

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 2, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Cushing, 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 nineteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility billings, collections and delinquent accounts, the lack of complete bank account reconciliations, including a review by an independent person, 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/reports/audit-reports/>.

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CITY OF CUSHING
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2018 THROUGH MARCH 31, 2019

City of Cushing



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October 22, 2019

Officials of the City of Cushing
Cushing, 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 Cushing, 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 Cushing 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 Cushing

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Don Joy, Jr.	Mayor	Jan 2018	Jan 2020
Jim Porter	Council Member	Jan 2016	Jan 2020
Dustin Schlenger	Council Member	Jan 2016	Jan 2020
Ray Endrulat	Council Member	Jan 2018	Jan 2022
Shawn Joy	Council Member	Jan 2018	Jan 2022
Ben Rabbass	Council Member	Jan 2018	(Resigned Feb 2019)
Alex Rabbass	Council Member	Mar 2019	Nov 2019
Nicole Huisinga	City Clerk/Treasurer		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 Cushing 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 Cushing'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. We reviewed 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.

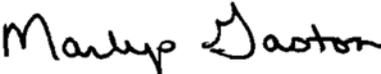
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City has no TIF.
11. We traced selected receipts 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. The City had no transfers during the period.
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 Cushing 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 22, 2019

Detailed Findings and Recommendations

City of Cushing

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 and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing checks.
- (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 should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – Although monthly bank reconciliations were prepared for the City’s checking account, bank reconciliations which included all bank and investment accounts held by the City were not prepared and reconciled to the general ledger. For the two months observed, bank and investment accounts reconciled to the general ledger.

Recommendation – The City should establish procedures to ensure all bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are 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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly. A reconciliation is designed to ensure the proper recording of utility receipts and the propriety of adjustments, write-offs and delinquent account balances.

City of Cushing

Detailed Findings and Recommendations

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

Recommendation – A listing of delinquent accounts should be prepared monthly. 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.

- (D) Monthly City Clerk's Report – Monthly City Clerk's reports, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of total disbursements for all funds to the certified budget by function, were not prepared and provided to the City Council.

Recommendation – The City Clerk should prepare monthly City Clerk's reports which include a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements to the certified budget by function. The City Council should review and approve the monthly City Clerk's reports.

- (E) 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 to the City, and all expenditures..." The following items were noted for the City's fiscal year 2018 AFR:

- The beginning fund balances for the General, Special Revenue and Proprietary funds were understated by \$31,506, \$18,111, and \$999, respectively, compared to City records.
- Total receipts were overstated for the General Fund by \$99,652 and understated for the Special Revenue and Proprietary funds by \$23,198 and \$103,698, respectively, compared to City records.
- Total disbursements were overstated for the General Fund by \$2,670 and understated for the Special Revenue and Proprietary Funds by \$2,669 and \$2,028, respectively, compared to City records.
- The ending fund balance for the General Fund was overstated by \$65,476 and the Special Revenue and Proprietary funds were understated by \$38,639, and \$102,669, respectively, compared to City records.

Recommendation – The City should ensure the amounts reported in the AFR are accurate and are supported by the City's records.

- (F) Receipt Recording – The City recorded utility excise tax and commercial and industrial tax replacement receipts as property taxes rather than other city taxes and intergovernmental receipts, respectively. In addition, the City recorded Community Development Block Grants as other financing sources rather than as intergovernmental receipts. The City also incorrectly recorded Community Development Block Grant and loan proceeds for a water improvement project in the Enterprise, Sewer Fund, resulting in the Enterprise, Sewer Fund balance being overstated and the Enterprise, Water Fund balance being understated by \$31,641.

City of Cushing

Detailed Findings and Recommendations

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

Recommendation – The City should establish procedures to ensure all receipts are properly recorded and are consistent with the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (COA). The City also should make a correcting transfer of \$31,641 from the Enterprise, Sewer Fund to the Enterprise, Water fund for the water improvement project.

