

CITY OF UNION, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016

Table of Contents ---

Officials	1
Independent Accountant’s Report on Applying Agreed-Upon Procedures	2-3
Detailed Recommendations.....	4-9

Officials

Name	Title	Term Expires
Officials		
Thomas Pieper	Mayor	December, 2017
Nathan Bernard	Council Member	December, 2017
Alan Donaldson	Council Member	December, 2017
Cheryl Halverson	Council Member	December, 2019
Stephanie Carson	Council Member	December, 2019
Candy Wait	Council Member	December, 2019
Kristi Schiebel	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 Union, 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 Union for the period April 1, 2015 through March 31, 2016. The City of Union'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 (CFC) recommended uniform chart of accounts 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 (AFR) 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 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 CFC recommended chart of accounts.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts 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.

We were not engaged to and did not conduct an audit of the City of Union, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Union, 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 Union and other parties to whom the City of Union 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

Traer, Iowa
July 14, 2016

Detailed Recommendations

Detailed Recommendations

For the Period April 1, 2015 through March 31, 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:

- Accounting system - performing all general accounting functions, including journal entries, and having custody of assets.
- Cash - handling, reconciling and recording.
- Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- Utilities - billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- Debt - recordkeeping, compliance and debt payment processing.
- Journal entries - preparing and journalizing.
- 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 and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) **Bank Reconciliations** - We reviewed bank reconciliations for two months, noting the following:

- (1) The reconciliations were not reviewed by an independent person.
- (2) The December, 2015 bank reconciliation for the Union Public Library could not be located.
- (3) The December, 2015 bank reconciliation for the Union Emergency Services did not include \$68.99 in interest earned in September and October, 2015.
- (4) The March, 2016 bank reconciliation for the Union Emergency Services did not include \$150.46 in interest earned from September, 2015 to March, 2016.

Detailed Recommendations

For the Period April 1, 2015 through March 31, 2016

- (5) Supporting documentation could not be provided for 24 of 32 reconciling items on the December, 2015 bank reconciliation for the City's main checking account.
- (6) Supporting documentation could not be provided for 22 of 27 reconciling items on the March, 2016 bank reconciliation for the City's main checking account.

Recommendation - To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and retained, and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review. Interest earned on all accounts, including certificates of deposit, should be recorded when earned. Reconciling items should be investigated to determine the appropriate course of action for each, rather than repeating those items on the reconciliations for extended periods of time.

- (C) **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 - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council.

- (D) **Investments** - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Additionally, the location of the investment documentation for the City's four certificates of deposit was not known or readily available.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. All investment documents should be under the control of a responsible City official and be kept in a safe deposit box or vault.

- (E) **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.

Detailed Recommendations

For the Period April 1, 2015 through March 31, 2016

(F) **City Council Minutes** - We reviewed the minutes for four meetings and identified the following:

(1) 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 a summary of receipts and a listing of each claim being paid, along with a reason for each claim. The minutes for the November 10, 2015 meeting were not published. The minutes for the February 9, 2016 and March 8, 2016 meetings did not include a summary of receipts. For each of the four meetings tested, the minutes did not include a complete list of claims paid and reasons for each claim.

(2) Chapter 380.7 of the Code of Iowa requires minutes to be printed and signed. The minutes for the November 10, 2015 meeting were not signed by the City Clerk.

Recommendation - The City should comply with the Code of Iowa and publish City Council minutes within 15 days and include a summary of receipts, a complete listing of claims paid and a reason for each claim paid in the minutes. In addition, all minutes and resolutions adopted should be signed to authenticate, as required.

(G) **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 for all transactions, including debt service payments.

(H) **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.

(I) **Management Financial Information** - The Clerk's financial reports to the City Council included cash, investment and ending fund balances and year-to-date receipts and disbursements but did not include a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund. Additionally the Clerk's financial reports to the City Council did 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 Clerk's monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, the monthly reports should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

Detailed Recommendations

For the Period April 1, 2015 through March 31, 2016

(J) **Receipts** - The following were identified:

- (1) For the month of March, 2016, the City could not reconcile between deposits shown on the bank statement and cash receipts recorded in the general ledger. The difference was \$37.80.
- (2) Property tax receipts for the month of September, 2015, in the amount of \$8,081.47, were recorded twice in error.
- (3) Pre-numbered receipts were not issued for all revenue collections and an initial listing of collections was not prepared.
- (4) No procedures exist to reconcile amounts collected to records of amounts billed.

