

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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

October 29, 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 Blockton, Iowa for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported sixteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, a lack of independent reviews of bank and utility reconciliations, the advance signing of checks, and questionable and unsupported disbursements.

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.

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/audit-reports>.

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**CITY OF BLOCKTON**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2018 THROUGH JUNE 30, 2019**

**City of Blockton**



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August 19, 2019

Officials of the City of Blockton  
Blockton, 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 Blockton, Iowa, for the period July 1, 2018 to June 30, 2019. 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 Blockton 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 that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand  
Auditor of State

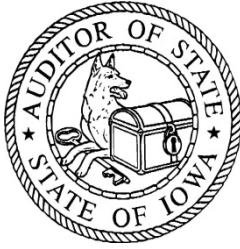
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**City of Blockton**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Richard Brown	Mayor	Jan 2018	Jan 2020
John Cavin	Council Member	Jan 2016	Jan 2020
Linda Green	Council Member	Jan 2016	Jan 2020
Bill Farrens	Council Member	Jan 2018	Jan 2022
Selina O'Connor	Council Member	Jan 2018	Jan 2022
Ardna Walsh	Council Member	Jan 2018	Dec 2022
Debbie Marcum	City Clerk/Treasurer		Indefinite
Matthew Hanson	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 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 Blockton for the period July 1, 2018 through June 30, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Blockton'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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City has no investments.
8. We determined compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa. We scanned depository resolutions, the investment policy and reporting of unclaimed property to the State of Iowa.

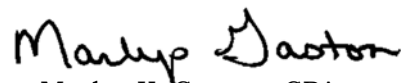
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City has no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City has no voter approved levies.
13. We traced selected disbursements to 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 traced transfers between funds for proper authorization and accurate accounting and determined whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 findings and 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 Blockton 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

August 19, 2019



## **Detailed Findings and Recommendations**

City of Blockton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

(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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Cash – handling, reconciling and recording.
- (4) Receipts – opening mail, collecting, depositing, reconciling and recording.
- (5) Utilities – billing, collecting, depositing, recording and maintaining detailed accounts receivable and write-off records.
- (6) Journal entries – preparing and recording.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling, recording and maintaining custody of City credit cards.
- (8) Payroll – entering payroll rates into the system, recordkeeping, preparing, signing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) 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 and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – Although monthly bank reconciliations were prepared, they did not include the separately maintained accounts for the Blockton Fire Department, the Ambulance and the Reunion Organization. For the two months reviewed, the bank balance exceeded the book balance by \$28,479, the total of the separately maintained records. In addition, there is no evidence of review of the reconciliations.

Recommendation – The City should establish procedures to ensure the separately maintained account balances are included in the monthly bank reconciliations. In addition, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although monthly reconciliations of utility billings, collections and delinquent accounts were prepared, there is no evidence the reconciliations were reviewed by an independent person.

City of Blockton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

Recommendation – 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.

- (D) Questionable Disbursements – In accordance with Article III, Section 31, of the Iowa Constitution and an Attorney General’s Opinion dated April 25, 2019, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid To</u>	<u>Source</u>	<u>Purpose</u>	<u>Amount</u>
Hy Vee	Fire Department	Food	\$ 244
CGI Foods	Fire Department	Food	33
Wal Mart Creston	Fire Department	Food	562
Orscheln	Fire Department	Food	119

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved 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 these types of disbursements 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.

- (E) Unsupported Disbursements – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported and cancelled to prevent use. Certain transactions tested were not properly supported. The purpose for the transactions was obtained from City officials. The disbursements are detailed as follows:

<u>Paid To</u>	<u>Source</u>	<u>Purpose</u>	<u>Amount</u>
USPS	City Checking	Stamps	\$ 75
Richard Brown	Fire Department	Repairs to the fire truck	150
Margaret Nelson	Reunion Organization	Unable to determine	40
Shirley Molt	Reunion Organization	Cleaning of City hall	574

Recommendation – The City should establish policies and procedures to ensure all disbursements are properly supported.

- (F) 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 Blockton Fire Department, Ambulance and Reunion Organization maintain bank accounts and accounting records for activity separate from the City Clerk’s accounting records. While these Departments are part of the City, the transactions and the resulting balances are not included in the City’s annual budget, annual financial report and monthly financial reports.

City of Blockton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

In addition, the transactions and resulting balances of these accounts are not reported to the City Council and disbursements from the accounts are not reviewed and approved by the City Council. Also, a summary of each account's receipts, total disbursements and a listing of claims allowed are 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 Blockton Fire Department, Ambulance and Reunion Organization 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 listing of claims allowed should be published, as required.

- (G) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, pre-numbered receipts are not issued, paid invoices or other supporting documentation are not properly canceled, and accounting records did not facilitate the proper classification of receipts or disbursements.

Recommendation – The City Fire Department should segregate accounting duties to the extent possible, require the issuance of pre-numbered receipts for all collections, cancel invoices or other supporting documentation and properly classify receipts and disbursements in the accounting records.

- (H) Debit Card Purchases – The Blockton Fire Department has a debit card available for use by employees while on City business.

Recommendation – The City should prohibit the use of debit cards. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card. If the City replaces the debit card with a credit card, the City should adopt a formal written policy regulating the use of the credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to substantiate charges.

- (I) Checks Signed in Advance – Certain checks are signed before the check payee and amount are known or completed.

Recommendation – Checks should not be signed in advance.

- (J) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings, including total disbursements from each fund, a list of claims allowed, the reason for the claims and a summary of all receipts, be published within fifteen days of the meeting. Minutes publications for all meetings tested did not include the reason for the claims or total disbursements by fund.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council meeting minutes, including the reason for claims and total disbursements by fund.

City of Blockton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (K) 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.

- (L) Payroll Allocation – The City has no formal policy for allocating payroll for the City Clerk and Maintenance Department employees among the various funds.

Recommendation – The City should review current methods of allocating payroll and establish a written policy providing guidelines for proper and consistent allocation of these costs to the appropriate funds.

- (M) Payroll – Although time cards are prepared by employees, the time cards are not reviewed and approved by supervisory personnel and employees do not sign their time cards.

Recommendation – Time cards should include the employee's signature and should be reviewed and approved by appropriate supervisory personnel prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of review.

- (N) Computer System – The following weaknesses in the City's computer system were noted.

The City does not have written policies for:

- (1) Requiring the maintenance of password privacy and confidentiality.
- (2) Requiring passwords be changed at least every 60-90 days.
- (3) Requiring backups of system information.
- (4) Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- (5) Running an anti-virus program on computers.
- (6) Usage of the internet.
- (7) Personal use of computer equipment and software.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer system. A written disaster recovery plan should be developed. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site.

- (O) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.

City of Blockton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

(P) Contracts with Townships – The City provides ambulance, fire and cemetery services to nearby townships. The City does not have a signed agreement with each township detailing the services to be provided or the responsibilities of each party and has not implemented procedures to ensure the townships are paying the City the amount due for the services.

Recommendation – The City should enter into an agreement with each township for services to be provided and should establish procedures to ensure the townships remit the proper amounts to the City.

City of Blockton

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy  
Deborah J. Moser, CPA, Manager  
Nichole D. Tucker, Staff Auditor