

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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

March 1, 2018

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Clarence, Iowa for the period July 1, 2016 through June 30, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. To provide accountability and to support public purpose, all disbursements should be supported by invoice or other supporting documentation and separately maintained records should be included in the City's accounting records and be reported to the City Council monthly.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1721-0136-BLOF>.

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**CITY OF CLARENCE**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
JULY 1, 2016 THROUGH JUNE 30, 2017**

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## City of Clarence

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeric Armstrong	Mayor	Jan 2018
Bart Miller	Mayor Pro-tem	Jan 2018
Jim Barber (Appointed Apr 2017)	Council Member	Nov 2017
Ronald Robinson	Council Member	Jan 2018
Levi VanOort	Council Member	Jan 2018
Steve Sparbel	Council Member	(Resigned Mar 2017)
Rod Dennis (Elected Mar 2016)	Council Member	Jan 2020
Deb Minar	City Clerk/Treasurer	Indefinite
Russell Dircks	Attorney	Indefinite

**City of Clarence**



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Independent Accountant's Report on Applying Agreed-Up Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Clarence for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Clarence'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 reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed 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 reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed 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 reviewed 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 reviewed the City's fiscal year 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.


9. We reviewed 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 reviewed and tested selected 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 reviewed 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 reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for 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 reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed 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 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 Clarence 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.

  
MARY MOSIMAN, CPA  
Auditor of State

February 15, 2018



## **Detailed Recommendations**

City of Clarence

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

(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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling, recording, depositing and custody.
- (3) Investments – recordkeeping, investing, and reconciling earnings.
- (4) Debt – recordkeeping and debt payment processing.
- (5) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (6) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – recordkeeping, preparing, distributing, recording, comparing time records to payroll, approving, reviewing and entering rates into the computer system.
- (8) Computer system – performing all general accounting functions and controlling all data input and output.
- (9) Financial reporting – preparing and reconciling.
- (10) Journal entries – preparing, approving and recording.

For the Clarence Fire Fighters Association, one individual has control over each of the following areas:

- (1) Receipts – handling, recording, depositing and custody.
- (2) Disbursements – check writing, signing and recording.

For the Clarence Lincoln Highway Festival Committee, one individual has control over each of the following areas:

- (1) Receipts – handling, reconciling, recording, depositing and custody.
- (2) Disbursements – preparing and recording.

For the Clarence Community Park Booster Club, one individual has control over each of the following areas:

- (1) Cash – recording and depositing.
- (2) Disbursements – 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 Clarence

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (B) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, an independent review of the bank reconciliations was not performed.

Recommendation – An independent person should review the bank reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Travel Reimbursements – Supporting documentation for mileage reimbursements does not always include the destination and the purpose for the travel.

Recommendation – Supporting documentation for mileage reimbursements should include the purpose and destination. This helps document the travel is for City business and meets the public purpose criteria.

- (D) Utility Rates – The utility rates entered into the system are not periodically reviewed by an individual person to ensure proper utility calculations and billings.

Recommendation – An independent person should review utility rates entered in the system periodically and when rate changes occur to ensure the proper rates are used to calculate utility billings.

- (E) Official Depositories – A resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa. However, the maximum deposit amount stated in the resolution was exceeded.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council.

- (F) Petty Cash Fund – The petty cash fund was not approved by the City Council and is not maintained on an imprest basis. The petty cash fund was combined with daily receipts which were not accounted for separately.

Recommendation – The petty cash fund should be approved by the City Council and should be maintained on an imprest basis to provide additional control over the fund. Also, daily collections should be accounted for separately to facilitate the depositing of these collections intact.

- (G) Separately Maintained Records – The Clarence Fire Fighters Association, Clarence Community Park Booster Club, Clarence Lincoln Highway Festival Committee and Clarence Park Days Committee maintain bank accounts for certain purposes. The activity and resulting balances of these accounts are 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.

City of Clarence

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (H) Financial Condition – At June 30, 2017, the City had a deficit balance of \$1,500 in the Debt Service Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial condition.

- (I) Restrictive Endorsement – A restrictive endorsement (for deposit only) was not always placed on checks immediately upon receipt.

Recommendation – A restrictive endorsement (for deposit only) should be placed on checks as they are received.

- (J) Clarence Park Days Committee – Pre-numbered receipts were not issued for collections and disbursements were not approved by the City Council.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the recording of all collections. Also, disbursements should be approved by the City Council.

- (K) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Clarence Fire Fighters Association account:		
Cindy Burken	Supplies for preparation of business meals	\$300
Dozer Flowers	Flowers for funeral	54
Clarence Community Park Booster Club account:		
Victory Lane	Gift cards for volunteers	50
Mill Creek Café	Gift cards for volunteers	50

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

- (L) Clarence Fire Fighters Association – Pre-numbered receipts were not issued for collections and disbursements were not approved by the City Council. One of 14 transactions tested did not have adequate supporting documentation. Additionally, voided checks were not retained and bank reconciliations were not prepared.

City of Clarence

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the recording of all collections. Also, disbursements should be approved by the City Council. All disbursements should be supported by invoices or other supporting documentation. Also, voided checks should be retained to provide accountability. The Association should establish procedures to ensure bank account balances are reconciled to book balances monthly. Documentation of this reconciliation should be retained. Variances, if any, should be reviewed and resolved timely.

- (M) Clarence Community Park Booster Club – Pre-numbered receipts were not issued for collections and disbursements were not approved by the City Council. Additionally, voided checks are not retained and bank reconciliations were not prepared.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the recording of all collections. All disbursements should be approved by the City Council. Also, voided checks should be retained to provide accountability. The Board should establish procedures to ensure bank account balances are reconciled to book balances monthly. Documentation of this reconciliation should be retained. Variances, if any, should be reviewed and resolved timely.

- (N) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Requiring a time out and/or log off function or screen saver password to protect a terminal if left unattended.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over the computer based system.

City of Clarence

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager  
Mallory A. Sims, Staff Auditor  
Micaela A. Tintjer, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director