



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 19, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Kensett, 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 twenty-two 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 bank reconciliations, the lack of independent reviews of utility reconciliations, disbursements exceeding budgeted amounts, business transactions that may represent conflicts of interest, a City Clerk's report not prepared and presented to the City Council and City Council meeting minutes not being published in compliance with the Code of Iowa. 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 KENSETT
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Kensett



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Rob Sand
Auditor of State

November 8, 2019

Officials of the City of Kensett
Kensett, 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 Kensett, 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 Kensett 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 Kensett

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Corey Pulju	Mayor	Jan 2018	Jan 2022
Denise Ehlenfeldt	Council Member	Jan 2016	Jan 2020
Dave Heiken	Council Member	Jan 2016	Jan 2020
Kris Woltzen	Council Member	Jan 2016	Jan 2020
Ron Parker	Council Member	Jan 2018	Jan 2022
Chuck Pilkington	Council Member	Jan 2018	Jan 2022
Lori McNally	City Clerk/Treasurer		Indefinite
John Greve	Attorney		Indefinite



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Rob Sand
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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 Kensett 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 Kensett'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.

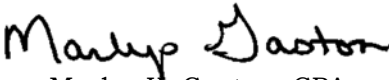
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City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

November 8, 2019

Detailed Findings and Recommendations

City of Kensett

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, recording and custody of the change fund.
- (2) Investments – recordkeeping and custody of investments.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, custody of credit cards, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Journal entries – preparing and recording.
- (8) Transfers – preparing and recording.
- (9) Debt – recording, compliance 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 – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances monthly and a listing of the outstanding checks for the Library checking account was not prepared. We reconciled two months, December 2018 and June 2019, and the book balance reconciled to the bank statement balance for the months selected.

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. As part of the reconciliation, a listing of outstanding checks for all accounts should be prepared and retained. 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 reconciled throughout the year, however, there was no evidence of an independent review.

Recommendation – The City Council or other independent person designated by the City Council should review the utility reconciliations. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Kensett

Detailed Findings and Recommendations

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

- (D) Utility Rates – Utility rates were not approved by ordinance of the City Council as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The City Council should approve utility rates by ordinance, as required.

- (E) Monthly City Clerk’s Report – A monthly City Clerk’s financial report, including a summary of receipts, disbursements, transfers and balances by fund and a comparison of actual disbursements to the certified budget by function is not prepared.

Recommendation – The City should establish procedures to ensure a monthly City Clerk’s financial report is prepared and presented to the City Council for approval. This report should include receipts, disbursements, transfers and balances for each fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk’s report should include a comparison of actual disbursements to the certified budget by function.

- (F) Accountability of Checks – Checks are signed by the Mayor before the check payee and amounts are completed. Void checks are not retained, making it difficult to account for all checks. In addition, unused checks are not properly safeguarded.

Recommendation – The City should not sign checks in advance. Void checks should be mutilated and retained to provide accountability for all checks and unused checks should be properly safeguarded.

- (G) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public works, culture and recreation and general government functions. 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) Transfers – Effective April 17, 2019 Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the affected funds and the dollar amount to be transferred. For the period April 17, 2019 through June 30, 2019, transfers did not comply with this Rule. Also, transfers were not always approved by the City Council and supporting documentation was not maintained to provide the reason for the transfers. In addition, one approved transfer from the General Fund to the Special Revenue, Road Use Tax Fund to correct prior balances was approved for \$274,414; however, the actual amount transferred was \$413,638.

Recommendation – The City should ensure all transfers are approved by resolution prior to the actual transfer. The resolution should include a clear statement of the reasons for the transfer, each fund involved and the amount. Procedures should also be established to ensure actual amounts transferred match the amount approved by the City Council. For the noted transfer, the City Council should approve, by resolution, the difference between the transfer approved and the actual transfer or transfer the excess back. Supporting documentation should be retained for all transfers.

City of Kensett

Detailed Findings and Recommendations

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

- (I) Payroll – Timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll. For calendar year 2019, salary increases for maintenance employees and the City Clerk were approved as percentages, not dollar amounts. In addition, the Librarian’s rate of pay was not approved by the City Council.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review and approval should be documented by the supervisor’s initials and the date approved. In addition, salary increases should be approved as dollar amounts, not just percentage increases and the actual, new approved salary should be stated in the minutes record. In addition, all City employees’ rate of pay/salaries should be approved by the City Council.

