



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

State Capitol Building
Des Moines, Iowa 50319-0004

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

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

July 22, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Buffalo, 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 issues such as a lack of segregation of duties, the lack of a complete bank reconciliation and unresolved checking account reconciliation variances, the lack of verification of utility system reconciliation reports, not providing monthly City Clerk's reports to the City Council and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

Eleven 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/>.

#

CITY OF BUFFALO

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019**

City of Buffalo



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

State Capitol Building
Des Moines, Iowa 50319-0004

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

Rob Sand
Auditor of State

July 16, 2020

Officials of the City of Buffalo
Buffalo, 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 Buffalo, 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 Buffalo 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,


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
Bank Reconciliations	B 7
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C 7-8
Monthly City Clerk's Reports	D 8
City Council Meeting Minutes	E 8
Certified Budget	F 8
Journal Entries	G 8
Disbursements	H 8
Void Receipts	I 8
Payroll	J 9
Electronic Check Retention	K 9
Property Tax Receipts	L 9
Staff	10

City of Buffalo

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Doug Anderson	Mayor	Jan 2020
Sally Rodriguez	Council Member/Mayor Pro-tem	Jan 2022
Joe Buffington	Council Member	Jan 2020
Dave Stickrod	Council Member	Jan 2020
Trent Adams	Council Member	Jan 2022
Judy Hammons	Council Member	Jan 2022
Tanna Leonard	City Clerk/Treasurer	Indefinite
Riki Harrington	Deputy City Clerk	(Resigned Sep 2018)
Emily Godwin	Deputy City Clerk	(Resigned Apr 2019)
Judy Blessing	Deputy City Clerk	Indefinite
William McCullough	Attorney	Indefinite



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004
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 Buffalo 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 Buffalo'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.

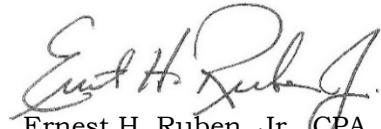
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts to 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 to determine 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 Buffalo 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

July 16, 2020

Detailed Findings and Recommendations

City of Buffalo

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) Debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, maintaining accounts receivable records and posting.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

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 – While the City reconciled their general checking account, additional cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. Additionally, petty cash on hand was not included in the bank reconciliation. For the two months observed, the bank and book balances of the general checking account did not properly reconcile. Variances of \$6,636 and \$434 were not resolved. In addition, no independent review of the bank reconciliation is performed.

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to all bank and investment account balances, including petty cash, monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliation.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although the City's computer system generates a reconciliation report, there is no evidence the amounts in the report including billings, collections applied deposits and other reconciling items are compared to utility and other records to ensure accuracy. In addition, the reconciliation is not reviewed and verified by an independent person.

City of Buffalo

Detailed Findings and Recommendations

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

Recommendation – Procedures should be established to compare amounts on the computer-generated reconciliation report to the utility and other records for accuracy. The City Council or other independent person designated by the City Council should review the utility 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 Reports – A monthly City Clerk's report, including a summary of receipts, disbursements, transfers and beginning and ending balances by fund, was prepared but was not provided to the City Council. In addition, a budget to actual comparison of disbursements by function is not provided to the City Council monthly.

Recommendation – The City Clerk should provide a monthly City Clerk's report which includes a summary of receipts, disbursements, transfers and ending balances by fund to the City Council. The City Council should review and approve the Clerk's report monthly. Monthly reporting to the City Council should also include comparisons of actual disbursements to the certified budget by function.

- (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, including total disbursements from each fund, a list of claims allowed including the reason for the claim and a summary of receipts. For three of four meeting minutes tested, the City Council meeting minutes were not published within fifteen days. Additionally, the City does not publish a summary of receipts as required.

Recommendation – The City should comply with the Code of Iowa and ensure City Council proceedings are published within fifteen days, including a summary of receipts.

- (F) Certified Budget – Disbursements exceeded the amount budgeted in the capital projects function prior to the May 16, 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) Journal Entries – Journal entries were not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (H) Disbursements – Two of thirty disbursements traced were not supported by an itemized invoice. In addition, one credit card disbursement traced included sales tax.

Recommendation – The City should ensure all disbursements are properly supported by an invoice. Also, the City should ensure sales tax is not paid on purchases.

- (I) Void Receipts – Void receipts are not reviewed by an independent person for propriety.

Recommendation – An independent person should review void receipts for propriety. The review should be documented by signing or initialing the void receipt.

City of Buffalo

Detailed Findings and Recommendations

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

- (J) Payroll – One of three City Clerk timesheets traced was not approved by the Mayor.
Recommendation – The Mayor should review and approve all timesheets.
- (K) 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 images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.
- (L) Property Tax Receipts– The November 2018 property tax receipt totaling \$2,396 for the Special Revenue, Employee Benefit Fund was incorrectly recorded in the Debt Service Fund.
Recommendation – The City should reimburse the Special Revenue, Employee Benefit Fund from the Debt Service Fund for the recording error.

City of Buffalo

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Donna F. Kruger, Manager
Jon G. Hanson, Staff Auditor
Corey D. Hauptmann, Staff Auditor