



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

October 22, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Colesburg, Iowa for the period July 1, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed at the request of petitioners pursuant to Chapter 11.6(3) of the Code of Iowa. The petition submitted requested an audit or examination. In accordance with Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns.

Sand recommended the City review its control procedures to obtain the maximum internal control possible. The City should also establish procedures to ensure bank and utility reconciliations are prepared monthly and are independently reviewed and the Annual Financial Report is accurate.

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

City of Colesburg



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Rob Sand
Auditor of State

September 16, 2019

Officials of the City of Colesburg
Colesburg, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Colesburg, Iowa, for the year ended June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6(3) 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 Colesburg throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Colesburg

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Sampson	Mayor	Jan 2018
Tom Forkenbrock	Council Member	Jan 2018
Rex Meyer	Council Member	Jan 2018
Jim Diers	Council Member	Jan 2020
Jodi McCabe	Council Member	Jan 2020
Roger Waterman	Council Member	Jan 2020
Julie Wessel	City Clerk/Treasurer	Indefinite
Steve McCorkindale	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rex Meyer	Mayor	Jan 2020
Jim Diers	Council Member	Jan 2020
Jodi McCabe	Council Member	Jan 2020
Roger Waterman	Council Member	Jan 2020
Tom Forkenbrock	Council Member	Jan 2022
Leo Roling	Council Member	Jan 2022
Julie Wessel	City Clerk/Treasurer	Indefinite
Steve McCorkindale	Attorney	Indefinite



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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 received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of Colesburg in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Colesburg for the period July 1, 2017 through June 30, 2018. The City of Colesburg'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 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.

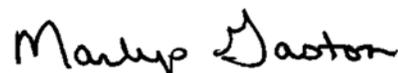
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. 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.
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.
15. We reviewed utility rates billed for certain individuals and properties.
16. We reviewed certain assets purchased and sold by the City for propriety.

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 Colesburg 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

September 16, 2019

Detailed Recommendations

City of Colesburg

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) Cash – handling, reconciling and recording.
- (2) Investments – custody and detailed record keeping.
- (3) Long-term debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing, entering rates into the system and maintaining vacation and sick leave balances.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording.

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 general ledger were not reconciled to bank and investment account balances throughout the year. For the month reviewed, the total balance per the City Clerk’s report was \$761,162, \$34,769 less than the calculated book balance of \$795,931 and the calculated book balance was \$1,404 less than the bank balance of \$794,527. In addition, the City’s calculated book balance of \$795,931 exceeded the June 2018 City’s general ledger balance of \$780,372 by \$15,559. We were unable to determine the reasons for these variances.

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

(C) Monthly Financial Reporting – The City Clerk’s monthly financial reports to the City Council did not include comparisons of actual disbursements 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 City Clerk’s monthly financial reports to the City Council should include comparisons of actual disbursements to the budget by function.

City of Colesburg

Detailed Recommendations

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

- (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.

- (E) Utility Rates – Water and sewer rates charged did not agree with rates approved in the City’s ordinances. The sewer and water rate charged of \$5.02 per 1,000 gallons were higher than the approved rate of \$4.65 per 1,000 gallons.

Recommendation – The City should establish procedures to ensure utility rates charged agree to the approved rates, including ensuring utility rates entered into the system are periodically reviewed by an independent person.

- (F) City Council Meeting Minutes – Minutes for one meeting tested were not signed as required by Chapter 380.7 of the Code of Iowa. Also, the minutes publications tested did not include total disbursements from each fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should ensure all meeting minutes are signed and total disbursements from each fund are published, as required.

- (G) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the community and economic development and general government functions. 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.

- (H) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tom Forkenbrock, Council Member, wife owns Every Auto & Tire Center	Fuel and vehicle repair	\$ 5,863
Tom Forkenbrock, Council Member, Owner of Welterlen Motors	Ford F350 Crew Cab	19,796 *
Tom Forkenbrock, Council Member Husband of buyer	Sale of City real estate to Council Member’s wife	85,000

* - Purchase approved Nov 12, 2018, subsequent to exam reporting period. Amount represents portion of the total purchase price of \$36,906 less the balance of \$17,110 to be paid by the Colesburg Firefighters Association

City of Colesburg

Detailed Recommendations

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

Although the City Attorney provided an explanation as to why the City buys its gas and tires from Every Auto & Tire, due to the number of limited businesses offering gas and tire services within the City, no opinion as to legality was provided. In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Every Auto & Tire Center 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.

In addition, although the City has indicated the Colesburg Firefighters Association sought comparable estimates for the purchase of the Ford truck, the estimates received were not provided through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa. Therefore, the transaction with Welterlen Motors may represent a conflict of interest.

The sale of the building to the Council Member's wife may represent a conflict of interest in accordance with Chapter 362.5(3)(k) of the Code of Iowa since the contract amount exceeded \$2,500 and was not entered into through competitive bids. See also finding (I) below regarding the sale of City real estate.

Recommendation – In accordance with Chapter 362.5(2) of the Code of Iowa, a contract entered into in violation of Chapter 362.5 is void. The City should consult legal counsel to determine the disposition of the transactions noted above. Future transactions with City officials or employees should be entered into in accordance with Chapter 362.5 of the Code of Iowa.

