



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

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NEWS RELEASE

FOR RELEASE

October 21, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Zearing's Periodic Examination Report dated September 1, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2018 through March 31, 2019.

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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While the City corrected six of the twenty-one findings reported in the Periodic Examination Report dated September 1, 2016 and partially corrected nine of the findings, six of the findings are reported as "not corrected." Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Zearing's Report on the Status of Periodic Examination Findings and Recommendations is available on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF ZEARING

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
JUNE 1, 2018 THROUGH MARCH 31, 2019**

City of Zearing



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

September 23, 2020

Officials of the City of Zearing
Zearing, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report on the Status of Periodic Examination Findings and Recommendations for the City of Zearing, Iowa, for the period June 1, 2018 through March 31, 2019.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Zearing throughout the follow-up 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 Zearing

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Martin Herr	Mayor	Jan 2018	Jan 2020
Gerald Murrell, Jr.	Council Member	Feb 2016	Jan 2020
Dave Skinner	Council Member	Feb 2016	Jan 2020
Rick Good	Council Member	Jan 2018	Jan 2022
Sandy Perisho	Council Member	Jan 2018	Jan 2022
Dave Tisdale	Council Member	Jan 2018	Jan 2022
Karen Davis	City Clerk		Indefinite
Don Juhl	Attorney		Indefinite

City of Zearing



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Rob Sand
Auditor of State

Auditor of State's Independent Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated September 1, 2016 on the City of Zearing, Iowa covering the period July 1, 2015 through June 30, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.


This report includes the findings and recommendations from the City's Periodic Examination Report date September 1, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2018 through March 31, 2019.

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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated September 1, 2016. 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 Zearing during the course of our follow-up procedures engagement. Should you have 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

September 23, 2020

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Zearing

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Findings Reported in the Periodic Examination Report dated September 1, 2016:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, depositing, 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, journalizing, reconciling and posting.
- (5) Disbursements – invoice processing, check writing and signing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing, signing checks, distributing and entering rates into the system.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system, and maintaining detailed accounts receivable and write-off records.
- (8) Journal entries – preparing and journalizing.

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.

Current Status – Not corrected. While payroll rates entered into the system were reviewed by an independent person during the period reviewed, the remaining segregation of duties findings have not been corrected. The recommendation is repeated.

(B) Financial Reporting – During our review, we identified material amounts of receipts not posted in the general ledger or posted to incorrect accounts.

Recommendation – The City should implement procedures to ensure receipts are properly recorded in the City's financial statements.

Current Status – Not corrected. The City was unable to provide a general ledger report. The recommendation is repeated.

City of Zearing

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

- (C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For the month reviewed, June 2016, bank and book balances did not properly reconcile. At June 30, 2016, the bank balance was \$5,686 higher than the book balance. In addition, a list of outstanding checks was not prepared and retained for each month.

Recommendation – The City should establish procedures to ensure bank and investment 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. In addition, a listing of outstanding checks should be prepared each month and retained.

Current Status – Partially corrected. During the period reviewed, a listing of outstanding checks was prepared monthly. However, bank reconciliations were not prepared. The recommendation is partially repeated.

- (D) 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. A delinquent account listing at June 30, 2016 was not available. However, the system-generated delinquent account listing for August 2016 showed a total delinquent account balance of \$24,867. Based on discussions with City personnel, it does not appear the former City Clerk consistently applied the City’s established procedures for utility shut-offs when delinquent balances were not paid in a timely manner.

The City does not have written procedures for the write-off of uncollectible accounts. During the period reviewed, we noted a utility account with a balance of \$1,776 which appeared to be written off in the accounting software. Per discussion with the Mayor and other City officials and review of City Council minutes, there was no evidence of proper authorization for the account write-off. In addition, the write-off amount only appears in the “Bad Debts” screen in the accounting software and does not appear on the delinquent account listing. As a result, the City Council would have no knowledge the account was written off.

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.

The City should follow established procedures for utility shut-off when delinquent balances are not paid in a timely manner. In addition, the City should establish written procedures for the write-off of uncollectible accounts, and all amounts to be written off should be approved by the City Council and the approval should be documented in the minutes record.

Current Status – Partially corrected. A delinquent account listing is printed monthly; however utility billings, collections and delinquent accounts were not reconciled monthly. Furthermore, the City does not have written policies for the write-off of uncollectible accounts and the City is not following established procedures for utility shut-off when delinquent balances are not paid in a timely manner. The recommendation is partially repeated.

