



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

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

November 27, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of College Springs, Iowa for the period April 1, 2018 through March 31, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twenty-two findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 13 of this report. The findings address issues such as the lack of segregation of duties, the lack of monthly bank reconciliations, separately maintained records of the College Springs Fire Department and the College Springs Cemetery Committee, transactions that may represent conflicts of interest, unsupported disbursements and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

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 COLLEGE SPRINGS

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2018 THROUGH MARCH 31, 2019**

City of College Springs



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Rob Sand
Auditor of State

August 8, 2019

Officials of the City of College Springs
College Springs, 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 College Springs, Iowa, for the period April 1, 2018 through March 31, 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 College Springs 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,



Rob Sand
Auditor of State

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City of College Springs

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Mike Runyon	Mayor	Jan 2018	Jan 2020
Jackie Cabeen	Council Member	Jan 2018	Jan 2020
Brad Hammers	Council Member	Jan 2018	Jan 2020
Amanda Owens	Council Member	Jan 2018	Jan 2020
Andrew Petersen	Council Member	Jan 2018	(Resigned Jan 2019)
Mary Bottaro (Appointed)	Council Member	Feb 2019	Nov 2019
Chelsey Runyon	Council Member	Jan 2018	Jan 2020
Katie Peterson	City Clerk/Treasurer		(Resigned May 2019)
Toni Graham (Appointed Jun 2019)	City Clerk/Treasurer		Indefinite
Mahlon L. Sorensen	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 procedures to selected accounting records and information of the City of College Springs for the period April 1, 2018 through March 31, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of College Springs'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 scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

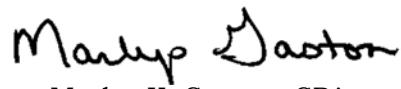
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City 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 to 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 College Springs 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 8, 2019

Detailed Findings and Recommendations

City of College Springs

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 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) Cash – handling, reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write off records.
- (5) Debt – recordkeeping, compliance and debt payment processing.
- (6) Journal entries – preparing and recording.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – recordkeeping, preparing and distributing.
- (9) 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 documented by the signature or initials of the reviewer and the date of the review.

(B) 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.

(C) Accounting Records and Financial Information – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. Receipts are not classified by fund, by source and disbursements are not classified by fund, by function. The City Clerk's financial reports to the City Council do not include receipts, disbursements, transfers and balances for each fund or comparisons of actual disbursements to the certified budget by function. In addition, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate the preparation of and support for the Annual Financial Report (AFR).

City of College Springs

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

Recommendation – To provide better financial information and control over budgeted disbursements, the recommended COA, or its equivalent, should be followed, including proper classification of receipts by source and disbursements by function. The City Clerk should prepare monthly City Clerk's reports which include receipts, disbursements, transfers and balances for each fund and a comparison of actual disbursements to the certified budget by function. This report should be reviewed and approved by the City Council. In addition, year to-date totals of receipts by fund and source and of disbursements by fund and function should be maintained to facilitate the preparation of and support for the AFR.

- (D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The City's AFR reported receipts, disbursements and ending fund balances which did not agree with the City's financial records. The fiscal year 2018 AFR beginning balance for the governmental funds of \$79,144 did not agree to the prior year ending balance of \$63,967 reported in the fiscal year 2017 AFR, a variance of \$15,177.

In addition, approval of the AFR by the City Council was not documented.

Recommendation – The City should ensure future Annual Financial Reports agree with City records and beginning balances agree with prior year ending balances. In addition, the AFR should be approved by the City Council and the approval should be documented in the minutes record.

- (E) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment balances throughout the period. We attempted to reconcile the bank balance to book balance for the months of June 2018 and March 2019. The bank balance exceeded the book balance by \$93,077 primarily because the separately maintained records of the Fire Department and the Cemetery Committee were not included in the book balance. A listing of outstanding checks was not prepared and retained for each month.

In addition, the City does not maintain control over unused and void checks.

Recommendation – To improve financial accountability and control, The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly and variances, if any, are investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. A listing of outstanding checks should be prepared monthly and should be retained. The City should retain void checks and store unused checks in a secure location.

- (F) Safety Deposit Box – The key to the bank safety deposit box cannot be located.

Recommendation – The City should replace and secure the key.

City of College Springs

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (G) 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 College Springs Fire Department and College Springs Cemetery Committee 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, monthly financial reports or Annual Financial Report.

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.

As of March 31, 2019, separately maintained bank and CD balances are as follows:

Fire Department Checking	\$73,093
Fire Department Money Market	3,725
Fire Department CD	2,425
Cemetery Committee CD	20,001

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 and Cemetery 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.

- (H) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted within fifteen days of the meeting, including total disbursement from each fund, a list of all claims allowed, including the reason for each claim, and a summary of receipts. Minutes for four meetings tested were not posted within fifteen days. Also, the minutes postings did not include total disbursements from each fund, a list of all claims allowed (including the reason for each claim) or a summary of receipts.

In addition, City Council meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and post City Council minutes within fifteen days of the meeting, including total disbursement from each fund, a list of claims allowed, including the reason for each claim, and a summary of receipts, as required. The City should also ensure all City Council meeting minutes are signed to authenticate the actions taken.

