

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

Rob Sand
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NEWS RELEASE

FOR RELEASE

June 28, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Cambridge, Iowa for the period July 1, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

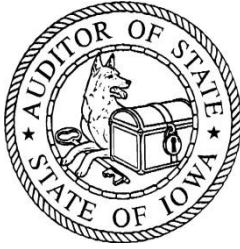
Sand recommended the City review its control procedures to maintain maximum internal control possible. The City should follow the Uniform Chart of Accounts (COA) for Iowa City Governments to maintain financial records. In addition, the City should also establish procedures to ensure complete bank and utility reconciliations are performed monthly and the Annual Financial Report is prepared accurately. The City should comply with Code of Iowa requirements for proper publishing of City Council minutes.

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 CAMBRIDGE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

City of Cambridge



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June 8, 2019

Officials of the City of Cambridge
Cambridge, 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 Cambridge, Iowa, for the year ended June 30, 2018. 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 Cambridge 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", written in a cursive style.

Rob Sand
Auditor of State

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City of Cambridge

Officials

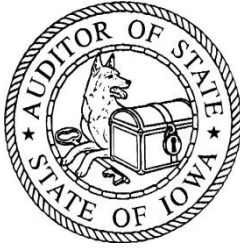
(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott DeYoung	Mayor	Jan 2018
Steven Kovarik	Council Member	Jan 2018
Dan Mortensen	Council Member	Jan 2018
David Thom	Council Member	Jan 2018
Tricia Todd	Council Member	Jan 2020
Zachary Pelz	Council Member	Jan 2020
Debra Thompson	City Clerk	Indefinite
Michael L. Lewis	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven Kovarik	Mayor	Jan 2022
Zachary Pelz	Council Member	Jan 2020
Tricia Todd	Council Member	Jan 2020
Michael Macki	Council Member	Jan 2022
Barb McBreen	Council Member	Jan 2022
David Thom	Council Member	Jan 2022
Debra Thompson	City Clerk	Indefinite
Michael L. Lewis	Attorney	Indefinite

City of Cambridge



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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 Cambridge for the period July 1, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Cambridge'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 2018 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.

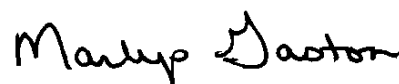
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed 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 Cambridge 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.



Marlys K. Gaston, CPA
Deputy Auditor of State

June 8, 2019

Detailed Recommendations

City of Cambridge

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(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, and reconciling.
- (3) Long-term debt – recordkeeping, compliance, and payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check signing, check preparing, mailing, reconciling and recording.
- (6) Payroll – entering rates into system, recordkeeping, preparing, signing and distributing.
- (7) Utilities – billing, collecting, depositing, and posting.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording and approving.
- (10) Computer system – input and output, all accounting functions.

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) Bank Reconciliations – Although each bank account is reconciled separately, a complete reconciliation that includes all bank accounts, investment accounts, the library account and the fire department account is not prepared and compared to the general ledger. Also, there is no evidence of an independent review of the individual bank reconciliations. Additionally, a listing of outstanding checks is not retained monthly for the Library.

Recommendation – The City should establish procedures to ensure the monthly bank reconciliation includes all bank and investment account balances and is reconciled to the general ledger monthly. Variances, if any, should be reviewed 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 monthly for all accounts.

(C) 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. Additionally, we were unable to trace all utility receipts to bank deposits because receipts were included as lump sum deposits and were not detailed on the deposit slip. However, utility receipts tied to bank deposits in total.

City of Cambridge

Detailed Recommendations

For the period July 1, 2017 through June 30, 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 independent review should be documented by the signature or initials of the reviewer and the date of the review. Receipts should be in sufficient detail to determine utility payments were received and deposited.

- (D) 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. Minutes for four meetings tested were not published within fifteen days.

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

- (E) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the debt service and capital project functions. Also, disbursements exceeded amounts budgeted in the general government before the budget was amended. 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.”

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.

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...”. We noted the following:

- TIF and capital projects disbursements reported on the AFR were reported in the City’s general ledger as paid from the General Fund.
- A transfer of \$163,600 from the General Fund to the Tax Increment Fund was actually an intrafund transfer within the General Fund.
- Interest for the Water and Sewer Funds was incorrectly reported as a part of “Charges for Services”.
- The AFR was not properly submitted by the December 1st deadline.

Recommendation – The City should ensure the receipts and disbursements for all funds included in future Annual Financial Reports are supported by the City’s records. Interest earned should be reported as “Uses of Money and Property”. The AFR should be submitted by the December 1st deadline, as required.

City of Cambridge

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (G) Disbursements – One of thirty disbursements tested was disbursed prior to City Council approval. Two of thirty disbursements tested were not approved by the City Council. One of thirty disbursements tested did not have proper supporting documentation. In addition, for some disbursements, the Mayor is improperly presigning checks or signing checks without proper documentation support.

Recommendation – All disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by City policy. Checks should not be presigned and supporting documentation should be provided to and reviewed by the check co-signor prior to co-signing checks.

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

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of the Treasurer of State annually, as required.

- (I) Monthly City Clerk's Report – A monthly City Clerk's report is being prepared, however, it does not include all activity, including transfers and a comparison of actual disbursements to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk's reports should include comparisons to the certified budget by function. Additionally, the report should include all interfund transfers.

