

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

State Capitol Building
Des Moines, Iowa 50319-0004

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

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

May 2, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Clarence, 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. To provide accountability and to support public purpose, all disbursements should be supported by invoice or other supporting documentation and separately maintained records should be included in the City's accounting records and be reported to the City Council monthly.

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



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Rob Sand
Auditor of State

April 28, 2019

Officials of the City of Clarence
Clarence, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures (AUP) report for the City of Clarence, Iowa for the year ended June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Clarence throughout the engagement. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

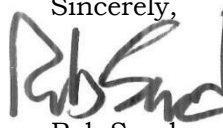
Sincerely,

Rob Sand
Auditor of State

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City of Clarence

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeric Armstrong	Mayor	Jan 2018
Bart Miller	Mayor Pro-tem	Jan 2018
Jim Barber (Appointed Apr 2017)	Council Member	Nov 2017
Ronald Robinson	Council Member	Jan 2018
Levi Van Oort	Council Member	Jan 2018
Rod Dennis	Council Member	Jan 2020
Deb Minar	City Clerk/Treasurer	Indefinite
Russell Dircks	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeric Armstrong	Mayor	Jan 2022
Bart Miller	Mayor Pro-tem	Jan 2022
Jim Barber	Council Member	Jan 2020
Rod Dennis	Council Member	Jan 2020
Ronald Robinson	Council Member	Jan 2022
Levi Van Oort	Council Member	Jan 2022
Deb Minar	City Clerk/Treasurer	Indefinite
Russell Dircks	Attorney	Indefinite

City of Clarence



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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 Clarence 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 Clarence'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 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 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.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 Clarence 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.


MARLYS K. GASTON, CPA
Deputy Auditor of State

April 18, 2019

Detailed Recommendations

City of Clarence

Detailed Recommendations

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

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. 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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling, depositing and custody.
- (3) Investments – recordkeeping, investing, and reconciling earnings.
- (4) Debt – recordkeeping and debt payment processing.
- (5) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (6) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – preparing, distributing, recording, comparing time records to payroll, approving, reviewing and entering rates into the computer system.
- (8) Computer system – performing all general accounting functions and controlling all data input and output.
- (9) Financial reporting – preparing and reconciling.
- (10) Journal entries – preparing, approving and recording.

For the Clarence Lincoln Highway Festival Committee, one individual has control over each of the following areas:

- (1) Cash – reconciling, recording and depositing.

For the Clarence Community Park Booster Club, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, recording and reconciling.
- (2) Disbursements – preparing, reconciling and recording.

For the Clarence Community Park Days Committee, one individual has control over each of the following areas:

- (1) Cash – reconciling, recording, depositing and custody.
- (2) Receipts – depositing and recording.
- (3) Disbursements – check writing and check signing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the above Club and Committees should review their 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.

City of Clarence

Detailed Recommendations

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

- (B) Travel Reimbursements – Supporting documentation for mileage reimbursements does not always include the destination and the purpose for the travel.

Recommendation – Supporting documentation for mileage reimbursements should include the purpose and destination. This helps document the travel is for City business and meets the public purpose criteria.

- (C) Utility Rates – The utility rates entered into the system are not periodically reviewed by an individual person to ensure proper utility calculations and billings.

Recommendation – An independent person should review utility rates entered in the system periodically and when rate changes occur to ensure the proper rates are used to calculate utility billings.

- (D) Petty Cash Fund – The petty cash fund was not approved by the City Council and is not maintained on an imprest basis. An imprest system is one in which petty cash is maintained at a fixed, authorized, amount and all distributions from the petty cash fund are supported/documented with a vendor receipts. The petty cash fund was combined with the change fund which was not accounted for separately.

Recommendation – The petty cash fund should be approved by the City Council and should be maintained on an imprest basis to provide additional control over the fund. Also, the change fund should be accounted for separately to facilitate the depositing of these collections intact.

- (E) 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 Clarence Community Park Booster Club, Clarence Lincoln Highway Festival Committee and Clarence Park Days Committee maintain bank accounts for activity separate from the City Clerk’s accounting records. While these Departments are part of the City and are manually added to the Annual Financial Report, the transactions and the resulting balances were not included in the City’s annual budget and monthly 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.

City of Clarence

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 Clarence Community Park Booster Club, Clarence Lincoln Highway Festival Committee and Clarence Park Days Committee 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 and monthly 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.

- (F) Clarence Park Days Committee – Pre-numbered receipts were not issued for collections and disbursements were not approved by the City Council. Bank reconciliations are not performed and supporting documentation for disbursements is not properly canceled to prevent reuse.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the recording of all collections. Also, disbursements should be approved by the City Council monthly and supporting documentation for disbursements should be cancelled to prevent reuse. In addition, the Committee should establish procedures to ensure bank account balances are reconciled to book balances monthly. Documentation of this reconciliation should be retained. Variances, if any, should be reviewed and resolved timely.

- (G) Questionable Disbursements – During our review, we identified a \$50 disbursement to the Mill Creek Café from the Clarence Community Park Booster Club account. 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 was not clearly document.

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 requirement for proper documentation.

- (H) Clarence Community Park Booster Club – Pre-numbered receipts were not issued for collections and disbursements were not approved by the City Council. Supporting documentation for three of eleven disbursements tested could not be located. Additionally, voided checks were not retained and bank reconciliations were not prepared. Also, supporting documentation for disbursements is not properly canceled to prevent reuse.

City of Clarence

Detailed Recommendations

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

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the recording of all collections. All disbursements should be approved by the City Council. All disbursements should be supported by original invoice or other supporting documentation. Voided checks should be retained to provide accountability. The Board should establish procedures to ensure bank account balances are reconciled to book balances monthly. Documentation of this reconciliation should be retained. Variances, if any, should be reviewed and resolved timely. In addition, supporting documentation for disbursements should be cancelled to prevent reuse.

- (I) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Requiring a time out and/or log off function or screen saver password to protect a terminal if left unattended.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over the computer based system.

- (J) Payment of General Obligation Bonds – Interest on the City’s general obligation bond was paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Water Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required.

- (K) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the community and economic development function prior to the budget amendment. 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.

- (L) Annual Urban Renewal Report – The amount reported, as TIF debt outstanding on the Annual Urban Renewal Report, Levy Authority Summary, was understated by \$264,239 due to the Robinson Addition Rebate being reported at a zero balance.

Recommendation – The City should ensure the amounts reported on the Levy Authority summary agree with the City’s records.

City of Clarence

Detailed Recommendations

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

- (M) Disbursement Approval – While the City Council notes approval of claims in the minutes record, the minutes record does not include the list of claims or any other way to identify the specific claims approved (i.e., a total of the claims listing). Also, while a claims list is provided to the City Council for approval, the listings are not signed to document approval.

Recommendation – The City should establish procedures to document the specific claims approved, either by including a list of the claims in the minutes record, or by including the total of the claims approved in the minutes and providing a listing of the claims to the City Council. The claims listing should be signed by the City Council to evidence approval.

- (N) Clarence Lincoln Highway Festival Committee Investment Register – An accounting record/register is not maintained for each investment.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

City of Clarence

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Katherine L. Rupp, CPA, Manager
Micaela A. Tintjer, Staff Auditor
David A. Slocum, Assistant Auditor