

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE

March 25, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Urbana, Iowa for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported nine 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 the lack of segregation of duties, the lack of bank reconciliations, improper use of tax increment financing and errors in the Annual Financial Report and the Annual Urban Renewal Report. Sand provided the City with recommendations to address each of the findings.

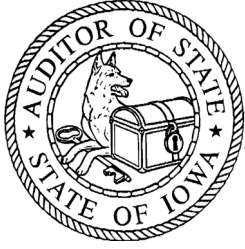
Three of the nine findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF URBANA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Urbana



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Rob Sand
Auditor of State

March 2, 2021

Officials of the City of Urbana
Urbana, 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 Urbana, Iowa, for the period July 1, 2019 through June 30, 2020. 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 Urbana 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 Urbana

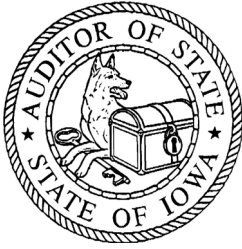
Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mitch McDonough	Mayor	Jan 2020
Jamie Duart	Council Member	Jan 2020
Mike Smith	Council Member	Jan 2020
Richard Wendel	Council Member	Jan 2020
Josh Holthaus	Council Member	Jan 2022
Jacki Michael	Council Member	Jan 2022
Traci Wilson	City Clerk/Treasurer	Indefinite
Brian Fagan	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mitch McDonough	Mayor	Jan 2022
Josh Holthaus	Council Member	Jan 2022
Jacki Michael	Council Member	Jan 2022
Shelly Lala	Council Member	Jan 2024
Jeff Bendull	Council Member	Jan 2024
Don Westendorf	Council Member	Jan 2024
Traci Wilson	City Clerk/Treasurer	Indefinite
Brian Fagan	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 Urbana for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Urbana's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

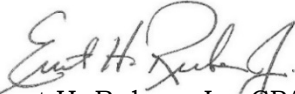
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. 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 Urbana 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

March 2, 2021

Detailed Findings and Recommendations

City of Urbana

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(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) Accounting System – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (5) Utilities – billing, collecting, depositing, posting, and entering rates into the system.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, recordkeeping, preparing 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 and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – Cash and investment balances in the City’s general ledger were not properly reconciled to bank and investment account balances throughout the year. Also, the \$150 change fund is not included in the City’s accounting records and fund balances.

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. Also, the change fund should be included in the City’s accounting records and fund balances.

(C) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. One of four monthly meeting minutes reviewed were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required.

City of Urbana

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (D) Transfers – Total transfers in did not equal total transfers out. Certain transfers out totaling \$1,251,460 were incorrectly recorded as bond proceeds rather than as transfers in. Also, Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose of the transfer, the name of the affected funds and the dollar amount to be transferred. Not all transfers were approved by resolution.

Recommendation – The City should establish procedures to ensure transfers in equal transfers out and are correctly recorded. All transfers should be approved by resolution, as required.

- (E) Annual Urban Renewal Report – Total TIF debt outstanding reported on the 2019 Annual Urban Renewal Report (AURR) does not agree with the City's records.

Recommendation – The City should ensure the amounts reported as TIF debt outstanding on the AURR agrees with the City's records.

- (F) 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..." Variances of \$3,932, \$1,649, and \$3,928 in the public safety, public works and general government functions, respectively, exist between the fiscal year 2019 AFR and the City's records.

Recommendation – The City should establish procedures to ensure all financial information is properly reported in the AFR and the information is supported by the City's records.

- (G) Reconciliation of Utility Billings, Collections and Delinquent Accounts – While utility billings, collections and delinquent accounts were reconciled throughout the year, the reconciliations were not independently reviewed.

Recommendation – The City Council or other independent person designated by the City Council should review the utility reconciliations. The reviews should be documented by signing or initialing and dating the reconciliations.

- (H) Journal Entries – Supporting documentation was not maintained for journal entries.

Recommendation – Supporting documentation should be maintained to substantiate journal entries. Journal entries should be reviewed and approved by an independent person and evidence of the approval should be documented.

City of Urbana

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (I) Tax Increment Financing – In accordance with Chapters 403.19(10)(b) and 403.22 of the Code of Iowa, the Special Revenue, Tax Increment Financing (TIF) Fund may only be used for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable low-to-moderate income assistance, not for project costs or legal fees. The City transferred \$37,000 from the Special Revenue, TIF Fund to the General Fund to pay for an annual road maintenance project. This transfer was not approved as TIF debt by the City Council.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund for this project. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the Special Revenue, TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

City of Urbana

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Janet K. Mortvedt, CPA, Manager
Molly N. Kalkwarf, Staff Auditor
Adam J. Sverak, Assistant Auditor