

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

September 24, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Runnells' Periodic Examination Report dated August 10, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2018 through February 28, 2019.

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. While the City corrected five of the fourteen findings reported in the Periodic Examination Report dated August 10, 2016 and partially corrected one of the findings, seven of the findings are reported as "not corrected" and one is no longer valid. Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Runnells' Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

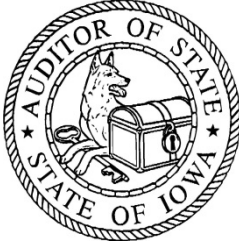
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CITY OF RUNNELLS

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
JUNE 1, 2018 THROUGH FEBRUARY 28, 2019**

City of Runnells



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August 9, 2019

Officials of the City of Runnells
Runnells, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report on the Status of Periodic Examination Findings and Recommendations for the City of Runnells, Iowa, for the period June 1, 2018 to February 28, 2019.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Runnells throughout the follow-up engagement. If I or this office can be of any further assistance, please contact me or Marlys Gaston of 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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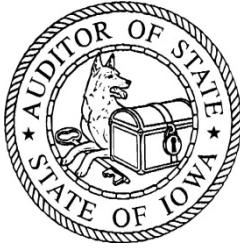
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City of Runnells

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Gerald Lane	Mayor	Jan 2016	Jan 2020
Bob Borg	Council Member	Jan 2016	Jan 2020
Sheila Miller	Council Member	Jan 2016	Jan 2020
Tiffany Van Gorp	Council Member	Jun 2018	Nov 2019
Cody Lee	Council Member	Jan 2018	Jan 2022
Bill Schall	Council Member	Jan 2018	Jan 2022
Stephanie Herbold	City Clerk		Indefinite
Geri Huser	Attorney		Indefinite

City of Runnels



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Auditor of State's Independent Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated August 10, 2016 on the City of Runnells, Iowa covering the period July 1, 2015 through June 30, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated August 10, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2018 through February 28, 2019.

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.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated August 10, 2016. 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 Runnells during the course of our follow-up procedures engagement. Should you have 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

August 9, 2019

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Runnells

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

Findings Reported in the Periodic Examination Report dated August 10, 2016:

(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) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing, signing 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.

Current Status – Not corrected. The recommendation is repeated.

(B) Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations included only the checking accounts and did not include investments necessary to reconcile with the monthly financial reports. The bank reconciliations generated and provided to the Mayor for review only include the bank statement activity and do not include outstanding items or the book balance. In addition, the June bank reconciliation could not be located. All other monthly bank reconciliations for the period reviewed were available.

Recommendation – To provide better control over financial transactions and overall accountability, monthly bank reconciliations should be prepared to include all bank accounts and investments. Monthly bank reconciliations should include the bank balance, outstanding items and book balance. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. All monthly bank reconciliations should be retained.

Current Status – Not corrected. All monthly bank reconciliations for the period reviewed were available. However, the bank reconciliations included only the checking accounts and did not include investments. Balance sheets which include all accounts and listings of outstanding items were provided monthly to the City Council but were not included with the bank reconciliation. The recommendation is repeated.

City of Runnells

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (C) Investments – An investment register was not maintained for each investment.

Recommendation – An investment register for each investment, which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

Current Status – Not corrected. During the period reviewed, investments and investment balances were listed on the monthly balance sheet provided to the City Council. However, the balance sheet did not list the purchase date, the maturity date or the identifying number of the investment.

- (D) Disbursements – One of thirty disbursements tested was not included on the listing of claims approved by the City Council and therefore, the disbursement was not approved.

Recommendation – All disbursements should be included on the listing of claims provided to the City Council for approval.

Current Status – Not corrected. Five of twenty disbursements tested during the period reviewed were not included in the listing of claims approved by the City Council or in the minutes record. These disbursements were five sequential checks written in July 2018, a month when there was no City Council meeting. The recommendation is repeated.

- (E) Payroll – Timesheets did not include evidence of supervisory review.

Recommendation – All timesheets should be reviewed and approved by appropriate supervisory personnel prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and date of the approval.

Current Status – Corrected. During the period reviewed, all timesheets tested included evidence of supervisory review.

- (F) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Corrected. The City developed a draft investment policy, but the City Council had not approved the draft investment policy as of February 28, 2019. However, the City Council subsequently approved the written investment policy on April 9, 2019, correcting this issue.

- (G) 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. The City does not publish meeting minutes. In addition, minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes as required. The minutes should also be signed to authenticate the action taken.

City of Runnells

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

Current Status – Partially corrected. During the period reviewed, the City published the minutes record of the City Council proceedings for all meetings tested and the publications were within fifteen days of the meeting. However, the published minutes record did not include a summary of all receipts, as required by Chapter 372.13(6) of the Code of Iowa. In addition, minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

- (H) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the public safety function. 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.

Current Status – Not corrected. Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the health and social services function. The recommendation is repeated.

- (I) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1. The report was approved and certified on February 9, 2016.

Recommendation – The City should approve and file the AURR by December 1 as required.

Current Status – Corrected. The City Council approved the 2018 Annual Urban Renewal Report on September 11, 2018 and certified this report to the Iowa Department of Management on October 8, 2018, before the December 1 deadline.

- (J) Debit Card – The City has a debit card for use by City employees while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. Debit cards provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Current Status – Corrected. The City cancelled its debit card in July 2018.

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

The City does not have written policies and procedures for:

- Logging off unattended computers.
- Passwords – including password privacy and confidentiality, requiring password changes every 60 to 90 days and requiring passwords to be a minimum of eight characters long.
- Ensuring only software licensed to the City is installed on computers.
- Internet usage.

City of Runnells

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- Personal use of computer equipment and software.

Additionally, the City does not have a written disaster recovery plan.

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

Current Status – Not corrected. The City has drafted written policies and procedures addressing internet usage, personal use of computer equipment and software, software installation and a disaster recovery plan, however, these policies and plans were not approved by City Council as of February 28, 2019. The City has not developed policies for passwords or logging off unattended computers.

- (L) Revenue Bonds – The City has not created a sewer bond sinking account and made the required monthly transfers to the account as required by the sewer revenue bond requirements.

Recommendation – The City should establish a sewer sinking account and make monthly transfers to the account, as required.

Current Status – Not corrected. The principal and interest payments for the sewer revenue bond are budgeted and paid from the sewer revenue fund and monthly transfers to a sewer sinking account are not made. The recommendation is repeated.

- (M) 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.

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.

Current Status – Corrected. During the period reviewed, bank statements included images of both the front and back of cancelled checks as required by Chapter 554D.114.

- (N) Credit Card Policy – The City has 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.

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 credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Current Status – No longer valid. The City closed its credit card account in July 2018.

City of Runnells

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

Additional Findings as a Result of Follow-up Procedures:

- (O) Payroll – The wage rate for two employees selected for testing was not documented in the City Council meeting minutes.

Recommendation – All wages for City employees should be approved by the City Council and the approval should be adequately documented in the minutes record.

- (P) Annual Financial Report – The beginning balance for governmental activities of \$211,410 on the June 30, 2018 Annual Financial Report did not agree to the prior year ending balance of \$529,374 reported in the June 30, 2017 Annual Financial Report, a difference of \$317,964. As a result, the total ending balance on the June 30, 2018 Annual Financial Report was understated by approximately this same amount when compared to City records.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances and current year ending balances agree with City records.

City of Runnells

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy Auditor of State
Suzanne R. Dahlstrom, CPA, Manager
Brandon J. Vogel, Senior Auditor II