

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

State Capitol Building
Des Moines, Iowa 50319-0006

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

June 30, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Mechanicsville, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed at the request of petitioners pursuant to Chapter 11.6(3) of the Code of Iowa. The petition submitted requested an audit or examination. In accordance with Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns.

Sand reported twelve findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility system reconciliations, not all timesheets are approved by employees and supervisors, a business transaction between the City and a City official, and the lack of a credit card and charge account policy. 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 MECHANICSVILLE

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

City of Mechanicsville



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May 6, 2021

Officials of the City of Mechanicsville
Mechanicsville, 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 Mechanicsville, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6(3) 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 Mechanicsville 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,


Rob Sand
Auditor of State

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City of Mechanicsville

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	Term <u>Expires</u>
David Furry	Mayor	Jan 2021
Pam Cavey	Council Member	Jan 2020
Rob Davis	Council Member	Jan 2020
Amy Bishop	Council Member	Jan 2021
Andrew Oberbreckling	Council Member	Jan 2021
Dee Taylor	Council Member	Jan 2021
Linda Coppess	City Clerk	Indefinite
Adrian Knuth	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	Term <u>Expires</u>
David Furry	Mayor	(Resigned Apr 2020)
Andrew Oberbreckling (Appointed Jun 2020)	Mayor	Jan 2021
Amy Bishop	Council Member	Jan 2021
Dee Taylor	Council Member	Jan 2021
Jennifer Lester	Council Member	Jan 2024
Adam Paidar	Council Member	Jan 2024
Vacant	Council Member	
Linda Coppess	City Clerk	Indefinite
Adrian Knuth	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 received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of Mechanicsville in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Mechanicsville 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 Mechanicsville'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 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

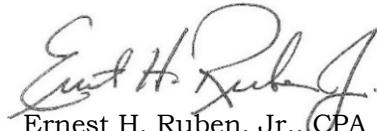
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. We traced selected disbursements, including credit card transactions 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 to determine whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.
17. We observed utility system rate ordinances and selected utility bills to determine proper rates were charged and customer payments were accurately recorded.
18. We observed business transactions between the City and City Officials or employees for compliance with Chapter 362.5 of the Code of Iowa.

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 Mechanicsville 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

Detailed Findings and Recommendations

City of Mechanicsville

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) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Utilities – billing, collecting, preparing, and posting.
- (5) Debt – recordkeeping, compliance and payment processing.
- (6) Journal entries – preparing and recording.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – 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 should be documented by the signature or initials of the reviewer and the date of the review.

(B) Journal Entries – Two of two journal entries observed were not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries and the approval should be documented by the signature or initials of the approver and the date of approval.

(C) Disbursements – One of thirty-seven disbursements traced was not properly supported with an invoice or other supporting documentation. The disbursement was a credit card purchase totaling \$212 for postage and shipping.

Recommendation – The City should ensure all disbursements are supported by an invoice or other supporting documentation.

(D) Timesheets – Three of eight timesheets traced were not approved by the employee. In addition, seven of eight timesheets traced did not include evidence of supervisory review or approval.

Recommendation – The City should establish procedures to ensure timesheets are signed by the employee and reviewed and signed by the employee's supervisor.

City of Mechanicsville

Detailed Findings and Recommendations

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

- (E) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual bank accounts, a complete reconciliation, including investments, was not prepared and the reconciled balances were not compared to the City's general ledger. Also, an independent review of the reconciliations was not performed. In addition, a listing of outstanding checks was maintained; however, it does not include the payee or check date.

Recommendation – To improve financial accountability and control, comprehensive monthly bank reconciliations, including investments, should be performed and variances between book and bank balances should be investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. A detailed listing of outstanding checks should be maintained which includes the payee and check date.

- (F) Investments – An accounting record/register was not maintained for one of the City's certificates of deposit.

Recommendation – The City should ensure an accounting record/register is maintained for all investments.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within fifteen days of the meeting. Minutes for two of four meetings observed were not published within 15 days.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required.

- (H) 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. In addition, utility rates entered into the system are not reviewed and approved by an independent person.

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. In addition, an independent person should review utility rates entered into the system to ensure proper utility calculations and billings. All reviews should be documented by the signature or initials of the reviewer and the date of the review.

- (I) Credit Card Policy – The City has credit cards and charge accounts 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 charge accounts and to establish procedures for the proper accounting of credit card and charge account charges. In addition, during fiscal year ended June 30, 2020, the City paid a total of \$42 in fees and interest.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards and charge accounts. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and charge accounts and for what purpose, as well as the types of supporting documentation required to substantiate the charges. In addition, the City should ensure credit card payments are made timely to avoid fees and interest charges.

City of Mechanicsville

Detailed Findings and Recommendations

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

- (J) Payroll Rates – Payroll rates entered into the computer system are not reviewed by an independent person.

Recommendation – To improve internal controls, all payroll rates entered on the computer system should be reviewed by an independent person. The review should be documented by the initials or signature of the reviewer and date of the review.

- (K) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Linda Coppess, City Clerk spouse owns Odd Jobber	Tree removal	\$ 37,250

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with Odd Jobber may represent a conflict of interest since total transactions were more than \$6,000 during the fiscal year and was not adequately bid. Chapter 362.3(1)(a) of the Code of Iowa states, in part, “If notice of an election, hearing, or other official action is required by the city code, the notice must be published at least once, not less than four nor more than twenty days before the date of the election, hearing, or other action. Further, Chapter 362.2(5) of the Code of Iowa defines the City Code as the City Code of Iowa. The City published notice of accepting bids for the contract on March 7, 2018 and required responses by March 9, 2018, a two-day notice.

Recommendation – The City should consult legal counsel to determine the disposition of the transactions with Odd Jobber.

- (L) Computer System – The City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop a written disaster recovery plan and should be reviewed and tested periodically.

- (M) Petition for Examination – Except as noted above, all items in the petition for examination have been resolved.

City of Mechanicsville

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Tiffany M. Ainger, CPA, Manager
Alyson J. Logel, Staff Auditor
Sally S. Downing, Assistant Auditor