

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

State Capitol Building  
Des Moines, Iowa 50319-0004

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Rob Sand  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

March 17, 2021

Contact: Ernest Ruben  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Onslow, 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 eighteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 12 of this report. The findings address issues such as the lack of segregation of duties, the lack of bank and utility reconciliations, unsupported disbursements, unsupported credit card disbursements, the lack of supervisory review of timesheets, local option sales tax receipts not deposited timely and the City Street Report not submitted timely resulting in delayed road use tax receipts. Sand provided the City with recommendations to address each of the findings.

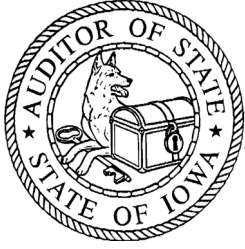
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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/reports/audit-reports/>.

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

**City of Onslow**



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Rob Sand  
Auditor of State

February 22, 2021

Officials of the City of Onslow  
Onslow, 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 Onslow, 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 Onslow 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".

Rob Sand  
Auditor of State

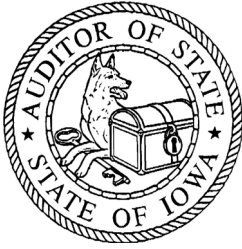
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**City of Onslow**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Beth Streeper	Mayor	(Resigned Jun 2019)
Russ Benke (Appointed Jun 2019)	Mayor	Nov 2019
Josh Fall	Council Member	(Resigned Jun 2019)
Mike Steeper	Council Member	(Resigned Jun 2019)
Joe Paulson (Appointed Jun 2019)	Council Member	Nov 2019
Curtis Thornhill (Appointed Jun 2019)	Council Member	Nov 2019
Mat Gray	Council Member	(Resigned Aug 2018)
Marilyn Gray (Appointed Sep 2018)	Council Member	Nov 2019
Michael French	Council Member	(Resigned Dec 2018)
Betty Jordan (Appointed Jan 2019)	Council Member	Nov 2021
Shane Cory Oberbreckling	Council Member	Jan 2022
Karen Bixler	City Clerk	(Resigned Jun 2019)
Ginger Thomas (Appointed Jun 2019)	City Clerk	Indefinite
Jay Willems	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 tests and procedures to selected accounting records and related information of the City of Onslow 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 Onslow'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. 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.

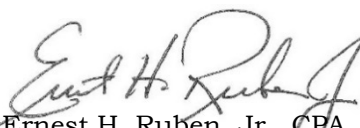
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City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

February 22, 2021



## **Detailed Findings and Recommendations**

City of Onslow

Detailed Findings and Recommendations

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

- (A) Fiduciary Oversight – 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.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring the review of pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

- (B) 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) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting and maintaining accounts receivable records.
- (6) Long-term debt – recording, reconciling and debt payment processing.
- (7) Financial reporting – preparing and reconciling.
- (8) Journal entries – preparing 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.

City of Onslow

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 the bank account balances throughout the year. At June 30, 2019, the City Clerk’s balance was \$194,936 and the balance per the bank was \$191,678. Outstanding check listings were not prepared and checks clearing the bank have not been reconciled in the accounting system. As a result, we attempted to reconcile the general ledger with the bank balance at June 30, 2019. We identified certain disbursements recorded as electronic payments in the accounting records that have not cleared the bank, checks that have cleared the bank that were not recorded as disbursements in the accounting records and checks recorded twice reducing the recorded book balance by \$6,644.

Recommendation – The City should establish procedures to ensure all bank account balances are reconciled to the general ledger balances monthly, and variances, if any, are resolved timely. A listing of outstanding checks should be prepared monthly and retained to support the reconciliation and checks clearing the bank should be reconciled in the accounting system. An independent person should review the reconciliations and bank statements and document the review by signing or initialing and dating the monthly reconciliations and bank statements.

- (D) City Council Meeting Minutes – Chapter 380.7 of the Code of Iowa requires minutes to be properly signed. The City Council meeting minutes for four meetings observed were not signed by the Mayor and the City Clerk. In addition, the publications for two of four meetings observed did not include a list of all claims allowed or a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and ensure City Council meeting minutes are signed. In addition, the minutes publications should include a list of all claims allowed, including the reason for the claim, and a summary of all receipts, as required.

