

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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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**NEWS RELEASE**

FOR RELEASE

February 14, 2020

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Springville, 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 twelve findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of complete bank reconciliations, the lack of utility reconciliations and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

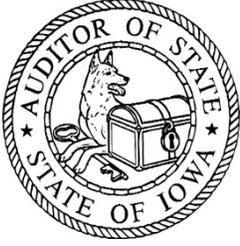
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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

**City of Springville**



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January 15, 2020

Officials of the City of Springville  
Springville, 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 Springville, 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 Springville 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".

Rob Sand  
Auditor of State

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**City of Springville**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Roger Shebetka	Mayor	Jan 2018	Jan 2022
Mareta Ralston	Mayor Pro Tem	Jan 2016	Jan 2020
Brad Merritt	Council Member	Jan 2016	Jan 2020
Dennis Thies	Council Member	Jan 2016	Jan 2020
Lyle Andersen	Council Member	Jan 2018	Jan 2022
Jeff Grimley	Council Member	Jan 2018	Jan 2022
Deanna Wagaman	City Clerk/Treasurer		Indefinite
Mark Parmenter	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 Springville 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 Springville'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 2019 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.

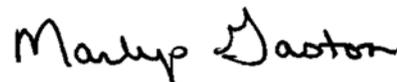
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City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

January 15, 2020

## **Detailed Findings and Recommendations**

City of Springville

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) Accounting system – performing all general account functions and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investing – reconciling earnings.
- (4) Receipts – collecting, depositing, recording and reconciling.
- (5) Utility receipts – billing, collecting, depositing and posting.
- (6) Disbursements – invoice processing, check writing, reconciling and recording.
- (7) Payroll – recordkeeping, preparing and distributing.
- (8) Long-term debt – recordkeeping and debt payment processing.
- (9) Journal entries – preparing and recording.

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 individual bank accounts, reconciliations are not compiled to show a complete reconciliation of all bank accounts and investments to the general ledger. For one month reviewed, June 30, 2019, the City’s general ledger was \$603 more than the bank and investment balances. Also, the bank reconciliations did not include evidence of independent review.

Recommendation – The City should establish procedures to ensure a complete reconciliation of all bank and investment account balances to the general ledger is performed monthly. Variances, if any, should be reviewed and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the independent reviewer and the date of the review.

(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. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Springville

Detailed Findings and Recommendations

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

(D) Financial Reporting – During the fiscal year ending June 30, 2019, the following conditions were noted:

- Investment interest of \$733 for certificates of deposit, savings accounts, and money market accounts were not recorded in the City’s general ledger.
- The fiscal year 2019 Annual Financial Report (AFR) beginning fund balance of \$2,689,772 did not agree to the prior year ending fund balance of \$2,688,230 reported in the fiscal year 2018 AFR, a variance of \$1,542.
- The fiscal year 2019 AFR ending fund balance of \$1,881,961 was \$49 more than the reconciled book balance and \$330 less than the monthly City Clerk’s report.

Recommendation – The City should establish procedures to ensure all transactions are properly reported in the City’s general ledger and the AFR beginning balance agrees to the prior year ending balance or a statement is made in the remarks section of the report explaining any adjustments.

(E) Monthly City Clerk’s Reports – The monthly City Clerk’s reports do not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – The City should establish procedures to ensure monthly City Clerk’s reports include a comparison of total disbursements for all funds to the certified budget by function.

(F) Timesheets – Not all timesheets observed included evidence of supervisory review. Additionally, the actual approved wage for the City Clerk and Deputy City Clerk were not documented in the City Council meeting minutes.

Recommendation – Timesheets should be submitted to an appropriate supervisor for approval prior to the preparation of payroll. The supervisor approval should be documented by the signature of the reviewer and the date of the review. Procedures should be established to ensure all pay increases and the actual wages to be paid to employees are adequately documented in the City council meeting minutes.

(G) Transfers – Two transfers observed were not approved by the City Council.

Recommendation – The City should ensure all transfers are approved by the City Council prior to making the transfer.

(H) Certified Budget – Disbursements exceeded the amounts budgeted in the public safety, debt service, capital projects and business type activity functions prior to the 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.

City of Springville

Detailed Findings and Recommendations

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

- (I) 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 and a summary of all receipts. Published meeting minutes did not include total disbursements from each fund or a summary of all receipts.

Recommendation – The City should ensure published meeting minutes include total disbursements from each fund and a summary of receipts, as required.

- (J) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries and the approval should be documented by the signature or initials of the approver and the date of the review.

- (K) 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 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.

- (L) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Requiring a time out/log off function or screen saver passwords to protect computer terminals when not in use.
- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Requiring password history to be maintained to prevent employees from reusing the same password.
- Restricting access to the computer system through the use of unique user IDs.
- Requiring password length to be at least 8 characters.
- Requiring a computer lockout function if passwords are incorrectly entered more than three times.
- 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 addressing the above items in order to improve the City’s control over its computer-based system. A written disaster recovery plan should be developed, and back-ups should be performed.

City of Springville

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy  
Katherine L. Rupp, CPA, Manager  
Terry J. Erlbacher, Staff Auditor  
Maria R. Collins, Assistant Auditor