



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

April 21, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of McCallsburg, Iowa for the period April 1, 2016 through March 31, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported sixteen 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 a lack of segregation of duties, the lack of reconciliations of cash and investment balances to bank and investment account balances and utility billings, collections and delinquent accounts, disbursements exceeding budgeted amounts, business transactions that may represent conflicts of interest and excessive TIF fund balances.

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 McCALLSBURG

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2016 THROUGH MARCH 31, 2017**

City of McCallsburg



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Rob Sand
Auditor of State

February 13, 2020

Officials of the City of McCallsburg
McCallsburg, 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 McCallsburg, Iowa, for the period April 1, 2016 through March 31, 2017. 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 McCallsburg 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 McCallsburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Alex Rainey	Mayor	Mar 2016	Nov 2017
LeAnn Hazen	Council Member	Nov 2016	Nov 2017
Scott T. Anderson	Council Member	Jan 2014	Jan 2018
William Lytle	Council Member	Jan 2014	Jan 2018
Chris Erickson	Council Member	Jan 2016	Jan 2020
Sharon Rainey	Council Member	Jan 2016	Jan 2020
Jennifer Heithoff	City Clerk		Indefinite
Zachary Ward	Attorney		Indefinite



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of McCallsburg for the period April 1, 2016 through March 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of McCallsburg'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 reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed 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 reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed 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 reviewed 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 reviewed the City's fiscal year 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed 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. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested 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. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

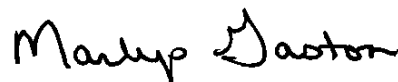
Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

Due to the significance of the findings identified during the review, the Auditor of State's Performance Investigation Division will review the findings to determine whether additional procedures are necessary.

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 McCallsburg during the course of our agreed-upon procedures. 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 13, 2020

Detailed Recommendations

City of McCallsburg

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (A) Fiduciary Oversight – 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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring and reviewing pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

- (B) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Utilities – entering rates into the computer, billing, collecting, depositing, posting and reconciling.
- (4) Long-term debt – recordkeeping and reconciling.
- (5) Disbursements – invoice processing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.

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.

- (C) Bank Reconciliations – Cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. An outstanding check listing was not prepared. For two months reviewed, June 2016 and March 2017, the general ledger balance exceeded the reconciled bank balance by approximately \$127,000 and \$123,000, respectively. In addition, no independent review of the bank reconciliations was performed.

Update – Subsequent to City Council appointment of a new City Clerk, we requested and reviewed the November 2019 bank reconciliation. The bank and book (general ledger) balances were properly reconciled by the City at November 30, 2019. However, the bank reconciliation was not independently reviewed.

City of McCallsburg

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to the bank account balances monthly. Consultation with the software provider is suggested, if needed, to understand how to generate the proper reconciling reports. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(D) Payroll – The following were identified:

- The City Clerk does not maintain a timesheet or other record of hours worked.
- It appears that payroll checks are occasionally written before the end of the pay period. One of five pay checks tested for the City Clerk was cashed before the end of the pay period.
- The City Clerk's vacation hours and balance are not adequately tracked or reviewed.
- The starting wage or subsequent wage increases for the City Clerk were not documented in the City Council minutes.

Recommendation – The City Clerk should prepare a timesheet to document hours worked and leave taken. The City Clerk's timesheets should be reviewed and approved by the Mayor or other designated person. The approval should be evidenced by the signature or initials of the reviewer and the date of the review. The City Clerk's pay checks should not be prepared prior to the end of the pay period. The City Clerk's vacation balance should be reviewed periodically by an independent person. The City Council minutes should include approval of the City Clerk's hourly pay rate.

(E) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow for municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of the interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

Based on a review of the City's tax increment financing (TIF) debt certifications for 2013 through 2015, the City certified project costs totaling \$461,612. The City was unable to provide supporting documentation for the amounts certified. While the City intended the project costs be considered advances from the funds paying the costs, the advances were not approved as a TIF obligation by the City Council and, therefore, do not represent an obligation for which the City is allowed to certify TIF debt to the County Auditor and subsequently collect TIF receipts.

The projects certified were identified as street repairs, fire station expansion, building demolition, fiber optic installation and a water looping project. Of the \$461,612 certified, we noted duplicate amounts totaling \$116,604 which include \$46,784 claimed twice for street repairs and \$69,820 claimed twice for the water looping project.

City of McCallsburg

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

In addition to the project costs certified, the City certified a \$90,000 loan entered into to pay for street repairs. The certification of \$90,000 represents an over certification since the street and other project costs were also certified. Although not certified, the City also borrowed \$165,000 for street and other projects and \$120,000 for the water project.

