



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

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Auditor of State

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NEWS RELEASE

FOR RELEASE

March 24, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Rhodes, 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 10 of this report. The findings address issues such as a lack of segregation of duties, financial records of the Rhodes Fire Department maintained separate from the City, unsupported disbursements and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

Three of the twelve findings discussed above are repeated from the prior year. 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 RHODES
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Rhodes



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February 24, 2020

Officials of the City of Rhodes
Rhodes, 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 Rhodes, 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 Rhodes 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 Rhodes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
LaVern Karsjen	Mayor	Jan 2020
Wendy Eldridge	Council Member	Jan 2020
Bob Hooper	Council Member	Jan 2020
Doug Lass	Council Member	Jan 2020
Jessica Armstrong	Council Member	Jan 2022
Brandon Buck	Council Member	Jan 2022
Gale Klosterman	City Clerk/Treasurer	Indefinite
Rodger Schoell	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 Rhodes 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 Rhodes'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. The City had no investments.
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.

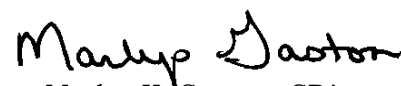
9. We scanned debt, including general obligation and revenue bonds/notes and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City 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. The City had no transfers.
15. We traced selected payroll and related transactions for 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 Rhodes 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

February 24, 2020

Detailed Findings and Recommendations

City of Rhodes

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) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining accounts receivable and write-off records.
- (6) Long-term debt – recordkeeping, compliance and debt payment processing.

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) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, accounting records did not facilitate the proper classification of receipts or disbursements. Monthly bank reconciliations are not prepared.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Fire Department should review its control procedures to obtain 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.

In addition, receipts and disbursements should be properly classified in the accounting records and monthly bank reconciliations should be prepared. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year. However, a delinquent account listing was not prepared monthly and late fees were not consistently applied to delinquent accounts.

City of Rhodes

Detailed Findings and Recommendations

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

Recommendation – A listing of delinquent accounts should be prepared monthly and late fees should be consistently applied to delinquent accounts. The City Council or other independent person designated by the City Council should review and monitor delinquent accounts each month. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the culture and recreation function prior to the budget amendment. Disbursements at year end exceeded the amount budgeted in the culture and recreation 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.

- (E) Disbursements – An invoice or other supporting documentation was not available for one disbursement tested and one credit card transaction was not supported by an original vendor receipt.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Purchases made with credit cards should be supported by original vendor receipts and the original receipts should be reconciled to the monthly credit card statements.

- (F) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City Fire Department maintains a bank account for activity separate from the City Clerk’s accounting records. While this Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of this account were not reported to the City Council and disbursements from the account were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department separate account should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in this account should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

City of Rhodes

Detailed Findings and Recommendations

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

- (G) 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.

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

The City does not have written policies over the computer system for:

- Password privacy and confidentiality.
- Requiring passwords to be changed every 60 to 90 days.
- Requiring password length to be at least 8 characters.
- Usage of the internet and email.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer system.

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

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

- (J) Journal Entries – Journal entries were not properly supported and were not approved by an independent person.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Journal entries should be approved by an independent person and evidence of the approval should be documented.

- (K) Revenue Notes – The City has not established a sewer sinking account and has not made monthly transfers to this account as required by the sewer revenue note resolution.

Recommendation – The City should establish a sewer sinking account and ensure monthly transfers are made to the account, as required.

City of Rhodes

Detailed Findings and Recommendations

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

- (L) Utility Rates – The utility rates entered into the system are not periodically reviewed by an independent person to ensure proper utility rates, calculations and billings. During our review of individual utility accounts, we identified discrepancies with the calculation of water rates for the entire year which resulted in individuals being overbilled for water usage.

Recommendation – The City should consult legal counsel to resolve this matter. The City should perform a review of utility customer accounts and correct discrepancies. An independent person should review utility rates entered in the system periodically and when rate changes occur to ensure the proper rates are used to calculate utility billings. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Rhodes

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Jennifer L. Wall, CPA, Manager
Ryan T. Jelsma, Senior Auditor II
Taran E. McCusker, Staff Auditor
Craig S. Miller, Assistant Auditor