



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

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NEWS RELEASE

FOR RELEASE

April 24, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of South English, 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 ten 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, the lack of utility reconciliations, the lack of a monthly City Clerk's report, disbursements exceeding budgeted amounts, the lack of an accounting policies and procedures manual and the lack of a written investment policy as required by Chapter 12B.10B of 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 SOUTH ENGLISH
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of South English



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February 26, 2020

Officials of the City of South English
South English, 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 South English, 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 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 by the officials and employees of the City of South English 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of South English

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Kendra Van Dyke	Mayor	Jan 2018	Jan 2020
Emily Claraham (Appointed)	Council Member	Apr 2018	Nov 2019
Jim Long	Council Member	Jan 2018	Jan 2020
Jeff Miller	Council Member	Jan 2018	Jan 2020
Edward Shafranek	Council Member	Jan 2018	Jan 2020
Alexia Van Dyke	Council Member	Jan 2018	Jan 2020
Jacki McDermott	City Clerk/Treasurer		Indefinite
John Weir	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 South English 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 South English'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 traced 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 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 South English 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 H. Ruben, Jr., CPA
Director

February 26, 2020

Detailed Findings and Recommendations

City of South English

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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting and entering rates into the system.
- (7) Long-term debt – recording, debt payment processing and reconciling.
- (8) Financial reporting – preparing and reconciling.
- (9) Computer system – performing all general accounting functions and controlling all data and output.

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 the cash balances in the City’s general ledger were reconciled to the checking account balances, a complete reconciliation including investments was not performed. In addition, there was no evidence of independent review of the bank reconciliations.

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. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of South English

Detailed Findings and Recommendations

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

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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 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.

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

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a summary of receipts, disbursements and balances by 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 reports should include comparisons to the certified budget by function. The City Council should review and approve the City Clerk’s report monthly.

- (E) Deposits and Investments – An investment register was not maintained for each investment. In addition, 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 – An investment register which includes the cost, description, date purchased, interest rate, maturity date and identifying number for each investment should be maintained. In addition, 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.

- (F) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the public safety 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.

City of South English

Detailed Findings and Recommendations

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

- (G) 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.

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

The City does not have written policies for:

- (1) Logging off unattended computers.
- (2) Passwords, including password privacy and confidentiality, requiring passwords to be changed every 60 to 90 days and requiring passwords to be a minimum of eight characters long.
- (3) Complete system backup done at fiscal yearend.
- (4) Backups for PC hard drives.
- (5) The use of an anti-virus program on computers.
- (6) Ensuring only software licensed to the City is installed on computers.
- (7) Internet usage.
- (8) 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 system. Also, a written disaster recovery plan should be developed, approved and tested periodically.

- (I) Transfers – Transfers were not approved by the City Council.

Recommendation – All transfers should be approved by the City Council prior to making the transfer. In addition, effective April 17, 2019, Rule 545-2, 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.

City of South English

Detailed Findings and Recommendations

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

- (J) Annual Financial Report – The beginning fund balance of the fiscal year 2018 Annual Financial Report (AFR) did not agree with the prior year AFR ending balance. The prior year AFR ending balance did not include the City’s investments of \$27,279. In addition, approval of the AFR by the City Council was not documented.

Recommendation – The City should ensure the AFR beginning fund balance agrees with the prior year ending fund balance. The AFR should be approved by the City Council and the approval should be documented in the minutes record.

City of South English

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Tammy A. Hollingsworth, CIA, Manager
Erin J. Sietstra, Senior Auditor
Valerie R. Davis, Assistant Auditor