



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

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**NEWS RELEASE**

FOR RELEASE

February 14, 2019

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Rhodes, Iowa for the period July 1, 2017 through June 30, 2018. 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, including independent reviews of reconciliations. In addition, the City should comply with Chapter 384.20 of the Code of Iowa and include financial activity and balances for all City accounts in the City's accounting records.

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/>.

# # #

**CITY OF RHODES**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2017 THROUGH JUNE 30, 2018**

## 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
City Fire Department	B      8
Bank Reconciliations	C      8
Payroll	D      8
Transfers	E      9
Reconciliation of Utility Billing, Collections and Delinquent Accounts	F      9
Deposits and Investments	G      9
Questionable Disbursement Separately Maintained Records	H      9-10
Annual Financial Report	I      10-11
Electronic Check Retention	J      11
City Council Meeting Minutes	K      11
	L      11
Staff	12

**City of Rhodes**

**Officials**

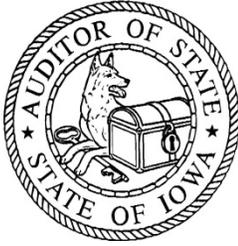
**(Before January 2018)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
LaVern Karsjen	Mayor	Jan 2018
Stephen Clement	Council Member	Jan 2018
Jerry Klosterman	Council Member	Jan 2018
Wendy Eldrige	Council Member	Jan 2020
Bob Hooper	Council Member	Jan 2020
Doug Lass	Council Member	Jan 2020
Gale Klosterman	City Clerk/Treasurer	Indefinite
Rodger Schoell	Attorney	Indefinite

**(After January 2018)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
LaVern Karsjen	Mayor	Jan 2020
Wendy Eldrige	Council Member	Jan 2020
Bob Hooper	Council Member	Jan 2020
Doug Lass	Council Member	Jan 2020
Jessica Armstrong	Council Member	Jan 2022
Brandon Buck	Council Member	Jan 2022
Gale Klosterman	City Clerk/Treasurer	Indefinite
Rodger Schoell	Attorney	Indefinite

**City of Rhodes**



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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 performed the procedures below, which were established at Iowa Code Chapter 11.6 to provide oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Rhodes for the period July 1, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Rhodes'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 2018 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.

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 Rhodes 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

January 23, 2019

## **Detailed Recommendations**

City of Rhodes

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(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) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (5) Utilities – billing, collecting, depositing, posting and maintaining accounts receivable and write-off records.
- (6) Long-term debt – recordkeeping, compliance and debt payment processing.

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) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, accounting records did not facilitate the proper classification of receipts or disbursements. Monthly bank reconciliations are not prepared.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Fire Department 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.

In addition, receipts and disbursements should be properly classified in the accounting records and monthly bank reconciliations should be prepared. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(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.

(D) Payroll – Authorized pay rates could not be located in the City Council meeting minutes for one employee.

Recommendation – Authorized pay rates should be documented in the City Council meeting minutes for all employees.

City of Rhodes

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (E) Transfers – Supporting documentation was not maintained for interfund transfers.  
Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers.
- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although utility billings, collections and delinquent accounts are reconciled monthly, an independent review of the reconciliations is not performed.  
Recommendation – The City Council or other independent person designated by the City Council should review the utility reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.
- (G) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B 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.
- (H) Questionable Disbursement – During the period reviewed, the City provided a \$650 donation to the Rhodes Volunteer Firefighters and EMS Association, a private non-profit corporation.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private non-profit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “... no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

We previously requested a letter of advice from the Iowa Attorney General regarding gifts to governmental entities and the propriety of a Library Board of Trustees giving proceeds from a gift to a private non-profit foundation. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. Following are pertinent excerpts from this letter of advice:

“Past opinions of this office have consistently concluded that a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes and performs work which the government could perform directly...private gifts and bequests of money to a city or county, upon receipt and acceptance, become public funds under the stewardship of the city or county. In addition to any restrictions or limitations imposed by the donor on use of the funds, all of the constitutional and statutory requirements regarding accounting for, depositing, investing and expending the public funds apply equally to funds received through taxation and funds received from private donors.”

“Political subdivisions and municipalities, including cities, counties, schools, and townships are municipal – governmental – entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support “public” services which are the same or similar to the services provided by

City of Rhodes

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities.”

“Delegation of control: The transfer of public funds to a private non-profit corporation also raises concerns regarding the delegation of the discretion of the governing body of the governmental entity over the use and expenditure of the funds...Control of library assets, including funds received by gift or bequest, is the duty of the board of trustees. They may not turn over future control of library assets to a private foundation to administer and control.”

“... I do not believe that a city library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds,’ subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking.”

Although the advice letter specifically addresses giving proceeds from a gift to a private non-profit organization, the discussion makes it clear that no public funds, no matter the source, may be given to a private non-profit organization. In addition, a 28E agreement, as described in the advice letter, does not exist.

Recommendation – We are not aware of any statutory authority for the City to provide public funds to a separate non-profit corporation. The City should seek reimbursement of the \$650 paid to this corporation.

- (I) 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City Fire Department maintains a bank account for activity separate from the City Clerk’s accounting records. While this 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 this account were not reported to the City Council and disbursements from the account were not reviewed and approved by the City Council. Also, a summary of the 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.

City of Rhodes

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

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 account 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 this account should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of the account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (J) Annual Financial Report – The ending governmental fund balance in the June 30, 2018 Annual Financial Report (AFR) agrees with City records in total, but not by individual fund. The City subsequently adjusted the AFR to reflect the correct balances.

Recommendation – The City should ensure ending balances reported in the AFR agree with City records, both in total and by individual fund.

- (K) 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.

- (L) City Council Meeting Minutes – Chapter 380.7 of the Code of Iowa requires City Council meeting minutes to be properly signed. Minutes for all meetings tested were not properly signed.

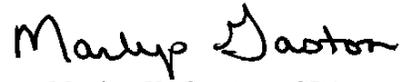
Recommendation – The City should comply with the Code of Iowa and ensure all minutes are signed, as required.

City of Rhodes

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager  
Ian N. Judson, Staff Auditor  
Taran E. McCusker, Assistant Auditor



Marlys K. Gaston, CPA  
Deputy Auditor of State