



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

May 1, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Clarence, 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 eleven 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, separately maintained records not being included in the city's accounting system, timesheets are not approved, and utility customer checks are not restrictively endorsed immediately upon receipt.

Nine of the eleven findings discussed above are repeated from the prior year report. 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>.

###

CITY OF CLARENCE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Clarence



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

February 15, 2020

Officials of the City of Clarence
Clarence, 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 Clarence, 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 extended by the officials and employees of the City of Clarence 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

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	4-5
Detailed Findings and Recommendations:	<u>Finding</u>
Segregation of Duties	A 7-8
Payroll	B 8
Utility Rates	C 8
Petty Cash Fund	D 8
Utility Receipts	E 8
Separately Maintained Records	F 8-9
Clarence Park Days Committee	G 9
Annual Urban Renewal Report	H 9
Disbursement Approval	I 9
Clarence Lincoln Highway Festival Committee Investment Register	J 10
Clarence Community Park Booster Club	K 10
Staff	11

City of Clarence

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeric Armstrong	Mayor	Jan 2022
Bart Miller	Mayor Pro-temp	Jan 2022
Jim Barber	Council Member	Jan 2020
Rod Dennis	Council Member	Jan 2020
Ronald Robinson	Council Member	Jan 2022
Levi Van Oort	Council Member	Jan 2022
Deb Minar	City Clerk/Treasurer	Indefinite
Kyle Maurer	Attorney	Indefinite



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

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 Clarence 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 Clarence'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. 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 pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State 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. We scanned 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 observed 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 traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. 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.
15. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. 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 Clarence 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 15, 2020

Detailed Findings and Recommendations

City of Clarence

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) Accounting system – performing all general accounting functions, including journal entries and having custody of assets.
- (2) Cash – handling, reconciling, depositing and custody.
- (3) Investments – recordkeeping, investing, and reconciling earnings.
- (4) Debt – recordkeeping and debt payment processing.
- (5) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (6) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – preparing, distributing, recording, comparing time records to payroll, approving, reviewing and entering rates into the computer system.
- (8) Utilities – billing, collecting, depositing and posting.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing and reconciling.
- (11) Journal entries – preparing and recording.

For the Clarence Lincoln Highway Festival Committee, one individual has control over each of the following areas:

- (1) Cash – reconciling, recording and depositing.

For the Clarence Community Park Booster Club, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, recording and reconciling.
- (2) Disbursements – preparing, reconciling and recording.

For the Clarence Community Park Days Committee, one individual has control over each of the following areas:

- (1) Cash – reconciling, recording, depositing and custody.
- (2) Receipts – depositing and recording.
- (3) Disbursements – check writing and check signing.

City of Clarence

Detailed Findings and Recommendations

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

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) Payroll – Although timesheets were maintained for all employees, for each of the six timesheets observed there was no evidence of supervisory approval for hours worked or paid time off.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to payroll processing.

- (C) Utility Rates – The utility rates entered into the system are not periodically reviewed by an independent person to ensure proper utility calculations and billings.

Recommendation – An independent person should periodically review utility rates entered in the system and when rate changes occur to ensure the proper rates are used to calculate utility billings.

- (D) Petty Cash Fund – The petty cash fund is not maintained on an imprest basis. 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 vendor receipts. The petty cash fund was combined with the change fund which was not accounted for separately.

Recommendation – The petty cash fund should be maintained on an imprest basis to provide additional control over the fund. Also, the change fund should be accounted for separately to facilitate the depositing of these collections intact.

- (E) Utility Receipts – Utility customer checks are not restrictively endorsed upon receipt.

Recommendation – To safeguard collections, utility customer checks should be restrictively endorsed immediately upon receipt.

- (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 Clarence Community Park Booster Club, Clarence Lincoln Highway Festival Committee and Clarence Park Days Committee maintain bank accounts for activity separate from the City Clerk’s accounting records. While these Departments are part of the City and are manually added to the Annual Financial Report, the transactions and the resulting balances were not included monthly financial reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts 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.

City of Clarence

Detailed Findings and Recommendations

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

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 Clarence Community Park Booster Club, Clarence Lincoln Highway Festival Committee and Clarence Park Days Committee separate accounts 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 and monthly financial reports. The activity in these accounts 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.

- (G) Clarence Park Days Committee – Pre-numbered receipts were not issued for collections and disbursements were not approved by the City Council. Bank reconciliations are not performed and supporting documentation for disbursements is not properly canceled to prevent reuse.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the recording of all collections. Also, disbursements should be approved by the City Council monthly and supporting documentation for disbursements should be cancelled to prevent reuse. In addition, the Committee should establish procedures to ensure bank account balances are reconciled to book balances monthly. Documentation of this reconciliation should be retained. Variances, if any, should be reviewed and resolved timely.

- (H) Annual Urban Renewal Report – The amount reported as TIF debt outstanding on the Annual Urban Renewal Report (AURR) Levy Authority Summary, was understated by \$255,274 due to the Robinson Addition Rebate being reported at a zero balance.

Recommendation – The City should ensure the amounts reported on the AURR Levy Authority summary agree with the City’s records.

- (I) Disbursement Approval – While the City Council notes approval of claims in the minutes record, the minutes record does not include the list of claims or any other way to identify the specific claims approved (i.e., a total of the claims listing). Also, while a claims list is provided to the City Council for approval, the listings are not signed to document approval and to authenticate the record.

Recommendation – The City should establish procedures to document the specific claims approved, either by including a list of the claims in the minutes record, or by including the total of the claims approved in the minutes and providing a listing of the claims to the City Council. The claims listing should be signed by the City Council to evidence approval and to authenticate the record.

City of Clarence

Detailed Findings and Recommendations

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

- (J) Clarence Lincoln Highway Festival Committee Investment Register – An accounting record/register is not maintained for each investment.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

- (K) Clarence Community Park Booster Club – Pre-numbered receipts were not issued for collections and disbursements were not approved by the City Council. Supporting documentation for one of nine disbursements tested could not be located. Additionally, voided checks were not retained, and bank reconciliations were not prepared. Also, supporting documentation for disbursements is not properly canceled to prevent reuse.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the recording of all collections. All disbursements should be approved by the City Council. All disbursements should be supported by original invoice or other supporting documentation. Voided checks should be retained to provide accountability. The Board should establish procedures to ensure bank account balances are reconciled to book balances monthly. Documentation of this reconciliation should be retained. Variances, if any, should be reviewed and resolved timely. In addition, supporting documentation for disbursements should be cancelled to prevent reuse.

City of Clarence

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Deborah J. Moser, CPA, Manager
William J. Sallen, CPA, Staff Auditor
Matthew K. Nnanna, Assistant Auditor