in the City Council minutes.

(C) **Bank Reconciliations** - The investment balances in the City's general ledger were not reconciled to investment account balances in a timely manner throughout the year. For the two months reviewed, bank and book balances did not properly reconcile for one of the months. Also, the list of outstanding checks each month does not include the date the check was written. In addition, while a council member reviews bank reconciliations, there is no evidence of review documented on the reconciliation.

Recommendation - The City should establish procedures to ensure that all cash and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. The listing of outstanding checks should include the date the check was written, the check number, and the amount the check was written for. In addition, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Detailed Recommendations

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

- (D) **Petty Cash** - The City did not reconcile the petty cash in a timely manner. 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.

- (E) **Management Financial Information** - The Clerk's financial reports to the City Council did not include comparisons to the certified budget by function each month.

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

- (F) **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.

- (G) **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. We were told that subsequent to our exam, the City did adopt written procedures to monitor compliance.

- (H) **Form 1099** - The should have issued Form 1099 to certain vendors for calendar year 2014, but did not.

Recommendation - The City should establish procedures to ensure that Form 1099 is prepared in a timely manner each year for applicable vendors.

- (I) **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 daily collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

Detailed Recommendations

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

- (J) **Disbursements** - Supporting documentation was not available for 1 of 30 disbursements tested in the amount of \$6.95. This receipt was for a purchase made by the Library with a credit card. We also noted that no receipts or invoices are kept as support for purchases made with the Library credit card.

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

- (K) **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 - In order to provide better financial information and control, the COA, or its equivalent, should be followed.

- (L) **Payroll** - The City does not maintain supporting documentation to indicate that the City Council approved salaries for its employees. We also noted that raises are indicated in the minutes as a percentage increase. The timesheets of hourly employees did not include evidence of supervisory review. However, all payroll claims are published in the minutes which are approved by the council. In addition, we noted that some employees received "back pay" for raises that should have been applied to their first paycheck in July. In both paychecks tested that included "back pay," hours worked before the raises were implemented were used in the calculation.

Recommendation - The City Council should approve all employee salaries and document that approval as part of the minutes and in the employee personnel files. In addition, all timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Lastly, raises should be properly applied to those hours worked after the raise is effective.

- (M) **Journal Entries** - The City Clerk makes journal entries to the City's general ledger but they are not reviewed by anyone else.

Recommendation - We recommend that the City Treasurer review the journal entries on a monthly basis.

- (N) **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.

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

- (O) **Reconciliation of Utility Billings, Collections and Delinquent Accounts** - While utility billings, collections and delinquent accounts were reconciled monthly, the reconciliation selected for testing did not agree to the general ledger.

Recommendation - The City should establish procedures to ensure that the reconciliation agrees to the general ledger and any variances be addressed in a timely manner.

Detailed Recommendations

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

- (P) **Debt** - An updated amortization schedule was not available for observation. In addition, the allocation between principal and interest per the general ledger did not agree with the schedule received from the bank.

Recommendation - The City should acquire an updated amortization schedule and record disbursements for debt service in accordance with the payment schedule.

- (Q) **Separately Maintained Records** - The City Library maintains separate bank accounts for certain transactions. The bank statements for these accounts were not available for observation. Supporting documentation was not maintained for all disbursements from the 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.

- (R) **Official Depositories** - An official depository had not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa for the period of exam, but has since been implemented.

Recommendation - The City Council should annually review the official depository for necessary changes.