

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

April 15, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Aspinwall, Iowa for the period April 1, 2018 through March 31, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as the lack of segregation of duties, the lack of bank and utility reconciliations, the City not implementing the recommended Uniform Chart of Accounts for Iowa City Governments to facilitate financial reporting, errors in the Annual Financial Report, disbursements exceeding budgeted amounts and the employee share of FICA and IPERS paid by the City and not the employee. 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/reports/audit-reports/>.

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CITY OF ASPINWALL
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2018 THROUGH MARCH 31, 2019

City of Aspinwall



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February 19, 2020

Officials of the City of Aspinwall
Aspinwall, 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 Aspinwall, Iowa for the period April 1, 2018 through March 31, 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 Aspinwall 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

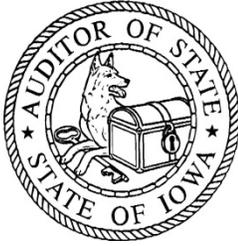
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City of Aspinwall

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Thomas Irlbeck	Mayor	Jan 2018	Jan 2020
Nancy Grimm	Council Member	Jan 2018	Jan 2020
Fred Irlbeck	Council Member	Jan 2018	Jan 2020
Tim Jansen	Council Member	Jan 2018	Jan 2020
Carol Lile	Council Member	Jan 2018	Jan 2020
Rick Warner	Council Member	Jan 2018	Jan 2020
Lisa Kerkhoff	City Clerk/Treasurer		Indefinite
Bill Ranniger	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 Aspinwall for the period April 1, 2018 through March 31, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Aspinwall'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, 12B.10B and 556.1(12) of the Code of Iowa.

9. The City had no debt.
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 for 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 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 Aspinwall 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.



Ernest J. Ruben, Jr., CPA
Director

February 19, 2020

Detailed Findings and Recommendations

City of Aspinwall

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 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 accounting functions, including journal entries, and having custody of assets.
 - (2) Cash – handling, reconciling and recording.
 - (3) Investments – recordkeeping, investing and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (6) Payroll – recordkeeping, preparing and distributing.
 - (7) Utilities – billing, collecting, depositing and posting.

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 – A monthly reconciliation of all bank and investment account balances to the City’s general ledger balance was not prepared. The monthly City Clerk’s report does not include investment accounts. In addition, the City Clerk enters activity into the general ledger after it clears the bank and therefore is not keeping a true and accurate book balance. Because the general ledger activity is recorded after clearing the bank, the general ledger agrees with bank balances, however, the general ledger does not properly reflect outstanding checks or deposits in transit. Also, there is no evidence of independent review of the monthly City Clerk’s report.

An outstanding check listing was not maintained on a monthly basis. Although a list of outstanding checks was prepared upon our request it did not include all outstanding checks and did not include the check number. In addition, checks were not always issued in sequential order.

Recommendation – The City should establish procedures to ensure receipts and disbursements are recorded in the general ledger on a current basis rather than when activity clears the bank. Also, the City should ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. In addition, checks should be issued in sequence and a listing of outstanding checks should be maintained and include at a minimum, the check number, amount and date written.

City of Aspinwall

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (C) City Financial Management – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate preparation of and to support the monthly financial reports to the City Council and the Annual Financial Report (AFR)

Additionally, the monthly City Clerk’s report presented to the City Council did not include a summary of receipts, disbursements and balances by fund. Also, the City Council is not provided a monthly comparison of actual year-to-date disbursements to the certified budget by function.

Recommendation – The City should establish procedures to require and ensure records are maintained to facilitate governmental accounting and financial reporting. To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Year-to-date totals of receipts by fund and source and disbursements by fund and function should be maintained to facilitate preparation of and to support monthly financial reports to the City Council and the AFR. Monthly financial reports provided to the City Council should include a summary of receipts, disbursements and balances by fund and include a comparison of actual year-to-date disbursements to the certified budgeted by function.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent listing was not prepared monthly. The City maintains a spreadsheet showing paid and unpaid customers, however, because deposit slips are not in sufficient detail, we were unable to identify which customers had paid.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City should ensure deposit information is sufficient to identify which customers have paid. 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.

