

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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

**NEWS RELEASE**

FOR RELEASE

January 16, 2020

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Magnolia, 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 seven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 and 8 of this report. The findings address issues such as a lack of segregation of duties, deficit balances in the Special Revenue, Employee Benefits and Enterprise, Water Funds, a lack of a formal written investment policy and depository resolution and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

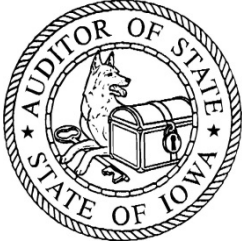
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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

**City of Magnolia**



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October 25, 2019

Officials of the City of Magnolia  
Magnolia, 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 Magnolia, Iowa, for the year ended 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 Magnolia 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

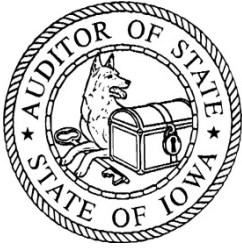
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**City of Magnolia**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Weigelt	Mayor	Jan 2022
Diane Archer	Council Member	Jan 2020
Mark Hoffman	Council Member	Jan 2020
Ted Michael	Council Member	(Resigned Oct 2018)
Gene Baber (Elected Nov 2018)	Council Member	Jan 2022
Eugene Jacobsen	Council Member	Jan 2022
Michelle Rhoten	Council Member	Jan 2022
Karen Jacobsen	City Clerk/Treasurer	Indefinite
Judson Frisk	Attorney	Indefinite



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Rob Sand  
Auditor of State

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 Magnolia 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 Magnolia'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 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.

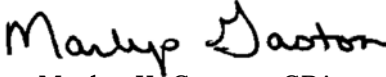
8. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. The City had no TIF.
10. We traced selected receipts to accurate accounting and consistency with the recommended COA.
11. The City had no voter approved levies.
12. 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.
13. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers are proper.
14. We traced selected payroll and related transactions to proper authorization and accurate accounting and to determine whether payroll is proper.
15. 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 Magnolia 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 25, 2019



## **Detailed Findings and Recommendations**

City of Magnolia

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, reconciling and recording.
- (2) Long-term debt – recordkeeping, compliance and reconciling.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, reconciling and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (6) Utilities – opening mail, billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (7) Financial reporting – preparing, recording and reconciling.
- (8) Computer Usage – performing all general accounting functions and controlling all data input and output.

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) Prenumbered Receipts – The City issues prenumbered receipts for collections, however, the numerical sequence is not accounted for.

Recommendation – An independent person should account for the numerical sequence of prenumbered receipts and should compare receipts to the general ledger and bank statements. The independent review should be documented by signing or initialing and dating the receipts.

City of Magnolia

Detailed Findings and Recommendations

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

- (C) Financial Reporting and Deficit Fund Balances – The City Clerk’s monthly financial reports to the City Council do not include a comparison of actual to budgeted disbursements by function. Also, the City had a deficit balance of \$1,729 in the Special Revenue, Employee Benefits Fund at June 30, 2019 and a deficit balance of \$7,244 in the Enterprise, Water Fund at September 30, 2018.

In addition, for two months observed, September 2018 and June 2019, the City issued two large checks from the water project checking account without sufficient funds in the bank. Had the checks cleared within the month, the bank account would have had negative balances of \$26,656 and \$23,196, respectively.

Recommendation – To provide better financial information, the City Clerk’s monthly reports should include actual year-to-date disbursements by function compared with budgeted disbursements by function. Also, the City should investigate alternatives to eliminate the deficit balances to return the funds to a sound financial condition. The City should also ensure sufficient funds are available prior to issuing a check.

- (D) 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.

- (E) 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 from each fund. In cities with a population of 200 or less, minutes may be posted in three public places, permanently designated by ordinance, in lieu of being published. Posted minutes tested do not include total disbursements from each fund.

Recommendation – The City should comply with the Code of Iowa and include total disbursements from each fund in the posted City Council meeting minutes, as required.

- (F) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the public safety 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.

- (G) Payroll – Pay increases are approved based on a dollar increase and the actual approved wage rates are not documented in the City Council minutes.

Recommendation – Approval of salaries and wages should be adequately documented in the City Council meeting minutes by recording the new, approved salary or rate, not just the dollar increase.

City of Magnolia

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy  
Katherine L. Rupp, CPA, Manager  
Ryan J. Pithan, CPA, Senior Auditor II  
Sammantha J. Coster, Assistant Auditor