



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

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NEWS RELEASE

FOR RELEASE

January 29, 2019

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Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Buckeye, Iowa for the period January 1, 2017 through December 31, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain the maximum internal control possible. The City should also establish procedures to reconcile bank and investment account balances to the City's records monthly. In addition, the City should comply with the Code of Iowa requirements to obtain and retain images of both the front and back of cancelled checks for all bank accounts.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF BUCKEYE

AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

Table of Contents

		<u>Page</u>
Officials		3
Auditor of State’s Independent Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Bank Reconciliations	B	8
Chart of Accounts	C	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D	8
Deposits and Investments	E	9
Electronic Check Retention	F	9
Monthly City Clerk’s Report	G	9
Disbursements	H	9
City Council Meeting Minutes	I	9
Business Transactions	J	10
Supporting Documentation	K	10
Recorded Receipts	L	10
Payroll Taxes	M	10
Local Option Sales Tax	N	11
Separately Maintained Records	O	11
Staff		12

City of Buckeye

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Gordon Koltermen	Mayor	Jan 2016	Jan 2018
Amy Klaffke	Council Member	Jan 2014	Jan 2018
Cindy Klaffke	Council Member	Jan 2014	Jan 2018
Donald Bahr	Council Member	Jan 2016	Jan 2020
Donald Fraser	Council Member	Jan 2016	Jan 2020
Julie Lycke (Appointed Feb 2018)	Council Member	Feb 2018	Nov 2021
Heather Vierkandt	City Clerk		Indefinite
Jill Fraser	Treasurer		Indefinite
Taylor Nederhoff	Attorney		Indefinite

City of Buckeye



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Auditor of State's Independent 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 Buckeye for the period January 1, 2017 through December 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Buckeye's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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 2017 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 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.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Buckeye 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.



Rob Sand
Auditor of State

December 19, 2018

Detailed Recommendations

City of Buckeye

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (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. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Investments - recordkeeping, investing, custody of investments and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (5) Payroll – recordkeeping, preparing and distributing.
 - (6) Financial reporting – preparing and reconciling.
 - (7) Accounting system – performing all accounting functions and having custody of assets.

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 the review.

- (B) Bank Reconciliations – The cash and investment balances in the City’s financial records were not reconciled to the bank and investment account balances throughout the year. For the month reviewed, June 2017, the cash and investment account balances reconciled to the City’s financial records.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the City’s financial records monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review all bank reconciliations and document the review by signing or initialing and dating the reconciliations.

- (C) 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.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (D) 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 should be documented by the signature or initials of the reviewer and the date of the review.

City of Buckeye

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (E) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, 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 should adopt a written investment policy which complies 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) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

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

- (G) Monthly City Clerk's Report – The monthly City Clerk's reports presented to the City Council did not include receipts, disbursements, transfers or beginning and ending fund balances for each fund. Also, the monthly reports did not include a comparison of actual disbursements to certified budget by function.

Recommendation – To provide better financial accountability, the City should establish procedures to ensure monthly City Clerk's reports include receipts, disbursements, transfers and balances for each fund. Also, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City should establish procedures to ensure monthly City Clerk's reports include a comparison of total disbursements for all funds to the certified budget by function.

- (H) Disbursements – While the City Council notes approval of claims in the City Council meeting minutes, a list of claims is not prepared for City Council review and evidence of approval is not indicated on the invoices.

Recommendation – The City should establish procedures to authenticate a detailed listing of claims or document approval on each invoice.

- (I) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted within fifteen days of the meeting and include total disbursements from each fund, a list of claims allowed and a summary of receipts. The City did not retain documentation to indicate timely posting or to evidence the postings included total disbursements from each fund, a listing of claims allowed and a summary of receipts.

Recommendation – The City should retain documentation to evidence compliance with the Code of Iowa, including evidence City Council meeting minutes are posted within fifteen days and the minutes postings include a list of claims allowed, a summary of receipts and total disbursements by fund, as required.

City of Buckeye

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (J) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Michael Vierkandt, employee of City, spouse of City Clerk, owner of Vierkandt Farms	Community Center remodel	\$ 15,975

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (K) Supporting Documentation – Invoices or other supporting documentation were not available for two disbursements tested. In addition, paid invoices or other supporting documentation are not properly canceled.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. The City should cancel paid invoices or other supporting documentation to prevent reuse.

- (L) Recorded Receipts – The following were identified:

- Three local option sales tax receipts totaling \$2,838 were incorrectly recorded as road use taxes receipts.
- Two road use tax receipts in the amounts of \$722 and \$558 were incorrectly recorded as property taxes and local option sales tax, respectively.
- Property taxes collected for one month in the amount of \$238 were incorrectly recorded as local option sales tax.
- A donation received in the amount of \$6,075 was incorrectly recorded as garbage fees.

Recommendation – The City should implement procedures to ensure all transactions are properly recorded in the City’s records.

- (M) Payroll Taxes – The City pays both the employer’s and the employee’s share of the City Clerk’s FICA. The City Clerk’s share of FICA for the period reviewed was \$258.

Recommendation – The City should withhold and remit the employee’s share of FICA for all employees. The City should seek reimbursement from the City Clerk for the employee’s share of FICA paid by the City prior to and during the period reviewed.

City of Buckeye

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (N) Local Option Sales Tax – The City is not properly tracking the use and unspent balance of local option sales tax (LOST) receipts to demonstrate compliance with the LOST ballot. The City’s LOST receipts were transferred to the General Fund and no documentation to support the transfer was maintained. Per the LOST ballot, these funds are to be used 70% for capital improvements and equipment and 30% for community programs and services.

Recommendation – The City should properly track the use of LOST receipts, including the unspent balance, to demonstrate compliance with the LOST ballot. Subsidiary ledgers should be maintained or separate funds should be used to track each purpose.

- (O) Separately Maintained Records – 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.”

The City Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. While the Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

City of Buckeye

Staff

This engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager
Zachary J. Koziolk, Staff Auditor


Marlys K. Gaston, CPA
Deputy Auditor of State