



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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 Buffalo, Iowa for the period July 1, 2017 through June 30, 2018. 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 reconciliations for all cash and investment accounts, the lack of utility reconciliations, not providing monthly City Clerk's reports to the City Council 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.

Sand also reported additional concerns were presented by City officials regarding certain transactions processed by the former Deputy City Clerk. Because these concerns were outside the scope of the agreed-upon procedures engagement, a separate special investigation report will be issued.

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 BUFFALO
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

City of Buffalo



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Rob Sand
Auditor of State

October 30, 2019

Officials of the City of Buffalo
Buffalo, 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 Buffalo, Iowa, for the year ended June 30, 2018. 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 Buffalo 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 Buffalo

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Doug Anderson	Mayor	Jan 2018
Olin Meador	Council Member/Mayor Pro-tem	Jan 2018
Art Bartleson	Council Member	Jan 2018
Sally Rodriguez	Council Member	Jan 2018
Joe Buffington	Council Member	Jan 2020
Dave Stickrod	Council Member	Jan 2020
Tanna Leonard	City Clerk/Treasurer	Indefinite
Riki Harrington	Deputy City Clerk	Indefinite
William McCullough	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Doug Anderson	Mayor	Jan 2020
Sally Rodriguez	Council Member/Mayor Pro-tem	Jan 2022
Joe Buffington	Council Member	Jan 2020
Dave Stickrod	Council Member	Jan 2020
Trent Adams	Council Member	Jan 2022
Judy Hammons	Council Member	Jan 2022
Tanna Leonard	City Clerk/Treasurer	Indefinite
Riki Harrington	Deputy City Clerk	(Resigned Sep 2018)
William McCullough	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 Buffalo for the period July 1, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Buffalo'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 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 had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had 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 scanned for accurate accounting and determined whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and scanned for accurate accounting and to determine whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

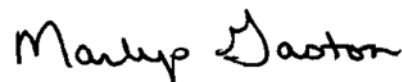
Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations,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

Additional concerns were brought to our attention by City Officials regarding certain transactions processed by the former Deputy City Clerk. Because the additional concerns need to be addressed but were outside the scope of the agreed-upon procedures engagement, a separate special investigation report will be issued.

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 Buffalo 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 30, 2019

Detailed Findings and Recommendations

City of Buffalo

Detailed Findings and Recommendations

For the period July 1, 2017 through June 30, 2018

(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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, maintaining accounts receivable records and posting.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) 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 – While the City reconciled their general checking account, additional cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. Additionally, petty cash on hand was not included in the bank reconciliation. For the two months observed, the bank and book balances of the general checking account did not properly reconcile. Variances of \$857 and \$640 were not resolved. In addition, no independent review of the bank reconciliation is performed.

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to all bank and investment account balances, including petty cash, monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliation.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. For the month observed, there was an unresolved variance of \$2,090 between the amount billed and collected. At June 30, 2018, the City’s delinquent accounts balance was significant, totaling \$49,034.

City of Buffalo

Detailed Findings and Recommendations

For the period July 1, 2017 through June 30, 2018

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. The review should be documented by the signature or initials of the reviewer and the date of the review. Additionally, the City should review their procedures and collect on delinquent accounts.

- (D) Monthly City Clerk's Reports – A monthly City Clerk's report, including a summary of receipts, disbursements, transfers and beginning and ending balances by fund, was not prepared and provided to the City Council. In addition, a budget to actual comparison of disbursements by function is not provided to the City Council monthly.

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

- (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, including total disbursements from each fund, a list of claims allowed, including the reason for the claim, and a summary of all receipts. For one of four meeting minutes tested, the City Council meeting minutes were not published within fifteen days. Additionally, for three of the four publications tested, a summary of all receipts was not included.

Recommendation – The City should comply with the Code of Iowa and ensure Council proceedings are published within fifteen days, including a summary of all receipts.

- (F) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the culture and recreation function. In addition, disbursements exceeded the amounts budgeted in the public works, culture and recreation and debt service functions prior to the February 5, 2018 budget 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.

- (G) Transfers – A transfer of \$35,189 from the Capital Projects, Capital Reserves Fund to the General Fund was approved by the City Council but was not recorded. Additionally, a \$5,000 transfer to the Enterprise, Sewer Fund was recorded as a negative transfer out rather than a transfer in.

Recommendation – The City should implement procedures to ensure all approved transfers are properly and correctly recorded in the general ledger.

City of Buffalo

Detailed Findings and Recommendations

For the period July 1, 2017 through June 30, 2018

- (H) Journal Entries – Supporting documentation was not always retained for journal entries. Additionally, journal entries are not reviewed and approved by an independent person.

Recommendation – The City should retain supporting documentation for all journal entries. An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (I) Questionable Disbursement – A disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. This disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Tom Harland	Easter egg hunt	\$ 500

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close 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 this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (J) Disbursements – One of thirty disbursements tested was not supported by an invoice. In addition, one credit card disbursement tested included interest paid of \$46 and six charges included sales tax paid totaling \$60.

Recommendation – The City should ensure all disbursements are supported by invoice. Also, the City should ensure interest fees and sales tax are not paid on purchases.

- (K) Bingo Disbursements – The City was licensed by the State of Iowa to operate a bingo game and the City maintained a separate bank account for the bingo game activity. During the year ended June 30, 2018, three of five disbursements tested from the bingo checking account were not approved by the City Council and one of the five disbursements tested was not properly supported. During the year ended June 30, 2018, the City ceased to operate the bingo game and closed the bank account.

Recommendation – In the future, should the City operate a similar activity, the City should ensure all disbursements are approved by the City Council and are supported by an invoice or other supporting documentation.

- (L) Void Receipts – Void receipts are not reviewed by an independent person for propriety.

Recommendation – An independent person should review void receipts for propriety. The review should be documented by signing or initialing the void receipt.

- (M) Payroll – One of three employee timesheets tested was not approved by the Mayor.

Recommendation – The Mayor should review and approve all timesheets.

City of Buffalo

Detailed Findings and Recommendations

For the period July 1, 2017 through June 30, 2018

- (N) Rental Agreements – The City has not established procedures to ensure all community center and gym rental receipts are properly recorded.

Recommendation – The City should establish procedures to reconcile community center and gym rents charged per the rental agreements to the receipts recorded in the general ledger. An independent person should review the reconciliations and document the review by signing or initialing and dating the reconciliation.

- (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 receive an image 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.

City of Buffalo

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Donna F. Kruger, CPA, Manager
Sarah J. Swisher, Senior Auditor
Jon G. Hanson, Staff Auditor