(G) Revenue Bonds – The following instances of non-compliance with the sewer revenue bond resolution requirements were noted:

- (1) The sewer revenue bond resolution requires all users of the system, including the City, be charged for usage. The City, two local churches and a non-profit entity are not charged for sewer usage.
- (2) The sewer revenue bond resolution requires the City to establish rates at least sufficient to pay the expenses of operation and maintenance of the utility and to leave a balance of net receipts sufficient to pay the principal and interest on all outstanding revenue bonds as they become due. During the year ended June 30, 2018, the City was not in compliance with the net receipts requirement of the sewer revenue bond resolution.
- (3) The sewer revenue bond resolution requires a sinking account be established for the purpose of making the required payments of principal and interest when due. The sewer bond resolution requires payments to be made into the sinking account in equal monthly installments on the first day of each month. The City has not established or made the required transfers to a sewer sinking account.
- (4) The sewer revenue bond resolution requires the City to establish and accumulate \$8,400 in a reserve account by making monthly transfers of \$70 until the reserve requirement has been met. The City has not established or made the required transfers to the sewer reserve account.

Recommendation – The City should comply with the sewer revenue bond resolution and establish the required accounts, make the required monthly transfers and charge all users of the system. The City should also ensure sewer user rates are established at a level which produces net receipts sufficient to pay the annual principal and interest payments on the bonds.

(H) Financial Condition – The Enterprise, Sewer Fund had a deficit balance of \$18,111, at June 30, 2018.

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

City of Cushing

Detailed Findings and Recommendations

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

- (I) Mayor and City Council Compensation – Chapter 372.13(8) of the Code of Iowa states in part, “By ordinance, the council shall prescribe the compensation of the mayor, council members, and the other elected city officers...” The Mayor and City Council member compensation was approved by City ordinance at \$35 and \$25 per meeting, respectively.

During the period observed, actual compensation for the Mayor and each City Council member was \$50 and \$40, respectively, per meeting, resulting in an overpayment to the Mayor of \$210 and to each City Council Member of \$765.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for current and past, if any, amounts paid to the Mayor and City Council members in excess of approved amounts.

- (J) Dual Compensation – 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.”

An Attorney General’s Opinion dated August 15, 2018 clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8) (2018) bars city elected officials from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion, Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j)&(k) (2018), is retracted.”

During the period observed, two City Council Members were compensated \$277 and \$234, respectively, for snow removal. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits the City Council Members from receiving compensation as a City employee while serving as an elected official.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the improperly paid amounts to the City Council Members.

- (K) Local Option Sales Tax – The local option sales tax (LOST) ballot requires 60% of LOST receipts to be allocated for property tax relief, 20% to be allocated for infrastructure including street resurfacing, 10% to be allocated for economic development, and 10% to be allocated for construction and maintenance of public buildings. During the period, the City allocated \$9,500 for library purposes, then allocated the remaining LOST receipts according to the LOST ballot. As a result, 38% was allocated to property tax relief, 32% to the Library, which the City considers property tax relief, 15% to infrastructure including street resurfacing, 7.5% to economic development and 7.5% to construction and maintenance of public buildings.

City of Cushing

Detailed Findings and Recommendations

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

Recommendation – The City should allocate monthly LOST receipts according to the approved LOST ballot.

- (L) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 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. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (M) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements by fund. Minutes for four meetings tested were not published within fifteen days of the meeting and did not include total disbursements by fund.

Recommendation – The City should ensure City Council proceedings are published within fifteen days of the meeting and the publication includes total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.

- (N) 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 the back of each cancelled check. The City does not receive images of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks, as required by Chapter 554D.114 of the Code of Iowa.

- (O) Accounting 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 staff.
- (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) Payroll – Three of six timesheets observed did not include evidence of supervisory review and approval.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel prior to the preparation of payroll. Supervisory review and approval should be documented by the supervisor's initials and the date approved.

City of Cushing

Detailed Findings and Recommendations

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

- (Q) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the business type activities function prior to amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (R) Journal Entries – Journal entries were not reviewed and approved by the City Council.

Recommendation – The City Council should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries.

- (S) Petty Cash – Petty cash at the City Library is not maintained on an imprest basis. Receipts from library cards and donations were included in the petty cash and were deposited and recorded in the financial system net of payments made from the petty cash. Also, the petty cash balance was \$15 less than the authorized amount of \$20.

Recommendation – An imprest system is one in which petty cash is maintained at a fixed, authorized amount and all distributions from the petty cash are supported with vendor receipts. Petty cash is periodically replenished through a claim which agrees to the total of the supporting vendor receipts. The petty cash should be maintained on an imprest basis to provide additional control over the fund. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Procedures should be established to ensure all receipts, including library cards and donations, are deposited and recorded in the financial system intact.

City of Cushing

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Michelle B. Meyer, CPA, Manager
Jamie T. Reuter, Senior Auditor II
Maria R. Collins, Assistant Auditor