



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 10, 2016

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Welton, Iowa for the period July 1, 2015 through June 30, 2016. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible, including independent review of reconciliations and journal entries. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. In addition, the City should investigate alternatives to eliminate deficit balances and review utility rates to ensure the rates are adequate to meet revenue bond resolution requirements.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1622-0213-EPOP>.

###

CITY OF WELTON
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Computer System	B 8
Bank Reconciliations	C 8
Annual Financial Report	D 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	E 9
Receipts	F 9
Disbursements	G 9
Credit Card	H 9
Payroll	I 10
Accounting Policies and Procedures Manual	J 10
Transfers	K 10
Certified Budget	L 10
Revenue Bonds	M 11
Financial Condition	N 11
Local Option Sales Tax	O 11
Staff	12

City of Welton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Glen Boswell	Mayor	Jan 2016	Jan 2018
Lorelei Moen	Council Member	Apr 2016	Nov 2017
Cindy Jacobsen	Council Member	Jan 2014	Jan 2018
Billy Koranda	Council Member	Jan 2014	Jan 2018
Dena Mandersheid	Council Member	Jan 2016	Jan 2020
Ed Novak	Council Member	Jan 2016	Jan 2020
LeAnn McCallister	City Clerk		Indefinite
Brad Boffelli	Attorney		Indefinite

City of Welton



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

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 Welton for the period July 1, 2015 through June 30, 2016. The City of Welton'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 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 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 non-compliance were not noted during the performance of the specific procedures listed above.

These agreed-upon procedures do not constitute an audit of 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 Welton, 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 Welton and other parties to whom the City of Welton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Welton during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

August 11, 2016

Detailed Recommendations

City of Welton

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

(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, having custody of assets and controlling all data input and output.
- (2) Cash - handling, reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Long-term debt – recordkeeping, compliance and debt payment processing.
- (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) 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 and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

(B) Computer System – The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins or passwords and does not prevent reuse of the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City's control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

(C) Bank Reconciliations – The cash balances in the City's general ledger were reconciled to bank account balances throughout the year. However, an independent review of the bank reconciliations was not performed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Welton

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (D) Annual Financial Report – The total fund balance of \$87,794 reported on the fiscal year 2015 Annual Financial Report (AFR) was \$75,343 greater than the City’s bank balance of \$12,451. The AFR omitted \$51,792 and \$5,075 in disbursements for the Enterprise, Water and Sewer Funds, respectively. In addition, the City incorrectly reported debt outstanding on the AFR as \$37,000, \$1,062,000 less than the \$1,099,000 debt outstanding at June 30, 2015.

Recommendation – The City should implement procedures to ensure all financial information, including outstanding debt, is properly reported on the AFR. An independent person should review the report for accuracy and document the review by signing or initialing and dating the report.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

- (F) Receipts – For one month tested, the City recorded a property tax receipt twice which caused receipts to be overstated by \$1,257.

Recommendation - The City should establish procedures to ensure receipts are recorded correctly in the accounting system.

- (G) Disbursements - Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for two transactions tested could not be located. Two transactions tested were not approved by the City Council. Two transactions tested were approved by City Council, but not for the amount recorded in the general ledger.

Recommendation - All disbursements should be supported by invoice or other supporting documentation. All disbursements should be approved by the City Council. The City should establish procedures to ensure the disbursements listings provided for review at each monthly City Council meeting reconcile to the amounts recorded in the City’s general ledger.

- (H) Credit Card – The City has a credit card for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City’s credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to support the purchase.

City of Welton

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

(I) Payroll – The following were identified during our payroll testing:

- (1) Timesheets are not required for salary employees.
- (2) Timesheets for hourly employees did not include evidence of supervisory review.
- (3) There was no evidence the City Council approved employees' salaries wage rates.
- (4) An independent person does not test wages and withholdings to ensure payroll calculations are correct.

Recommendation – Timesheets should be prepared by all employees and should be reviewed and approved by supervisory personnel prior to processing payroll. The City Council should approve pay rates for City employees at the time of hiring and when raises occur. Salary and wage rate approval should be documented in the minutes record. An independent person should periodically review and test wage and withholding rates entered in the system to ensure accurate payroll calculations. Evidence of the review/testing should be retained.

(J) 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:

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

(K) Transfers - While interfund transfers are approved by the City Council, they are not approved prior to the City Clerk recording the transfers in the general ledger.

Recommendation – Interfund transfers should not be recorded in the general ledger until they are properly approved.

(L) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the public works function. 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.

City of Welton

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

(M) Revenue Bonds – The provisions of the water revenue bond resolution require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they become due. For the year ended June 30, 2016, the City’s general ledger for the Enterprise, Water Fund reported net operating receipts of \$42,789, \$29,778 less than the net receipt requirement of \$72,567. In addition, the provisions of the water revenue bonds require sufficient monthly transfers be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City has established a water revenue bond sinking account. However, monthly transfers were not made to this account.

Recommendation – The City should consult legal counsel and review the City’s utility rates to ensure the rates are adequate to produce the required net operating receipts. The City should make the required monthly transfers to the water revenue bond sinking account.

(N) Financial Condition – At June 30, 2016, the City had deficit balances of \$2,824, \$2,057, \$26,042, \$55,159 and \$4,233 in the Special Revenue, Road Use Tax, Debt Service and Enterprise, Water, Sewer and Garbage Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

(O) Local Option Sales Tax – The City’s Local Option Sales Tax (LOST) ballot requires LOST receipts to be used 100% for sewer construction projects. The City’s LOST receipts are transferred to the General Fund and documentation is not maintained to support how the funds are used or the unspent balances held for the specified purposes.

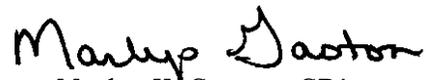
Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

City of Welton

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, CGFM, Manager
Joseph B. Sparks, Staff Auditor
Alex M. Kawamura, CPA, Assistant Auditor


Marlys K. Gaston, CPA
Director