



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

February 14, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Searsboro's Periodic Examination Report dated March 23, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period December 1, 2017 through June 30, 2018.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While the City corrected six of the fourteen findings reported in the Periodic Examination Report dated March 23, 2016 and partially corrected three of the findings, five of the findings are reported as "not corrected." Six additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Searsboro's Report on the Status of Periodic Examination Findings and Recommendations 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 SEARSBORO

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2017 THROUGH JUNE 30, 2018**

Table of Contents

		<u>Page</u>
Officials		3
Auditor of State’s Independent Report on the Status of Periodic Examination Findings and Recommendations		5
Status of Findings and Recommendations Previously Reported in the City’s Periodic Examination Report:	<u>Finding</u>	
Segregation of Duties	A	7
Bank Reconciliations	B	7
Chart of Accounts	C	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D	8
Financial Records	E	8
Monthly City Clerk’s Reports	F	8
Deposits and Investments	G	8-9
City Council Meeting Minutes	H	9
Disbursements	I	9
Debit Card	J	9
Payroll	K	9
Local Option Sales Tax	L	10
Annual Financial Report	M	10
Timesheets	N	10
Additional Findings Identified During Follow-up Procedures:		
Monthly City Clerk’s Report	O	10
Depository Resolution	P	11
Timesheets	Q	11
Journal Entries	R	11
Questionable Disbursement	S	11
Certified Budget	T	11
Staff		12

City of Searsboro

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Kim Shutts	Mayor	Jan 2018	Jan 2020
Venisa Anderson	Council Member	Jan 2016	Jan 2020
Diane Angrove	Council Member	Jan 2016	Jan 2020
Skye Bryan	Council Member	Jan 2016	Jan 2020
Christine Nippe	Council Member	Jan 2018	Jan 2022
Bill Surburg	Council Member	Jan 2018	Jan 2022
Shirley Tremmel	City Clerk/Treasurer		Indefinite
Angie Cook	Attorney		Indefinite

City of Searsboro



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Auditor of State's Independent Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated March 23, 2016 on the City of Searsboro, Iowa covering the period January 1, 2015 through December 31, 2015 pursuant to Chapter 11.6 of the Code of Iowa. The report included findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated March 23, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period December 1, 2017 through June 30, 2018.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated March 23, 2016. 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 Searsboro during the course of our follow-up procedures engagement. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Rob Sand".

ROB SAND
Auditor of State

January 14, 2019

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Searsboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period December 1, 2017 through June 30, 2018

Findings Reported in the Periodic Examination Report dated March 23, 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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements and payroll – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (5) 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 documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

(B) Bank Reconciliations – Cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. The bank statement reconciliations prepared by the City included the City's main checking account, but excluded the investment accounts. For the two months reviewed, bank and book balances did not properly reconcile. Variances of \$43 and \$38 were not resolved. Also, two of twelve bank reconciliations did not include evidence of review by an independent person. In addition, the outstanding check listings did not include the date the check was written.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger balances monthly and the reconciliations are subsequently reviewed by an independent person. Variances, if any, should be reviewed and resolved timely. The outstanding check listings should include the date written in addition to the amount outstanding.

Current Status – Partially corrected. For the month reviewed, bank and book balances properly reconciled and included evidence of review by an independent person. However, the bank reconciliations excluded the City's investment account. In addition, the outstanding check listing did not include the date the check was written. The recommendation is partially repeated.

City of Searsboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period December 1, 2017 through June 30, 2018

- (C) Chart of Accounts – The City has not fully implemented the recommended 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.

Current Status – Corrected. During the period reviewed, the City implemented the Uniform Chart of Accounts.

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

Current Status – Not corrected. The recommendation is repeated.

- (E) Financial Records – The City combines garbage fees, a General Fund activity, with sewer activity in the general ledger.

Recommendation – The City should report garbage fees in the General Fund, separate from sewer activity.

Current Status – Corrected. During the period reviewed, garbage fees were properly recorded in the General Fund.

- (F) Monthly City Clerk's Reports – The City Clerk's financial reports to the City Council did not include comparisons of total disbursements for all funds to the certified budget by function.

Recommendation – To allow for amendments to the certified budget before disbursements exceed the budget, the City Clerk's monthly financial reports to the City Council should include comparisons of total disbursements for all funds to the certified budget by function.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (O) below.

- (G) 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.

City of Searsboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period December 1, 2017 through June 30, 2018

Current Status – Partially corrected. The City has approved a depository resolution. However, see finding (P) below. A written investment policy has not been adopted by the City. The recommendation is partially repeated.