- (I) Building Sale – As a result of concerns identified in the petition for an examination, we reviewed the purchase and sale of a City building for propriety. On May 3, 2013, the City purchased property, formerly a Medical Clinic, from the Delaware County Memorial Hospital for \$1. On August 8, 2016, the City received an offer to purchase this property for \$85,000 from Becky Forkenbrock, wife of City Council Member Tom Forkenbrock. Upon advice from the City's legal counsel, and in accordance with Chapter 364.7 of the Code of Iowa, on October 10, 2016, the City passed a resolution setting forth its proposal to sell this property to Ms. Forkenbrock for the price offered. The resolution included language as part of the sale to allow the City of Colesburg to maintain its City office in that building rent free for three years. The resolution set a date for a public hearing on October 27, 2016 to seek input from the public before the City disposed of their interest in the property. Following proper notice, a public hearing for this sale was held on October 27, 2016. The property was subsequently sold to Ms. Forkenbrock effective June 16, 2017 for \$85,000.

Based on discussion with City officials, the sale price for this building was considered reasonable based on other commercial building sales in the area. However, no documentation was provided of comparable real estate transactions and, as stated by the City Clerk, comparables were limited. It is unclear whether the City obtained an accurate assessment of the fair market value. Accordingly, we were unable to determine whether the \$85,000 sales price was a fair exchange or represents an arm's length transaction. As noted in (H) above, the sale was not publicly advertised to comply with Chapter 362.5 of the Code of Iowa.

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

City of Colesburg

Detailed Recommendations

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

- (J) Sewer Revenue Bonds – The provisions of the sewer bond resolution require the City to produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they come due. For the year ended June 30, 2018, the City's Enterprise, Sewer Fund, had net operating receipts of \$85,555, which was less than 110% of the required revenue bond principal and interest payment of \$128,317.

The provisions of the sewer bond resolution also require principal and interest on the sewer revenue bonds to be paid from net revenues set aside in a sinking fund. Payments are to be made into the sinking fund in equal monthly installments on the first day of each month. The City has established a sinking fund; however, transfers were not made to the fund and bond principal and interest was not paid from this fund.

Of the \$128,753 sewer revenue bond principal and interest paid during fiscal year 2016, \$78,543 was paid from the General Fund in violation of the sewer revenue bond resolution provisions. As of the year ended June 30, 2018, the general fund has not been reimbursed from the sewer fund.

Recommendation – The City should consult legal counsel and review the City's utility rates to ensure the rates are adequate to produce the required net operating receipts. The City should transfer sufficient amounts from the Enterprise, Sewer Fund to the sewer revenue bond sinking account for future principal and interest obligations. Payments on the bonds should be made from the sinking account, as required. The City should reimburse \$78,543 from the Enterprise, Sewer Fund to the General Fund for the incorrect payment.

- (K) Annual Financial Report – The ending fund balances in the June 30, 2018 Annual Financial Report (AFR) do not agree to the City Clerk's monthly report fund balances. The AFR balance of \$784,132 is \$22,970 more than the \$761,162 reported on the City Clerk's report and \$3,760 more than the \$780,372 City's general ledger balance. In addition, receipts reported on the AFR do not agree with the City Clerk's reports.

Recommendation – The City should establish procedures to ensure AFR receipts and balances agree to the City Clerk's monthly reports.

- (L) Payroll – Documentation for approved payroll rates was not maintained. No procedures exist to ensure employees do not receive more than their authorized pay.

Recommendation – All salaries and wages should be approved by the City Council and the approved amounts should be documented in the City Council meeting minutes. Payroll journals should be reviewed by the City Council or other independent person designated by the City Council to ensure each payroll is proper and accurate.

- (M) Transfers – Transfers were not approved by the City Council.

Recommendation – All interfund transfers should be approved by the City Council. The approval should be documented in the City Council meeting minutes or certified budget, as applicable.

City of Colesburg

Detailed Recommendations

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

- (N) Financial Condition – The City had a deficit balance of \$746 in the Special Revenue, Employee Benefits Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

- (O) Local Option Sales Tax – Local option sales tax (LOST) collections were recorded in the Special Revenue, Local Option Sales Tax Fund. The LOST ballot requires the receipts to be used 70% for infrastructure, 10% for Fire Department, 10% for Ambulance and 10% for Library. While the City tracks LOST receipts, the City is not properly tracking the use and unspent balance of LOST receipts to demonstrate compliance with the LOST ballot. In addition, \$2,297 of local option sales tax receipts were incorrectly recorded as interest receipts.

Recommendation – The City should establish procedures to track the use of LOST receipts, including the unspent balance, to ensure LOST receipts are used in accordance with the ballot. The City should also establish procedures to ensure receipt coding is accurate.

- (P) Petition for Examination – Except as noted above, all items in the petition for examination have been resolved.

City of Colesburg

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Selina V. Johnson, CPA, Senior Auditor II
Alex N. Kawamura, Senior Auditor
Noelle M. Luebbers, Assistant Auditor