- (E) Accounting Records and Financial Information – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate preparation of the Annual Financial Report (AFR).

The City Clerk did not provide the City Council with monthly financial reports including a summary of receipts, disbursements, transfers and beginning and ending balances for each fund and a comparison of total disbursements for all funds to the certified budget by function.

In addition, the Special Revenue, Local Option Sales Tax (LOST) Fund activity is reported in the AFR with the General Fund.

City of Onslow

Detailed Findings and Recommendations

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

Recommendation – To provide better financial information and control over budgeted disbursements, the recommended COA, or its equivalent, should be followed, including proper classification of receipts by source and disbursements by function. The City Clerk should prepare monthly City Clerk’s reports which includes receipts, disbursements, transfers and balances for each fund and a comparison of actual disbursements to the certified budget by function. This report should be reviewed and approved by the City Council. In addition, year-to-date totals of receipts by fund and source and of disbursements by fund and function should be maintained to facilitate the preparation of the AFR. LOST receipts, disbursements, transfers and fund balances should be budgeted and reported as a Special Revenue, LOST Fund.

- (F) Certified Budget – Because disbursements for the year ended June 30, 2019 were not classified by function, we were unable to determine if actual disbursements by function exceeded the amounts budgeted.

Recommendation – Disbursements should be recorded and classified by function to facilitate the proper recording of disbursements and monitoring of the budget.

- (G) 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. Instead, a spreadsheet was maintained to show which customers had paid and which customers had not paid. Due to a lack of including the paid date on the spreadsheet and lack of documentation on the deposit slips, we were unable to match customers with the month payment was applied. In addition, the City does not assess penalties for delinquent accounts as required by City Ordinance 1-2018.

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. In addition, the City should assess penalties on all delinquent accounts, as required.

- (H) Water Utility Rate Ordinance – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. In addition, Chapter 372.13(5) of the Code of Iowa requires City records and documents be retained. The ordinance establishing the City’s water utility rate could not be located and was unavailable for review during the performance of our procedures.

Recommendation – The City should ensure utility rates are established by City ordinance and ensure all ordinances are retained, as required.

City of Onslow

Detailed Findings and Recommendations

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

- (I) Financial Reporting – The ending fund balance reported in the City’s fiscal year 2019 Annual Financial Report (AFR) did not agree with the City Clerk’s Report. The total ending balance reported in the AFR was \$337,008 which did not agree with the City Clerk’s recorded book balance of \$194,936.

In addition, the City reported beginning and ending fund balances for the Special Revenue, TIF Fund and the Debt Service Fund in the City budget and AFR, however the City does not include these funds in the City’s financial records, did not levy or collect property tax for debt service and did not certify indebtedness to the County Auditor for tax increment financing collections.

Recommendation – The City should implement procedures to ensure amounts reported in the City’s budget and AFR are accurate and agree to the City’s records.

- (J) Revenue Notes – The City has not established sewer sinking, sewer reserve and sewer short-lived asset reserve accounts and has not made monthly transfers to these accounts as required by the sewer revenue note resolution.

Recommendation – The City should establish sewer sinking, sewer reserve and sewer short-lived asset reserve accounts and ensure monthly transfers are made to these accounts, as required.

- (K) Disbursements – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported. Six of thirty disbursements traced were not properly supported.

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

- (L) Credit Cards – The City has three credit cards for use by 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.

The City made seven disbursements totaling \$3,721 to the credit card issuer during the fiscal year ended June 30, 2019. The City did not retain all issuer statements however was able to obtain the missing statements from the issuing bank. Certain monthly statements were not paid timely, resulting in late fees and finance charges totaling \$160 during the fiscal year. Original vendor receipts or other supporting documentation for transactions totaling \$2,263 could not be located. The City subsequently obtained original receipts from vendors for certain charges, however the City was unable to obtain receipts from all vendors. Also, three of the seven disbursements to the credit card issuer were not approved by the City Council prior to payment.

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 the credit cards, who is authorized to use the credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges. The supporting documentation should be reconciled to the monthly statements and should be retained. All disbursements should be approved by the City Council.