- (J) Journal Entries – Supporting documentation was not maintained for journal entries. Additionally, journal entries are not reviewed and approved by an independent person. Per discussion with the City Clerk, if a correction needs to be made, she will correct in manual ledger without preparing a journal entry.

Recommendation – Journal entries should be prepared for all corrections that need to be made. Supporting documentation should be maintained which substantiates all journal entries. 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.

- (K) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

City of Cambridge

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

The City records disbursements for TIF related projects in the General and Enterprise, Water Funds. While the City may have intended the General and Water Fund disbursements to be an interfund “advance” to the TIF Fund, to be repaid with TIF receipts, the advances were never formally approved as a TIF obligation by the City Council. Accordingly, they do not represent a TIF obligation which may be certified to the County Auditor (since only indebtedness, not project costs, can be certified). In addition, it does not appear the City has been repaying the intended advances with TIF receipts since, at June 30, 2018, the Special Revenue, Urban Renewal Tax Increment Fund has cash balance of \$3,798,014 while the General Fund and the Enterprise, Water Funds had negative cash balances of \$3,665,872 and \$480,116, respectively.

Also, certain disbursements from the General and Enterprise, Water Funds which were identified as TIF disbursements do not appear to be allowable from TIF as it is unclear how they meet the definition of an “urban renewal project” as defined in Chapter 403.17(25) of the Code of Iowa. These disbursements include furniture and appliance purchases, legal services and supplies.

In addition, supporting documentation was not available to support the amounts, current and past, certified to the County Auditor.

Recommendation – The City should determine if the costs (current and past years) paid from the General and Enterprise, Water Funds are for an allowable TIF project. If they are for an allowable TIF project, the City Council should retroactively approve, via a City Council resolution, the advances from the General and Enterprise, Water Funds to the TIF Fund as TIF obligations. These obligations should be reconciled to costs already certified to the County Auditor to ensure the correct amount has been certified, not more or less than the TIF obligations created by the interfund advances. The City should then approve reimbursements (i.e., transfers) from the TIF Fund to the General and Enterprise, Water Funds to reimburse the advances made from these funds for allowable TIF project costs.

All amounts certified to the County Auditor as TIF obligations should be properly supported by some form of debt instrument, including resolutions approving interfund advances.

(L) Annual Urban Renewal Report – The following were noted regarding the Annual Urban Renewal Report Levy Authority Summary:

- The City incorrectly reported the 2006 water improvement revenue bond obligation as TIF debt.
- TIF disbursements from the Special Revenue, Urban Renewal Tax Increment Fund were overstated by \$1,287,188 on the AURR.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City’s records.

(M) Payroll – Salaried City employees are not required to complete timesheets to substantiate hours worked. For those employees that do maintain timesheets, timesheets are not reviewed for propriety.

Recommendation – Timesheets should be prepared by all employees to support hours worked and taken as leave time. Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review and approval should be documented by the supervisor’s initials and the date approved.

City of Cambridge

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (N) Payment of Bonds – Principal and interest on the City’s general obligation bonds was paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part “Money pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

In addition, the water and sewer revenue bond agreements require the City to maintain water and sewer sinking and surplus accounts. The City has not established these accounts.

Recommendation – General obligation bond payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa. The required sinking and surplus accounts should be established.

- (O) Revenue Bonds – The provisions of the water and sewer revenue bond resolutions require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they become due. The City’s fiscal year 2018 net water and sewer receipts were less than 110% of the water and sewer revenue bond principal and interest due during fiscal year 2018. Additionally, the provisions of the water and sewer bond also require the City to establish, impose, adjust, and provide for the collection of rates to be charged to customers of the Utility, including the City, to produce gross revenues. The City was not charged for utility usage in fiscal year 2018.

Recommendation – The City should adjust user rates or reduce other expenses to ensure net receipts equal at least 110% of the principal and interest due each year. Also, the City should be paying for utility usage.

- (P) Library Credit Card – Library credit card receipts are required but are not reviewed and approved for propriety.

Recommendation – The City should review all library credit card receipts for propriety. The review should be evidenced by the initials or signature of the reviewer and the date reviewed.

- (Q) City Clerk Reports – The City Clerk’s monthly financial reports to the City Council do not agree with the General Ledger. The City Clerk reports do not include interfund transfers.

Recommendation – The City should establish procedures to ensure the City Clerk’s monthly reports reconcile to the general ledger including the interfund transfers.

- (R) Official Depository – A resolution naming official depositories has not been adopted by the City Council for fiscal year 2018 and the maximum deposit amounts for each depository were not included in the resolution as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution stating the official depositories of the City and the amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council, as required.

City of Cambridge

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (S) Utility Penalties – The City’s Code of Ordinances, Chapter 92.04(3), requires a 5% penalty to be assessed on utility bills not paid by the 15th of each month. Per discussion with the City Clerk and review of the June 2018 penalty register, the City Clerk does not always assess penalties timely on the 15th of the month. They are typically assessed within one week or two weeks.

Recommendation – The City should assess penalties on bills not paid by the 15th of each month, timely. The penalties should be assessed effective the 15th of the month delinquent.

- (T) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control the recommended COA, or its equivalent should be followed.

City of Cambridge

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Janet K. Mortvedt, CPA, Manager
Jenna M. Paysen, Senior Auditor
Steven D. Rater, Assistant Auditor