- (H) City Council Meeting Minutes – Minutes for the February 2, 2015 City Council meeting were not signed as required by Chapter 380.7 of the Code of Iowa.

The City Council went into closed session on July 6, 2015. The closed session was not in compliance with Chapter 21.5 of the Code of Iowa. The session was not closed by affirmative vote of at least two-thirds of the members, the specific exemption under Chapter 21.5 for closing the session was not identified or documented and it was not clear if final action was taken in open session.

Recommendation – The City should comply with Chapters 380.7 and 21.5 of the Code of Iowa.

Current Status – Corrected. During the period reviewed, City Council meeting minutes were signed, as required. No closed sessions occurred during the period reviewed.

- (I) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for one transaction tested could not be located.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

Current Status – Corrected. All disbursements tested during the period reviewed were properly supported.

- (J) Debit Card – The City’s credit card may also be used as a debit card by employees while on City business.

Recommendation – The City should remove the debit card capabilities to ensure disbursements are not automatically deducted from the City’s bank account.

Current Status – Corrected. The City no longer has a debit card.

- (K) Payroll – Salary increases for the City Clerk are approved based on a dollar amount increase and the actual approved wages were not documented in the City Council minutes. In addition, approval of pay rates for the remaining two employees could not be located in the City Council minutes.

Recommendation – Approval of salaries and wages should be adequately documented in the City Council meeting minutes.

Current Status – Partially corrected. The pay rates for all employees were located in the City Council meeting minutes. However, the salary increase for the City Clerk was based on a dollar amount increase and the actual approved wage was not documented in the City Council meeting minutes. The recommendation is partially repeated.

City of Searsboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period December 1, 2017 through June 30, 2018

- (L) Local Option Sales Tax – The City imposed a local option sales tax (LOST) with receipts to be allocated 100% for street and community improvements. Documentation was not maintained to demonstrate the LOST collections were spent in accordance with the provisions of the LOST ballot referendum.

Recommendation – The City should maintain documentation to demonstrate LOST collections are spent in compliance with the LOST ballot referendum provisions.

Current Status – Not corrected. The recommendation is repeated.

- (M) Annual Financial Report – The fiscal year 2015 Annual Financial Report (AFR) beginning and ending balances for governmental and proprietary activities agree in total to the City's financial records. However, the allocation of governmental and proprietary balances did not agree.

Recommendation – The City should ensure governmental and proprietary balances reported in the AFR agree to the City's financial records.

Current Status – Corrected. Governmental and proprietary balances reported on the fiscal year 2017 AFR agree to the City's financial records.

- (N) Timesheets – City employees do not submit timesheets to support hours worked, including the dates work was performed and the hours worked.

Recommendation – Timesheets should be prepared by all employees to support hours worked. The timesheets should include dates the work was performed and the hours worked. The timesheets should be signed by the employee and should be reviewed and approved by supervisory personnel prior to processing payroll. Approval should be documented by the signature or initials of the reviewer and the date reviewed.

Current Status – Not corrected. Although timesheets for two employees tested included support for hours worked, timesheets for the City Clerk were not prepared. The recommendation is repeated. In addition, see finding (Q) below.

Additional Findings as a Result of Follow-up Procedures:

- (O) Monthly City Clerk's Report – Monthly City Clerk's reports, including a summary of receipts, disbursements, transfers and ending balances by fund, were not prepared and provided to the City Council for review and approval.

Recommendation – Monthly City Clerk's reports, including a summary of receipts, disbursements, transfers and ending balances by fund, should be prepared and provided to the City Council for review and approval.

City of Searsboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period December 1, 2017 through June 30, 2018

- (P) Depository Resolution – While a resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa, the City exceeded the maximum approved amount.

Recommendation – The City Council, by resolution, should adopt a new depository resolution which establishes maximum deposit amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (Q) Timesheets – Timesheets did not include evidence of supervisory review and approval.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (R) Journal Entries – Supporting documentation was not maintained for journal entries. In addition, journal entries are not reviewed and approved by an independent person.

Recommendation – Supporting documentation should be maintained for all journal entries. In addition, an independent person should review and approve all journal entries. Approvals should be documented by signing or initializing and dating the journal entries.

- (S) Questionable Disbursement – For the period reviewed, \$100 was disbursed for Walmart and Casey's gift cards given for volunteer appreciation. 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 benefits to be derived have 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 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 requirement for proper public purpose documentation.

- (T) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the general government 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 384.14 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Searsboro

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Jonathan M. Mader, CPA, Staff Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Deputy Auditor of State