



**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

August 19, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Superior, 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 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of independent review of bank reconciliations, the lack of utility reconciliations, the lack of a required debt service reserve account and the lack of tracking the use of local option sales tax receipts. 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 SUPERIOR
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Superior



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June 5, 2020

Officials of the City of Superior
Superior, 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 Superior, 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 Superior 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 Superior

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Julie Nelson	Mayor	Jan 2018	Jan 2020
Tami Otto	Council Member	Jan 2016	Jan 2020
Mike Smith (appointed)	Council Member	Feb 2018	Nov 2019
Kevin Swalve	Council Member	Jan 2016	Jan 2020
Randy Mains	Council Member	Jan 2018	Jan 2022
Erica Rowley	Council Member	Jan 2018	Jan 2022
Sandi Bueltel	City Clerk/Treasurer		Indefinite
David J. Stein, Jr.	Attorney		Indefinite



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Rob Sand
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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 Superior 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 Superior'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,

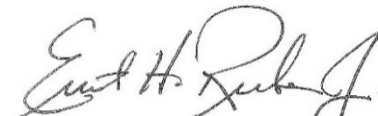
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. We traced 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 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 Superior 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 5, 2020

Detailed Findings and Recommendations

City of Superior

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 and reconciling.
- (5) Utilities – billing, collecting, depositing, recording, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – entering rates into the system, recordkeeping, preparing, signing 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.

(B) Bank Reconciliations – Although monthly bank reconciliations were prepared, the bank reconciliations were not reviewed by an independent person.

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

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

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.

City of Superior

Detailed Findings and Recommendations

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

- (D) Monthly City Treasurer's Report – The monthly financial reports provided to the City Council did not include a comparison of total disbursements for all funds to the certified budget.

Recommendation – Comparisons of total disbursements for all funds to the certified budget by function should be included in the financial reports to provide better control over budgeted disbursements and provide the opportunity for timely amendments to the budget.

- (E) Payroll – Although timesheets were prepared, timesheets did not include evidence of supervisory approval from July through November 2018.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (F) Deposits – The City's depository resolution approved a maximum deposit amount of \$300,000. The maximum deposit amount was exceeded by \$59,633 during the month of November and \$84,623 during the month of June.

Recommendation – The City should adopt a new depository resolution sufficient to cover anticipated balances at all approved depositories.

- (G) Petty Cash – The City maintains two petty cash funds for which no authorization could be located.

Recommendation – The petty cash funds should be formally authorized by the City Council.

- (H) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts be used 50% for property tax reduction and 50% for community betterment and streets. The City has not tracked the use of LOST receipts and any unspent balances in accordance with the LOST ballot provisions.

Recommendation – The City should establish procedures to properly track the use of LOST receipts and unspent balances to ensure LOST receipts are being used in accordance with the LOST ballot provisions.

- (I) Debt Service Reserve Account – The City has not established a debt service reserve account as required by the provisions of a loan agreement with the USDA. The agreement requires monthly transfers of \$237 be made to the reserve account until the required balance of \$27,576 is achieved.

Recommendation – The City should establish the debt service reserve account and make monthly transfers to the account, as required.

City of Superior

Detailed Findings and Recommendations

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

(J) Superior Fire Agency – During our exam of the City, we observed certain transactions of the Superior Fire Agency, a 28E organization of which the City is a member and noted the following:

- All accounting functions are handled by one individual without adequate compensating controls.
- Although multiple attempts were made during and after completion of field work to request supporting documentation for ten transactions selected to trace, the supporting documentation was not provided by the Superior Fire Agency. Since the support was not provided, we performed procedures to confirm payments made to three of the Superior Fire Agency vendors, we noted no exceptions from these confirmations. From a review of the fronts of check images, the ten transactions selected did not appear questionable in nature.
- Chapter 554D.114 of the Code of Iowa allows the Superior Fire Agency 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 Superior Fire Agency does not receive an image of the back of each cancelled check for its bank account.

Recommendation – The City, as a member of this organization and to protect taxpayer dollars, should establish procedures to ensure the Agency establishes the maximum internal control possible under the circumstances. Currently available staff or member partners of the 28E should be utilized. Formal written contracts should be developed for fire protection service, and supporting documentation for disbursements should be maintained, including images of both the front and back of cancelled checks.

City of Superior

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Deborah J. Moser, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor II
Molly N. Kalkwarf, Staff Auditor
Matthew K. Nnanna, Assistant Auditor