As a result of the amounts certified above and prior certifications, the City received tax increment financing receipts which were credited to the Special Revenue, Tax Increment Financing (TIF) Fund. Until November 2016, as discussed below, the City did not transfer funds from the TIF Fund to reimburse other funds which paid the project costs and/or loan repayments. At June 30, 2016, the City had a balance of \$720,386 in the Special Revenue, Tax Increment Financing Fund.

On November 22, 2016, the City made transfers out of the Special Revenue, TIF Fund of \$500,000 to the General Fund and \$100,000 to the Enterprise, Water Fund. The City Council minutes did not include approval of the transfers and the City did not provide supporting documentation for the amounts transferred. Without proper documentation of the project costs by fund, loan proceeds by fund and loan repayments by fund, we are unable to determine the propriety of the transfers made from the Special Revenue, TIF Fund to the General Fund and Enterprise, Water Fund.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City’s TIF certifications, including the duplicate certifications of \$116,604 and \$90,000 which should be decertified, and to determine the propriety of the transfers from the Special Revenue, Tax Increment Financing Fund to the General Fund and the Enterprise, Water Fund. The City should document support for the project costs certified by fund, loan proceeds by fund and loan repayments by fund in order to determine the proper amount of transfers to be made from the Special Revenue, TIF Fund. In the future, advances of TIF project costs from a qualifying fund should be approved via a resolution by the City Council as a TIF obligation. The approved TIF obligation should then be certified to the County Auditor.

- (F) Monthly City Clerk’s Reports – The monthly City Clerk’s financial reports to the City Council included year-to-date receipts and a claims report for disbursements, but did not include comparisons of actual disbursements to the certified budget by function or a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons of actual disbursements to the certified budget by function. Also, for better financial information, the monthly reports should also include the beginning balances, receipts, disbursements, transfers and ending balances for each fund.

- (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. Minutes for one of four meetings tested was not published within fifteen days. Also, minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and ensure all City Council meeting minutes are signed to authenticate the actions taken and should ensure City Council meeting minutes are published within fifteen days, as required.

City of McCallsburg

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (H) 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.

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

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

- (J) Annual Urban Renewal Report (AURR) – The ending cash balance of the Special Revenue, Tax Increment Financing (TIF) Fund reported on the December 1, 2016 Levy Authority Summary of the AURR did not agree with the City’s general ledger. The City reported three loans as outstanding TIF debt obligations. However, the interest portion of the loans did not agree with the repayment schedules. In addition, approval of the AURR approval was not documented in the City Council minutes.

Recommendation – The City should ensure the TIF Fund balance and outstanding debt reported on the AURR agree with the City’s records. In addition, the City Council should approve the AURR and document the approval in the City Council minutes.

- (K) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works, community and economic development, general government and debt service 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. The City should ensure proof of publications are retained to demonstrate compliance with budget requirements.

- (L) Disbursements – Seventeen out of thirty disbursements tested were not properly supported by an invoice or claim. Four of the seventeen disbursements were mileage reimbursements paid to the City Clerk.

Recommendation – The City Council should ensure all disbursements are properly supported by invoice or other supporting documentation. Mileage claims should include an itemized listing of the date, destination, mileage and purpose of the trip.

City of McCallsburg

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (M) Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. In addition, an accounts receivable listing was not prepared and maintained.

Update - Subsequent to City Council appointment of a new City Clerk, we requested and reviewed the December 2019 utility reconciliation. The billings, collections and delinquent accounts materially reconciled at December 31, 2019. However, the reconciliation was not independently reviewed.

Recommendation – An accounts receivable listing should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person should review the reconciliations and monitor delinquent accounts.

- (N) Local Option Sales Tax Receipts – The City recorded local option sales tax receipts at an estimated amount rather than the actual amount received. As a result, local option sales tax receipts were understated by \$693 for the period reviewed.

Recommendation – The City should ensure local option sales tax receipts are recorded at the actual amounts received.

- (O) Debt Service Fund – Although the City has established a Debt Service Fund, property taxes received for debt service were credited to the General Fund. The payments to pay the City's general obligation long-term debt were made from the General Fund, the Special Revenue, Road Use Tax Fund and the Enterprise, Water Fund.

Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund."

Recommendation – The City should credit debt service property tax receipts to the Debt Service Fund. The City should transfer other available resources to service general obligation debt from an appropriate fund to the Debt Service Fund to pay general obligation debt in the future.

- (P) Unrecorded Receipts – For the month of December 2016, deposits totaling \$2,431 were not recorded as receipts in the City's general ledger.

Recommendation – The City should implement procedures to reconcile receipts and deposits to ensure all receipts are properly recorded by the City.

City of McCallsburg

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Donna F. Kruger, CPA, Manager
Tiffany M. Ainger, CPA, Senior Auditor II
Andy J. Salwolke, Assistant Auditor