



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

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NEWS RELEASE

FOR RELEASE

June 26, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Walnut, 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 9 of this report. The findings address a lack of segregation of duties, lack of a depository resolution, questionable disbursements, and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

Six 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/reports/audit-reports/>.

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

City of Walnut



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Rob Sand
Auditor of State

June 15, 2020

Officials of the City of Walnut
Walnut, 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 Walnut, 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 Walnut 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 Walnut

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gene Larsen	Mayor	Jan 2020
Trace Frahm	Council Member	Jan 2020
Justen Tooley	Council Member	Jan 2020
Linda Booth	Council Member	Jan 2022
Mike Gettler	Council Member	Jan 2022
Dennis Hullinger	Council Member	Jan 2022
Dona Grooms	City Treasurer	Indefinite
Shannon Wood	City Clerk	Indefinite
Richard Schenck	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 Walnut 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 Walnut'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.

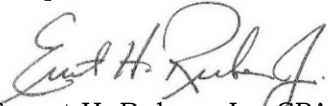
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and to determine 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 Walnut 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

June 15, 2020

Detailed Findings and Recommendations

City of Walnut

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 accounting functions.
- (2) Cash – handling, reconciling and recording.
- (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 – purchasing, invoice processing, recording and reconciling.
- (7) Payroll – recordkeeping, preparing and distributing.
- (8) Utilities – billing, collecting, depositing, posting and reconciling.
- (9) Financial reporting – preparing, recording and reconciling.
- (10) Computer usage – performing all general accounting functions and controlling all data input 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 of initials of the reviewer and the date of review.

(B) Computer System – The City does not have written policies for:

- (1) Requiring passwords to be changed at least every 60 to 90 days.
- (2) Maintaining password privacy and confidentiality.
- (3) Software system locking users out after an extended period of inactivity.

The City also does not periodically review user profiles to ensure employees only have access to programs necessary to their job functions.

Recommendation – The City should develop written policies and procedures to improve the City’s control over its computer system.

City of Walnut

Detailed Findings and Recommendations

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

- (C) Petty Cash – The petty cash and change fund was not approved by the City Council and was 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 a vendor receipt.

Recommendation – The petty cash and change fund amounts should be approved by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

- (D) Deposits – The City has not adopted a resolution naming official depositories and maximum deposit amounts as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – 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.

- (E) 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 meeting minutes tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required.

- (F) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public safety and business type activities functions prior to the May 2, 2019 budget amendment. 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.

- (G) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Linda Booth	Shared cost of a plaque	\$ 663
Cardmember Services	Late fees and interest	194

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these types of disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

City of Walnut

Detailed Findings and Recommendations

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

- (H) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1. However, the beginning and ending cash fund balances and total receipts of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City’s records.

Recommendation – The City should ensure the beginning and ending cash fund balances and total receipts reported on the Levy Authority Summary agree with the City’s records.

- (I) Utility Bill Forgiveness – During the fiscal year ended June 30, 2019, the City forgave utility bills totaling \$700 as payment for mowing services as provided by a utility customer. Forgiving utility payments violates Chapter 388.6 of the Code of Iowa which requires “A city utility or a combined utility system may not provide use or service at a discriminatory rate ...”.

In addition, payment for services in this manner understates utility receipts and circumvents the City’s normal, budgeting, accounts payable and bill approval process. Payment in this manner also, in effect, takes the payment from the utility funds. It is unclear whether payment for the mowing services was appropriate from the utility funds. Typically, mowing is a service paid from the General Fund.

Recommendation – The City should comply with Chapter 388.6 of the Code of Iowa and prohibit forgiving utility bills. The City should contract for and pay for mowing services in a manner consistent with the City’s normal accounts payable process, including ensuring the payments are properly budgeted, approved and are recorded in an appropriate fund.

- (J) Local Option Sales Tax – On November 8, 1994, the voters of the City approved adoption of a 1% Local Option Sales Tax (LOST). The LOST was approved to be used 10% for property tax relief and 90% for infrastructure. The City installed a splash pad and has paid for the water used for the pad with the infrastructure portion of LOST Funds. The City transferred \$87,522, beginning with the summer of 2011 through June 30, 2019, from the Special Revenue, LOST Capital Improvements Fund to the Enterprise, Water Fund to reimburse the Water Fund for the water usage. It is unclear how payment of water used for a splash pad is an allowable use of the “infrastructure” portion of the LOST funds.

Recommendation – The City should transfer \$87,522 from the Enterprise, Water Fund to the Special Revenue, LOST Capital Improvements Fund to reimburse the LOST Fund for the unallowable transfers. A transfer of \$87,522 from an allowable fund (i.e., the General Fund) could be made to the Enterprise, Water Fund to reimburse for the splash pad water costs. In the future, the City should ensure the disbursements paid from the Special Revenue, LOST Capital Improvements Fund meet the requirements of the referendum approved by the voters.

- (K) Payroll – Wage increases approved by the City Council were a percentage increase and not a salary or hourly rate.

Recommendation – Wage rates and increases should be adequately documented in the minutes as an approved hourly rate or salary and not just a percentage increase, to ensure anyone reviewing the document can see the actual pay rate and not just the size of the increase.

City of Walnut

Detailed Findings and Recommendations

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

(L) Disbursements – Supporting documentation was not available for two of thirty disbursements traced.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

City of Walnut

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Deborah J. Moser, CPA, Manager
Selina V. Johnson, CPA, Senior II Auditor
Jon G. Hanson, Staff Auditor
Michael S. Team, Assistant Auditor