Recommendation - Pre-numbered receipts should be issued for all revenue collections and an initial listing of revenue collections should be prepared. These revenue collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of the review should be documented. The City should establish procedures to reconcile amounts received to records of billings and investigate and respond accordingly to amounts which remain unpaid.

(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 for the Monument Fund, Fire Department or Public Library checking accounts.

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

(L) **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..." The City's Annual Financial Report reported receipts, disbursements and fund balances which did not agree with the City's general ledger.

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

(M) **Disbursements** - We reviewed 30 disbursements and the following were identified:

- (1) Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for 3 of 30 transactions tested could not be located.
- (2) 17 of 30 disbursements tested were not included in the list of claims approved by the City Council.
- (3) While the City does record total receipts and disbursements for the Emergency Services, Public Library and Fire Department each month, the amount and payee for each check written is not recorded.

Detailed Recommendations

For the Period April 1, 2015 through March 31, 2016

- (4) Supporting documents for claims are not effectively canceled at the time of approving for payment to prevent them from being paid twice.
- (5) Processing of invoices for payment does not include mathematical check of footings, extensions and discounts.
- (6) There was no evidence of review of supporting documentation for any of the disbursements tested.

Recommendation - All disbursements should be supported by invoices or other supporting documentation, and each invoice should be approved by the City Council, including those for the Emergency Services, Public Library and Fire Department. The general ledger should include an amount and payee for each check written by the City, including those for the Emergency Services, Public Library and Fire Department. The procedures for approving invoices for payment should include mathematical checking of footings, extensions and discounts. Following approval for payment, each invoice should be effectively canceled to prevent its reuse, and the independent reviewer should evidence their review with signature or initials and date.

(N) **Payroll** - The following were identified:

- (1) Although time cards are maintained for hourly employees, for the months tested, there was no indication that the time cards had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.
- (2) Rates of pay for employees of the Union Public Library are approved by the Board of Directors of the Library but not the City Council.
- (3) The City could not locate evidence of the approved pay rate for one of five employees tested.
- (4) The City could not locate a timecard for one of five employees tested.

Recommendation - Time cards should be reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll. The approval should be evidenced by the signature or initials of the reviewer and the date of the review, and the timecards should be retained. Approved salaries and/or hourly pay rates of employees, including those of the Emergency Services, Public Library and Fire Department, should be documented annually in the City Council minutes.

(O) **Local Option Sales Tax (LOST)** - The City did not have a copy of the most recent LOST ballot or revenue purpose statement so we were unable to determine LOST receipts were expended as required by local ballot provisions.

Recommendation - The City should retain a copy of the LOST ballot and revenue purpose statement.

Detailed Recommendations

For the Period April 1, 2015 through March 31, 2016

- (P) **Transfers** - The City appropriately transfers money from the Water Fund to the Water Sinking Fund for debt service payments. However, these transfers were not always approved by the City Council prior to the actual transfer.

Recommendation - The City Council should approve all fund transfers prior to the actual transfer and document approval and amounts as part of the minutes record.

- (Q) **Questionable Disbursement** - During the year, \$100 was donated to an individual whom was determined to be in need. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

- (R) **Financial Condition** - As of March 31, 2016, the City had deficit balances of \$73,167 and \$10,211 in the Road Use Tax and Sewer Funds, respectively.

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

- (S) **Library Board Minutes** - The minutes for the August 10, 2015 Library Board of Trustees meeting did not show sufficient information to indicate the vote of each member present and did not include a summary of all receipts.

Recommendation - The minutes for Library Board of Trustees meeting should document the vote of each member present and include a summary of all receipts in accordance with Chapter 372.13(6) of the Code of Iowa.

- (T) **Reconciliation of Utility Billings, Collections and Delinquent Accounts** - While a delinquent account listing was prepared monthly, 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 evidenced by the signature or initials of the reviewer and the date of the review.