City of Zearing

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

- (E) Monthly Reports – Monthly reports, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of total disbursements for all funds to the certified budget by function, are not provided to the City Council.

The December 2015 City Clerk’s report did not reconcile to the City Treasurer’s report generated by the City’s software. Fund balances in the City Clerk’s report totaled \$433,173 while fund balances in the City Treasurer’s report totaled \$488,860. In addition, the monthly City Clerk’s reports did not separately report activity for the Special Revenue, Employee Benefits Fund.

Recommendation – The City Clerk should prepare and provide the City Council with monthly City Clerk’s reports which include a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements to the certified budget by function for all funds. Procedures should be established to ensure the City Clerk’s monthly reports reconcile to the City Treasurer’s monthly reports. Variances should be reviewed and resolved in a timely manner.

Current Status – Not corrected. A City Clerk’s report is not prepared. The ending fund balance reported in the City Treasurer’s report at March 31, 2019 totaled \$484,848. The recommendation is repeated.

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not materially agree with City records.

The ending balance in the June 30, 2015 Annual Financial Report totaled \$530,812, which did not agree with the June 2015 City Clerk’s report and the City Treasurer’s report balance of \$475,032 and \$504,106, respectively. In addition, total receipts and disbursements per the Annual Financial Report were \$696,639 and \$718,377, respectively, while the receipts and disbursements per the City’s accounting software totaled \$420,171 and \$486,213, respectively.

Recommendation – We were unable to determine the reasons for the variances. The City should ensure future Annual Financial Reports are supported by the City’s records, including the monthly City Clerk’s and City Treasurer’s reports.

Current Status – Partially corrected. Total disbursements reported in the June 30, 2018 Annual Financial Report agreed with the City’s accounting software. However, total receipts reported in the Annual Financial Report were \$713,834, while receipts reported in the City’s accounting software totaled \$719,716. In addition, the ending fund balance reported in the June 30, 2018 Annual Financial Report totaled \$796,261, which did not agree with the City Treasurer’s report balance of \$774,722. The recommendation is partially repeated.

City of Zearing

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

(G) Questionable Transactions – Certain improper disbursements and personal purchases, as well as an improper write-off of the former City Clerk’s unpaid utility balance were identified during our review. These transactions are detailed as follows:

- We noted two extra payroll checks issued to the former City Clerk in fiscal year 2016. Although these payments could have been for payout of vacation balances, there were no timesheets, discussions in City Council minutes or other documentation to evidence the purpose of these payments. The payments totaled \$1,062 for fiscal year 2016.
- The former City Clerk made personal purchases on the City’s credit card for a monthly subscription to My Life Background Reports from March 2016 through August 2016, when the subscription was cancelled by City personnel. The personal charges totaled \$302 during this period. The City requested reimbursement of the unauthorized purchases from the former City Clerk and has received \$252 in reimbursements as of September 15, 2016.
- We noted monthly withdrawals from the bank account for vision insurance for the former City Clerk through the Iowa Rural Water Association. Per discussion with the Mayor, this benefit was not authorized by the City Council. The payments totaled \$122 for fiscal year 2016.
- The City changed accounting software during the year. While performing a search for write-offs of delinquent utility balances, we noted a write-off in the “Bad Debts” screen of the software for the former City Clerk indicating a balance of \$1,036 was written off in October 2013. Per discussion with the Mayor, the City does not have written policies for utility write-offs and the Mayor does not remember any instances of write-offs presented to the City Council for approval.

Recommendation – The City Council should consult legal counsel to determine the disposition of these matters.

Current Status – Corrected. During the period of review, there were no instances of personal purchases or improper write-off of unpaid utility balances noted.

(H) Disbursements – The following items were noted during our testing of disbursements:

- 16 of 31 transactions tested were not supported by proper documentation.
- 11 of 31 transactions tested did not have adequate documentation to determine whether public purpose was met or the public benefits to be derived were not clearly documented for unusual purchases.
- 2 of 31 disbursements tested could not be traced to posting in the accounting records.
- We noted several manual checks issued to the City which appear to be for refunds of utility deposits. However, it is unclear why the checks were issued to the City rather than to the utility customer who was owed the deposit.

City of Zearing

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Recommendation – All disbursements should be supported by invoices or other supporting documentation. In addition, the public benefit to be derived from a disbursement should be clearly documented on the supporting documentation when not readily apparent. All disbursements should be reconciled to the City's ledgers monthly.

The City should cease the practice of issuing checks to the City to refund utility deposits. Utility deposit refunds should be issued to the utility customer who was owed the refund.

