



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

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NEWS RELEASE

FOR RELEASE

September 25, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Riverton, 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 seventeen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility system reconciliations, disbursements exceeding budgeted amounts, financial records of the Riverton Fire Department maintained separate from the City and lack of a City Clerk's report prepared and presented to the City Council. 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 RIVERTON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Riverton



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May 4, 2020

Officials of the City of Riverton
Riverton, 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 Riverton, 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 Riverton 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 Riverton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Ricky C. Barton II	Mayor	Jan 2018	Jan 2022
Leola Boyle	Council Member	Jan 2016	Jan 2020
Doug Phillips	Council Member	Jan 2016	Jan 2020
Kenny Eggers	Council Member	Jan 2018	Jan 2022
Kim Fengel	Council Member	Jan 2018	Jan 2022
Harold Shull	Council Member	Jan 2018	Jan 2022
Jennifer Varellas	City Clerk		Indefinite
Bri Sorensen	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 Riverton 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 Riverton'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. The City had no investments.
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.

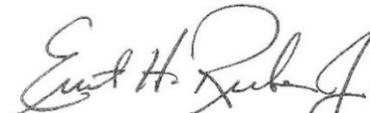
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City 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 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 Riverton 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

May 4, 2020

Detailed Findings and Recommendations

City of Riverton

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) Long-term debt – recordkeeping, compliance and debt payment processing.
- (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 and posting.
- (7) Financial reporting – preparing and reconciling.
- (8) Accounting system – performing all general accounting functions and having custody of assets.

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) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, pre-numbered receipts are not issued, paid invoices or other supporting documentation is not always retained, and accounting records did not facilitate the proper classification of receipts or disbursements. In addition, there is no evidence a monthly bank reconciliation is performed.

Recommendation – The Fire Department should segregate accounting duties to the extent possible, utilizing currently available staff, including elected officials. The Department should also require the issuance of pre-numbered receipts for all collections, retain invoices or other supporting documentation and properly classify receipts and disbursements in the accounting records. A monthly bank reconciliation should be prepared and should be reviewed by an independent person and the review evidenced by the signature or initials of the reviewer and the date of the review.

City of Riverton

Detailed Findings and Recommendations

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

- (C) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to bank account balances throughout the year. For the two months reviewed, bank and book balances properly reconciled.

Recommendation – The City should establish procedures to ensure bank 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.

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

Recommendation – 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.

- (E) Emergency Medical Services Billing and Collection – The City contracts for emergency medical services billing and collection. City staff does not independently review billing and collection information prepared by the contractor to help ensure accuracy. The City does not maintain a listing of accounts receivable for emergency services and does not reconcile reported collections by the contractor to deposits. Additionally, the City does not recalculate and verify the amount charged by the contractor for providing these services.

Recommendation – The City should establish procedures to independently review the billing information prepared by the contractor to help ensure emergency medical services are billed properly. In addition, the City should maintain a listing of accounts receivable and reconcile billings and collections each month. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review. The City should verify all collections have been deposited and ensure the fee charged by the contractor is accurate.

- (F) Deposits and Investments – 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 – 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.

City of Riverton

Detailed Findings and Recommendations

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

- (G) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public works, culture and recreation and business type activities functions. 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.

- (H) 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 City Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. While the Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual 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.

Recommendation – In order to comply with these code sections, as well as for better accountability, financial and budgetary control, the financial activity and balances of the Fire Department’s 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, monthly financial reports and the Annual 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.

- (I) Monthly City Clerk’s Reports – For eleven of twelve months observed there was no evidence a monthly City Clerk’s financial report was provided to the City Council for review and approval.

Recommendation – A monthly City Clerk’s financial report should be provided to the City Council for review and approval. To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial report should include comparisons of actual disbursements for all funds to the certified budget by function. All reports should be retained.

City of Riverton

Detailed Findings and Recommendations

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

- (J) Payroll – Timesheets were not approved and initialed by the employee’s supervisor or other responsible official.

Recommendation – Timesheets should be approved and initialed by the employee’s supervisor or other responsible official who is not involved with payroll.

- (K) Unsupported Disbursements – Invoices or other supporting documentation were not always available to support disbursements. Two of thirty disbursements observed were not properly supported. In addition, one of four City Fire Department disbursements observed were not properly supported.

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

- (L) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published (or posted if City population is less than 200) within fifteen days of the meeting and include total disbursements from each fund, a list of claims allowed and a summary of receipts. For all minutes observed, the posting did not include a summary of receipts and total disbursements from each fund.

Recommendation – The City should ensure the minutes postings include a summary of receipts and total disbursements by fund, as required.

- (M) City Fire Department Debit Card – The Fire Department has a debit card available for use for City Fire Department purchases.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the City Fire Department. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (N) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...”. The fiscal year 2018 AFR incorrectly reported debt payments for the City’s water and sewer revenue bonds as operating disbursements instead of debt service disbursements.

Recommendation – The City should establish procedures to ensure water and sewer revenue debt service disbursements are properly reported on the AFR.

City of Riverton

Detailed Findings and Recommendations

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

- (O) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts be used 100% for street maintenance and community improvements. The City recorded LOST receipts to the General Fund and did not properly track the use of LOST receipts and unspent balances to ensure compliance with the ballot requirements. In addition, the City incorrectly recorded one LOST receipt totaling \$3,290 as a road use tax receipt.

Recommendation – The City should establish procedures to properly track the use of LOST receipts and unspent balances in accordance with the LOST ballot provisions. In addition, the City should develop procedures to ensure all receipts are properly recorded in the general ledger.

- (P) Transfers – Transfers were not always supported or approved by the City Council.

Recommendation – The City Council should ensure all transfers are supported and approved by the City Council.

- (Q) Revenue Bonds – The City’s sewer revenue bond resolution requires customer rates be established to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to leave a balance of net operating receipts sufficient at all times to pay the principal and interest on all outstanding sewer revenue obligations when due. The bond resolution also requires the City establish a reserve account and deposit a sum of \$4,000 at the time the bond is issued, and thereafter set aside \$333 each month until the sum of \$39,866 has been accumulated in the reserve account.

For the year ended June 30, 2019, the City’s sewer operating receipts of \$38,545 is less than the \$43,872 required to pay the bond principal and interest and transfer the required amount to the reserve account. In addition, at June 30, 2019 the City’s sewer reserve account had a deficit balance of \$36,543.

Recommendation – The City should consult legal counsel and review the City’s sewer utility rates to ensure the rates are adequate to produce the required net operating receipts. In addition, the City should explore options to eliminate the deficit in the sewer reserve account and make the required monthly transfers until the required reserve balance of \$39,866 is achieved.

City of Riverton

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Tammy A. Hollingsworth, CIA, Manager
Karen J. Kibbe, Senior Auditor II
Kile J. Bean, Assistant Auditor