- (J) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting. Minutes for one meeting observed were not published within 15 days and minutes for three meetings observed were not published.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within 15 days of the meeting, as required.

- (K) Journal Entries – Journal entries were not reviewed and approved by an independent person and supporting documentation was not maintained for two of three journal entries tested.

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 approval. In addition, supporting documentation should be maintained to substantiate all journal entries.

- (L) Deposits and Investments – The City has not adopted a written investment policy as required by the 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) Change Fund and Petty Cash – The City has a change fund and the Library has a petty cash fund, neither of which are maintained on an imprest basis or maintained at an authorized amount. In addition, the balances are not included in the City’s accounting records and resulting fund balances.

City of Kensett

Detailed Findings and Recommendations

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

Recommendation – The City Council should approve an authorized amount to be maintained in each of the funds and they should be maintained on an imprest basis to provide additional control. An imprest system is one in which petty cash is maintained at a fixed, authorized amount and all distributions from the petty cash fund are supported/documented with a vendor receipt. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Also, surprise cash counts should be conducted by an independent person to ensure the accuracy of the petty cash and change fund balances. In addition, Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." Therefore, the change fund and petty cash fund should be included in the City's accounting records and resulting fund balances.

- (N) Annual Financial Report – The beginning fund balances in the June 30, 2018 Annual Financial Report (AFR) did not agree to the prior year AFR ending fund balances and long-term debt outstanding was reported in the AFR at the prior year outstanding amount.

Recommendation – The City should establish procedures to ensure the AFR beginning fund balances agree to the prior year AFR ending fund balances and long-term debt outstanding is accounted for correctly.

- (O) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 50% for property tax relief and 50% for infrastructure improvements. However, documentation is not maintained to support how the funds are used or the unspent balances held for specific purposes.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot provisions.

- (P) Mileage Reimbursement – The City does not have an approved mileage reimbursement rate. City officials have been using the IRS mileage reimbursement rate.

Recommendation – The City should, by resolution, approve a written policy for mileage reimbursement.

- (Q) 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 for several bank accounts.

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

City of Kensett

Detailed Findings and Recommendations

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

- (R) Disaster Recovery Plan – The City does not have a written disaster recovery plan for financial data.

Recommendation – The City should develop a written disaster recovery plan. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, weekly back up of computer files, copies of user documentation and the disaster recovery plan should be maintained at an off-site location.

- (S) Disbursements – For thirty disbursements tested, the following conditions were noted:

- (1) Supporting documentation or sufficient supporting documentation could not be located for five transactions.
- (2) Four transactions were not approved by the City Council.
- (3) One transaction included sales tax.
- (4) One transaction totaling \$463 was paid twice because the invoice was not cancelled to prevent reuse and no reversal or credit of the charge could be located.

Recommendation – All disbursements should be supported by invoice or other supporting documentation and should be approved by the City Council prior to disbursement. Additionally, all invoices should be cancelled to prevent reuse and sales tax should not be paid. The City should ensure the \$463 overpaid on the City's charge account has been reversed or credited back to the City.

- (T) Investments – The City does not reconcile investment earnings to the general ledger. We noted incorrect interest amounts were recorded. In addition, investment records are not properly safeguarded.

Recommendation – The City should establish procedures to reconcile investment earnings to the general ledger to ensure the correct amount of interest is recorded. An independent person should review the reconciliation and document their review by signing or initialing and dating the review. In addition, investment records should be safeguarded.

- (U) Credit Cards – The City has two credit cards for use by employees while on official business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

City of Kensett

Detailed Findings and Recommendations

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

- (V) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Denise Ehlenfeldt, Council Member, Spouse of Ralph Ehlenfeldt	Mowing	\$3,595

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (W) Financial Condition – At June 30, 2019, the City had deficit balances of \$16,310, \$53,233 and \$17,112 in the Special Revenue, Road Use Tax Fund and the Enterprise, Water and Sewer Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

City of Kensett

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Pamela J. Bormann, CPA, Manager
Jenna M. Paysen, Senior Auditor
Megan A. Waldbillig, Assistant Auditor