Current Status – Partially corrected. Checks were not issued to the City to refund utility deposits during the period reviewed. During the period reviewed, we noted five disbursements for donations to various organizations. Article III, Section 31 of the Constitution of the State of Iowa prohibits governmental bodies from making a gift to a non-profit corporation. In addition, the public purpose was not documented to support these disbursements. The recommendation is partially repeated. In addition, see finding (W).

(I) Payroll – The following items were noted during our testing of payroll:

- Hourly rates for City employees were not documented in the minutes record. In addition, rate increases were approved by the City Council as a percentage increase rather than as an hourly rate.
- Timesheets were not required for all employees.
- Vacation and compensatory time balances were not tracked for fiscal year 2016.
- There is no independent review of new employees entered on the City's payroll system.
- Written approval is not required for all payroll deductions.
- Personnel files do not contain all required IRS forms.
- The former City Clerk's payroll check for the pay period ended November 11, 2015 was dated a week early.

Recommendation – All hourly rates should be approved by the City Council and adequately documented in the minutes record. In addition, the City Council should review the current hourly rate and the proposed hourly rate to ensure the approved percentage increase is applied accurately. Timesheets should be required for all employees, salaried as well as hourly. The timesheets should be signed by the employee and should be reviewed and approved by supervisory personnel prior to the preparation of payroll. The timesheets should support all hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days.

Personnel files should contain all necessary IRS forms and evidence of authorization for any payroll deductions. In addition, the entry of new employees on the City's payroll system should be reviewed by an independent person.

All non-routine payroll checks should be properly supported and approved, and payroll checks should not be processed in advance of the regular schedule.

City of Zearing

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Current Status – Partially corrected. For the period reviewed, payroll checks were not processed in advance of the regular schedule and vacation and compensatory time balances were tracked. Personnel files contained all necessary IRS forms and evidence of authorization for payroll deductions. The entry of new employees on the City’s payroll system was reviewed by an independent person. Timesheets were prepared by employees; however, timesheets did not contain evidence of approval by supervisory personnel. In addition, rate increases were approved by the City Council as a percentage increase rather than as an hourly rate. The recommendation is partially repeated.

- (J) Credit Cards – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

In addition, original credit card receipts are not always provided to the City Clerk to be reconciled to the statement each month. We noted certain items purchased with the City’s credit card such as candy, crackers, cookies, chocolates, small games and items with no description for which public purpose was not clearly documented.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Original receipts should be provided to the City Clerk in a timely manner and should be reconciled to the credit card statement each month. All charges should be reviewed and scrutinized prior to payment. For items which are unusual in nature, the public purpose of the purchase should be clearly documented.

Current Status – Corrected. The City has adopted a credit card policy to regulate the use of credit cards and established procedures for proper accounting of credit card charges. In addition, original credit card receipts were maintained, and the public purpose was documented for all credit card transactions reviewed.

- (K) Accounting Records – Certain records, including journal entries processed on the City’s accounting system and certain revenue debt documents, were not properly retained.

Recommendation – The City should retain all accounting records in accordance with the City’s record retention policy.

Current Status – Corrected. Accounting records, including journal entries and debt documents, were retained in accordance with the City’s record retention policy.

- (L) Manual Checks – The City issued a significant number of manual checks during the fiscal year. However, the City does not account for the numerical sequence of checks issued and control was not maintained over the supply of unused and/or voided checks.

In addition, certain checks included only one signature although dual signatures are required by City policy. Several of these checks were issued to the former City Clerk and were signed only by the former City Clerk.

City of Zeoring

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Recommendation – The City should discontinue the use of manual checks and should establish procedures to account for the numerical sequence of all checks issued. Proper controls should be exercised over the supply of unused and/or voided checks. In addition, the City should implement procedures to ensure checks are signed by two individuals. Bank statements with images of cancelled checks should be reviewed by an independent individual to ensure all checks include dual signatures and appear appropriate.

Current Status – Partially corrected. During the period reviewed, manual checks were not used. Unused and voided checks were properly secured. Checks were signed by two individuals, however there was no evidence images of cancelled checks were reviewed by an independent individual. The recommendation is partially repeated.

- (M) Separately Maintained Records – The Zeoring Park Board maintains separate bank accounts for certain purposes. The activity and resulting balances of these accounts are not included in the City’s accounting records. In addition, a certificate of deposit held for the Zeoring Public Library was not included in the City’s accounting records.

Recommendation – 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.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

Current Status – Not corrected. The recommendation is repeated.