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The ending fund balances reported on the June 30, 2018 AFR did not agree with the City’s financial records. Also, the City incorrectly reported liquor license receipts as other local option taxes rather than licenses and permits. In addition, we were unable to determine the accuracy of disbursements reported on the AFR because the City’s financial records do not classify disbursements by function. While the City’s adopted budget included disbursements for the business type activities function, the City did not properly report business type activities disbursements on the AFR.

Further, budgeted amounts for the business type activities function reported on the AFR did not agree with the final adopted/amended budget.

City of Aspinwall

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

Recommendation – The City should establish procedures to ensure future AFR reports agree to the City’s records. Also, the City should ensure receipts are correctly reported by source and disbursements are correctly reported by function and agree to the City’s records. Also, the budgeted amounts reported on the AFR should represent the final or amended budget.

- (F) 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.

- (G) 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 a list of claims allowed, a summary of receipts and total disbursements by fund. Minutes publications for all meetings observed did not include a list of claims allowed, a summary of receipts and total disbursements by fund. In addition, the minutes record did not show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and ensure published minutes include a list of claims allowed, a summary of receipts and total disbursements by fund, as required. Also, the City should ensure City Council meeting minutes show sufficient information to indicate the vote of each member present.

- (H) Certified Budget – Because the City’s financial records do not classify disbursements by function, we were unable to determine if disbursements exceeded the amounts budgeted. However, according to the fiscal year 2018 Annual Financial Report, disbursements exceeded the amounts budgeted in the public works 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.

In addition, while the Iowa Department of Management approved an extension request, the fiscal year 2019 budget was not adopted prior to March 15th as required by Chapter 384.16 of the Code of Iowa.

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. In addition, the budget should be adopted by resolution by March 15th as required.

City of Aspinwall

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (I) Payroll Taxes – The City pays both the employer’s and the employee’s share of the City Clerk’s FICA and IPERS.

Recommendation – The City should withhold and remit the employee’s share of FICA and IPERS for all employees. The City should seek reimbursement from the City Clerk for the employee’s share of FICA and IPERS paid by the City prior to and during the period reviewed.

- (J) Disbursements – One disbursement observed was not properly supported. Also, the City pays a monthly fee of \$503 for garbage services for which no invoice is received or contract exists. In addition, paid invoices or other documentation are not properly canceled.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Also, supporting documentation should be canceled to prevent reuse.

- (K) Utility Billings – While the City attempted to increase garbage rates on April 1, 2010, the new rate was not documented in the City Council minutes and rates were not approved by ordinance as required by Chapter 384.84 of the Code of Iowa.

Recommendation – All utility rates should be approved by ordinance as required by Chapter 384.84 of the Code of Iowa.

- (L) Compensation – Chapter 372.13(8) of the Code of Iowa states in part, “By ordinance, the council shall prescribe the compensation of the mayor, council members, and other elected city officers...”

For the period observed, compensation for the Mayor was \$152.50 per quarter and for the City Council was \$30 per City Council meeting. While the compensation was approved in the minutes, the approval was not by ordinance as required by Chapter 372.13(8) of the Code of Iowa.

Also, the City Clerk’s salary was not approved by resolution as required by City ordinance.

Recommendation – The City should ensure the compensation for the Mayor and City Council are approved by ordinance as required by Chapter 372.13(8) of the Code of Iowa and compensation for the City Clerk is approved by resolution as required by City ordinance.

- (M) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections. An independent person should account for the numerical sequence of the prenumbered receipts and compare these collections to the bank deposit and the accounting records, and the evidence of review should be documented with the name or initials of the reviewer and the date of the review.

City of Aspinwall

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (N) 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 an image of both the front and back of each cancelled check, as required.

City of Aspinwall

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Gwen D. Fangman, CPA, Manager
Ryan J. Pithan, CPA, Senior Auditor II