City of Onslow

Detailed Findings and Recommendations

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

- (M) Local Option Sales Tax – During the periodic examination for the period January 1, 2016 through December 31, 2016, we noted the City failed to maintain a copy of the Local Option Sales Tax (LOST) ballot which was passed by the residents of the City of Onslow in 1995. According to City officials, because the City did not know how LOST receipts were to be disbursed, some LOST receipts were deposited into the General Fund and LOST disbursements were not recorded and tracked. City officials subsequently located the LOST ballot and determined LOST receipts were to be utilized in the following manner; infrastructure (60%), property tax relief (25) and economic development (15%). The City has not tracked the use of LOST receipts and unspent fund balances to ensure compliance with the ballot requirements.

Also, during the fiscal year ended June 30, 2019, the City did not redeem five checks totaling \$5,759 from the State of Iowa for LOST in a timely manner resulting in outdated checks. In April 2020, the City received and deposited four replacement checks in the amount of \$4,604, however a fifth check was never replaced and deposited. In addition, one LOST receipt totaling \$1,117 was recorded in the General Fund instead of the Special Revenue, LOST Fund and all LOST receipts were reported as General Fund receipts in the Annual Financial Report (AFR).

Recommendation – The City should consult legal counsel regarding past use of LOST for potentially unallowable purposes. The City should properly track the use of LOST receipts, including the unspent balance, to demonstrate compliance with the LOST ballot. Subsidiary ledgers should be maintained, or separate funds should be used to track each purpose. Receipts should be reported to the proper fund in the AFR. The City should take steps to ensure receipts are deposited timely and contact the Iowa Department of Revenue for guidance on how to request reissuance of the remaining outdated local option sales tax check.

- (N) Payroll – The City was unable to locate the signed resolution or documentation in the City Council minutes approving the salaries and hourly rates. Two of three timesheets traced did not include evidence of supervisory review and the City Clerk is not required to submit timesheets.

Recommendation – Employee salaries and hourly rates, including increases, should be approved by the City Council and the approval should be adequately documented in the City Council meeting minutes. In addition, time sheets should be required for all City employees to support hours worked and leave time taken. The time sheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (O) City Street Finance Report – The annual City Street Finance Report, due to the Iowa Department of Transportation (IDOT) by September 30<sup>th</sup> of each year, was not submitted by the City until December 10, 2019. This resulted in the State Treasurer withholding the City's road use tax receipts until the report was filed with the IDOT.

Recommendation – The City should develop procedures to ensure all reports are filed in a timely manner as required.

City of Onslow

Detailed Findings and Recommendations

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

- (P) 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 by Chapter 554D.114 of the Code of Iowa.

- (Q) City Council Compensation – Chapter 372.13(8) of the Code of Iowa states in part, “By ordinance the council shall prescribe the compensation of the mayor, council members, and the other elected city officers...” Per City ordinance, the compensation of City Council members is \$30 per meeting. The City was unable to locate support for the number of meetings attended by the City Council members for the annual payment made for calendar year 2018.

Recommendation – The City should retain documentation to support City Council member compensation.

- (R) Loan Payment – During the year ended June 30, 2019, the City paid \$8,052 in principal and interest payments for a tractor. While the payments were traced to the bank statement and cancelled check, they were not recorded in the City’s accounting records. In addition, the June 2019 payment was four days late, resulting in a late fee of \$187.

In the prior report issued by this office for the twelve-month period ended December 31, 2016, it was noted the principal and interest on the tractor loan was paid from the Special Revenue, Road Use Tax Fund, but the use of the City tractor was not limited to only road purposes. Other departments used the tractor for water, sewer and parks purposes. We recommended the City reimburse the Special Revenue, Road Use Tax Fund from appropriate funds for current and past tractor loan payments not attributable to use for road purpose. The City was unable to provide documentation showing whether the Special Revenue, Road Use Tax Fund was reimbursed.

Recommendation – The City should record all disbursements in the City’s accounting records and payments should be made timely to avoid late charges. Also, the City should pay the tractor loan payments from the appropriate funds (i.e. Special Revenue, Road Use Tax, General, Water and Sewer Funds) based on usage of the tractor. The City should also review past tractor loan payments and reimburse the appropriate funds according to the use of the tractor.

City of Onslow

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director  
Gwen D. Fangman, CPA, Manager  
Sidot K. Shipley, Senior Auditor  
Vivian J. Hustad, Assistant Auditor  
Craig S. Miller, Assistant Auditor