- (N) Restrictive Endorsement – A restrictive endorsement was not placed on checks immediately upon receipt.

Recommendation – A restrictive endorsement should be placed on all checks when received to help provide protection in case of theft or loss.

Current Status – Corrected. A restrictive endorsement is placed on checks when received.

- (O) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the general government and business type activities functions. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the public works, health and social services and general government 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.”

The notice of public hearing for the budget amendment approved March 14, 2016 was published fifteen days after the stated hearing date. No notice of public hearing could be located for the budget amendment approved on May 28, 2016.

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.

Before approving any budget amendment, the City Council should set a date for a public hearing and give notice of the hearing at least ten but not more than twenty days prior to the hearing as required by Chapters 384.16(3) and 384.18(2) of the Code of Iowa.

City of Zeoring

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Current Status – Partially corrected. Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the business type activities function. No budget amendments were made during the year ended June 30, 2018. The recommendation is partially repeated.

- (P) City Council Meeting Minutes – Certain disbursements were not approved by the City Council and other disbursements were not approved prior to the disbursement. The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval.

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 the four meetings tested were not published within fifteen days. In addition, the City did not publish a summary of receipts and in certain cases, the reason for the claim was not published as required by Chapter 372.13(6) of the Code of Iowa.

There was no evidence in the minutes to demonstrate public hearings were held in advance of the City Council approving the March 14, 2016 and May 28, 2016 budget amendments.

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval. The minutes record for City Council proceedings should be published as required by the Code of Iowa, including a summary of receipts and the reason for claims allowed. The minutes record should document all significant action taken by the City Council, including public hearings held.

Current Status – Partially corrected. During the period reviewed, the reason for the claim was published as required by Chapter 372.13(6) of the Code of Iowa and claims traced were approved by the City Council prior to disbursement. In addition, a public hearing on the fiscal year 2019 budget was held in advance of City Council approval. The City does not have a written disbursement policy to allow payment of certain bills prior to City Council approval. Minutes for one of four meetings tested were not published within fifteen days of the meeting, as required. The City did not publish a summary of receipts, as required. The recommendation is partially repeated.

- (Q) Deposits and Investments – The City Council has named an official depository but has not specified the maximum that may be kept on deposit as required by Chapter 12C.2 of the Code of Iowa. In addition, an investment register is not maintained.

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. In addition, the City should maintain an investment register documenting the activity of each investment.

Current Status – Not corrected. The recommendation is repeated.

City of Zearing

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

- (R) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the General Fund. The LOST ballot requires the receipts to be used for specified purposes. However, during the fiscal year, LOST disbursements were not tracked in a manner which documented compliance with the LOST ballot referendum provisions.

Recommendation – The City should document the collection, disbursement and balance of all LOST funds. Disbursement of these funds should be properly identified to document compliance with the LOST ballot referendum provisions.

Current Status – Not corrected. The recommendation is repeated.

- (S) Financial Condition – At June 30, 2016, the Special Revenue, Road Use Tax Fund and the Enterprise, Water Fund had deficit balances of \$49,694 and \$7,925, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

Current Status – Partially corrected. At March 31, 2019, the Special Revenue, Road Use Tax Fund did not have a deficit balance. However, the Enterprise, Water Fund had a deficit balance of \$25,381. The recommendation is partially repeated. In addition, see finding (V).

- (T) 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 for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts, as required.

Current Status – Corrected. The City receives images of both the front and back of cancelled checks for all bank accounts, as required.

- (U) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the State Treasurer's Office annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the State Treasurer's Office as required.

Current Status – Corrected. During the period reviewed, the City did not have outstanding obligations over two years old that should be remitted to the State Treasurer's Office.

City of Zearing

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through March 31, 2019

Additional Findings as a Result of Follow-up Procedures:

- (V) Financial Condition – At March 31, 2019, the Special Revenue, Employee Benefit Fund and the Enterprise, Water and Storm Sewer Funds had deficit balances of \$36,644, \$25,381 and \$6,054, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

- (W) Donations – 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 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Legal Aid of Story County	Donation	\$ 200
Assault Care Center Extending Shelter & Support (ACCESS)	Donation	200
Colo Nesco Booster Club	Donation	200
Colo Nesco After Prom	Donation	200
Salvation Army	Donation	100

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 be subject to a deserved close scrutiny. The line to be drawn between a proper and 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 requirements for proper public purpose documentation.

City of Zearing

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Jennifer L. Wall, CPA, Manager
Tiffany M. Ainger, CPA, Manager