City of College Springs

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (I) Business Transactions – Business transactions between the City and City officials or employees which may represent a conflict of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Todd Owens, spouse of City Council Member, owner of Owens Restoration	Sanitation services, repair and maintenance	\$ 4,284
Brad Hammers, Council Member, Snow Removal Contractor	Snow removal	2,575

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions 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.

Also, Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.” The City has a contract with Mr. Hammers for snow removal. However, based on discussions with City officials, it is unclear whether Mr. Hammers duties are as an independent contractor or as an employee because equipment used in snow removal is City owned and maintained. If Mr. Hammers acted as an employee, this compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits a City Council member from receiving compensation as a City employee while serving as a City Council member. In addition, two of four payments to Brad Hammers lacked supporting documentation.

Recommendation – The City should consult legal counsel to determine the disposition of the contract with Owens Restoration. The City should also consult the Internal Revenue Service (IRS) for help in determining whether Mr. Hammers is an independent contractor or an employee of the City. If it is determined Mr. Hammers was acting as an employee of the City, the City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$2,575 paid to the City Council member. Also, the City should establish procedures to require retention of proper support for all disbursements.

- (J) Utility Rates – Chapter 388.6 of the Code of Iowa states in part, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies ...” The City Maintenance Supervisor is not billed for water and sewer usage.

Recommendation – The City should not provide free utility service and should charge all utility customers for service as required by Chapter 388.6 of the Code of Iowa. They City should consult legal counsel to determine whether to seek payment from the City Maintenance Supervisor for past utility service.

- (K) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although utility billings, collections and delinquent accounts were reconciled monthly, there is no evidence of independent review of the utility reconciliations.

Recommendations - The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

City of College Springs

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (L) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 50% for property tax relief and 50% for community betterment. However, documentation is not maintained to support how the funds are used or the unspent balances held for specific purposes.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot provisions.

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

Paid To	Purpose	Amount
JW Excavation	Work on City streets	\$ 755
Clarinda Herald Journal	Publication of budget	121
Windstream	Telephone for the City	180
JW Excavation	Work on City streets	400
Mahlon Sorensen	Legal Fees	500
Larry's Welding	Unable to determine	25
Todd Owens	Snow removal	20
Staples, Inc.	Office supplies	106
Walmart.com	Unable to determine	170
USPS P 18185406	Postage for water samples	140
Carrot Top Industries	Unable to determine	207
Walmart #1683	Unable to determine	41

In addition, sixteen of forty-one transactions tested were not approved by the City Council for payment, including claims tested for the College Springs Fire Department. Also, claims for the College Springs Fire Department were not cancelled to prevent reuse.

Recommendation – The City should establish procedures to require retention of proper support for all disbursements. In addition, all disbursements, including those from the separately maintained Fire Department account, should be approved by the City Council prior to payment and claims of the College Springs Fire Department should be cancelled to prevent reuse.

- (N) Debit Card – The City has a debit card available for use by employees while on City business.

In addition, the four debit card transactions occurring during the period tested did not have supporting documentation.

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. All disbursements should be supported by invoices or other supporting documentation and should be approved by the City Council prior to disbursement.

City of College Springs

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (O) Credit Card – The City has five credit cards with Agriland FS, Inc for use by employees while on City business. The City could not locate one of the five credit cards. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

In addition, support for the one credit card transaction occurring during the period tested could not be located.

Recommendation – The City should adopt a formal written policy regulating the use of the City's credit cards. The policy, at a minimum, should address who controls the credit cards who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. The City should ensure credit cards are secured.

- (P) Payroll Allocation – The City has no formal policy for allocating payroll among the various funds of the City.

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 between funds within the City.

- (Q) Payroll – Wages and withholdings are not reviewed by an independent person to ensure proper payroll calculations. Because IPERS rates were not updated, the calculation of the City Clerk's IPERS' withholding was inaccurate. In addition, while the City remits income tax withholding and IPERS contributions, the City could not locate employee income tax withholding documentation or IPERS enrollment documentation.

Recommendation – The City should contact IPERS to determine the disposition of this matter. An independent person should review wages and withholdings for proper calculations. Independent reviews should be documented by the signature or initials of the reviewer and the date of the review. Also, the City should retain employee income tax withholding and IPERS enrollment documentation.

- (R) Transfers – The City does not maintain a complete listing of transfers, including supporting documentation. Transfers are not approved by the City Council

Recommendation – A complete listing of transfers should be prepared, maintained and supported and transfers should be approved by resolution of the City Council.

- (S) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in culture and recreation and business type activities 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.

- (T) Investments – The City does not maintain an accounting record/register for certificates of deposits (CDs). In addition, there is no reconciliation or verification of investment earnings/income.

City of College Springs

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

Recommendation – An accounting register should be maintained for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number. Interest earned on investments should be verified and reconciled to interest recorded in the general ledger by someone independent of recording investments and related earnings.

(U) 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 passwords be changed every 60 to 90 days.
- Requiring backups be performed daily and stored off site.
- Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- Requiring the use of an anti-virus program on its computers.
- Usage of the internet.
- 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 and procedures addressing the above items in order to improve the City's control over its computer system. Also, a written disaster recovery plan should be developed, approved and tested periodically.

(V) 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.
- (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.

City of College Springs

Staff

This engagement was performed by:

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