



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

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**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 Thornton, 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 fifteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts and the City treasurer's report not including investments or library balances. Sand provided the City with recommendations to address each of the findings.

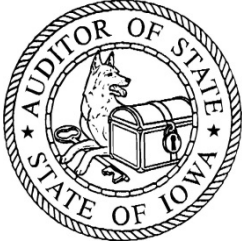
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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

**City of Thornton**



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October 21, 2019

Officials of the City of Thornton  
Thornton, 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 Thornton, 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 Thornton 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 Thornton**

**Officials**

| <u>Name</u>       | <u>Title</u>         | <u>Term Began</u> | <u>Term Expires</u> |
|-------------------|----------------------|-------------------|---------------------|
| Mike Jensen       | Mayor                | Jan 2018          | Jan 2020            |
| Michael Hopkey    | Council Member       | Jan 2016          | Jan 2020            |
| Betty Jensen      | Council Member       | Jan 2016          | Jan 2020            |
| Larry Stadlander  | Council Member       | Jan 2016          | Jan 2020            |
| Randy Bohman      | Council Member       | Jan 2018          | Jan 2022            |
| Roger Engebretson | Council Member       | Jan 2018          | Jan 2022            |
| Megan Hobscheidt  | City Clerk/Treasurer |                   | Indefinite          |
| Mike Moeller      | 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 related information of the City of Thornton 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 Thornton'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 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 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. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
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 for accurate accounting and consistency with the recommended COA.
12. We traced voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
13. We traced 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 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 to determine 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 Thornton 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

October 21, 2019



**Detailed Findings and Recommendations**

City of Thornton

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) Cash – handling, depositing, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (4) Debt – recordkeeping and debt payment processing.
- (5) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, entering rates into the system, preparing, signing and distributing checks.
- (7) Financial reporting – preparing and reconciling.

For the Thornton Public Library, one individual has control over each of the following areas:

- (1) Cash – handling, depositing, reconciling and recording.
- (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Disbursements – preparing, check writing, check signing, recording 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 should be documented by the signature or initials of the reviewer and the date of the review.

(B) Investments – For the City and the Thornton Public Library, an accounting record/register is not maintained for each investment.

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

City of Thornton

Detailed Findings and Recommendations

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

- (C) 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 and the review should be documented by the signature or initials of the reviewer and the date of review.

- (D) 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. The “Bank Statement Reconciliation” report generated from the City’s financial system includes the City’s main checking account but excludes the investment account balances. For the two months observed, bank and book balances did not properly reconcile because investment balances were not included in the reconciliation. Also, there is no independent review of the bank reconciliation.

In addition, the library’s bank reconciliation did not accurately include investment balances and the bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. In addition, the library’s bank reconciliation should accurately include all checking and investment balances. The City and the library should have an independent person review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

- (E) Annual Financial Report – The beginning and ending balances in the fiscal year 2018 Annual Financial Report (AFR) did not agree with the City Treasurer’s Report because the City Treasurer’s Report did not include investments. Also, the AFR did not properly report \$72,000 of transfers.

In addition, the library’s receipts, disbursements, cash and investments are not included in the City’s Annual Financial Report.

Recommendation – The City Treasurer’s Report should include all cash and investments by fund. Also, the City should ensure receipts, disbursements and ending fund balances reported in the AFR agree with the City’s financial records. In addition, the City should ensure the library’s receipts, disbursements, cash and investments are included in the City’s AFR.

- (F) Payroll – City Council approval of the City Clerk wage rate was not documented in the City Council meeting minutes. In addition, two of five timesheets observed did not include evidence of review and approval by supervisory personnel prior to the preparation of payroll.

Recommendation – Approved wages should be documented in the City Council meeting minutes. Timesheets 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 the review.

City of Thornton

Detailed Findings and Recommendations

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

- (G) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the culture and recreation function. 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) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

- (I) Miscellaneous Receipts – The City collects monies from the sale of garbage bags and tags. There does not appear to be procedures in place to ensure that all monies collected from garbage bag and tag sales are deposited intact to the bank account rather than comingled with petty cash and are reconciled to tags on hand. Also, collections are not maintained separate from petty cash.

Recommendation – Procedures should be implemented to ensure all garbage bags and tags are either on hand or sold, and that all monies from garbage bag and tag sales are deposited intact and timely.

- (J) Library Credit Card – The City Library has a credit card for use by various employees while on official business. The library is not following the City’s credit card policy relating to the proper safeguarding of the credit card.

Recommendation – The City Library should follow the City credit card policy regulating the use of credit cards, including properly safeguarding the credit card.

- (K) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Although a resolution naming official depositories has been approved by the City, the maximum deposit amounts were not included in the depository resolution.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should adopt a depository resolution which establishes maximum deposit amounts as required by Chapter 12C.2 of the Code of Iowa.

- (L) Transfers – In June 2019, the City Council authorized certain transfers between funds. The transfers were recorded in July 2019 and therefore were not made in the fiscal year of City Council approval.

Recommendation – Transfers should be recorded in the correct fiscal year as approved by the City Council.

City of Thornton

Detailed Findings and Recommendations

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

- (M) Local Option Sales Tax – The City’s Local Option Sales Tax (LOST) ballot requires LOST receipts to be allocated as follows: 30% for City Library, 25% for Community Center, EMT, Fire and Police Departments, and 45% for property tax relief. The City has not properly tracked the use of LOST receipts to ensure compliance with the LOST ballot.

Recommendation – The City should establish procedures to track the use of LOST receipts to ensure compliance with the LOST ballot.

- (N) Receipt Coding – The City recorded special assessment receipts as property taxes rather than as special assessments.

Recommendation – The City should record special assessment receipts as special assessments consistent with the Uniform Chart of Accounts.

- (O) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not retain an electronic image of the back of each cancelled check.

Recommendation – The City should retain an image of both the front and back of each cancelled check as required.

City of Thornton

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy  
Katherine L. Rupp, CPA, Manager  
Edward J. Schroder, Staff Auditor  
Joseph G. Timmons, Assistant Auditor