

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

NEWS RELEASE

FOR RELEASE

October 29, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Alburnett, Iowa for the period January 1, 2018 through December 31, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported seventeen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 8 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of an independent review of reconciliations of utility billings, collections and delinquent accounts, disbursements exceeding budgeted amounts, controls over credit cards and the use of prenumbered receipts.

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 ALBURNETT
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JANUARY 1, 2018 THROUGH DECEMBER 31, 2018

City of Alburnett



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September 12, 2019

Officials of the City of Alburnett
Alburnett, 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 Alburnett, Iowa, for the period January 1, 2018 to December 31, 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 Alburnett 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 Alburnett

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Clinton Charles McClintock	Mayor	Jan 2018	Jan 2022
Josh Henriksen	Council Member	Jan 2016	Jan 2020
Brian Mensen	Council Member	Jan 2016	Jan 2020
Chester Schantz	Council Member	Jan 2016	Jan 2020
Bethany Sarazin	Council Member	Jan 2018	Jan 2022
Joe Trumm	Council Member	Jan 2018	Jan 2022
Sharon Robertson	City Clerk/Treasurer	(Resigned Jan 2018)	
Danielle Brecht (Appointed July 2018)	City Clerk/ Treasurer		Indefinite
Brian Fagan	City 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 Alburnett for the period January 1, 2018 through December 31, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Alburnett'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 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City had no investments.
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.

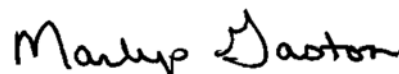
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 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 scanned for accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and to determine 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 Alburnett 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

September 12, 2019

Detailed Findings and Recommendations

City of Alburnett

Detailed Findings and Recommendations

For the period January 1, 2018 through December 31, 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) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Utilities – billing, collecting, depositing, posting and maintaining detailed accounts receivable and write-off records.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Debt – record keeping, compliance and debt payment processing.
- (6) Payroll – recordkeeping, preparing and distributing checks.
- (7) Journal entries – 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.

(B) Financial Condition – At June 30, 2018, the City had a deficit balance of \$3,275 in the Special Revenue, Employee Benefits Fund.

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

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although utility billings, collections and delinquent accounts were reconciled throughout the year, the utility reconciliation is not reviewed by an independent person.

Recommendation – The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

(D) Annual Financial Report – Although the receipts and disbursements reported on the City's fiscal year 2018 Annual Financial Report (AFR) agreed to the City's financial records, the ending AFR fund balance was \$1,409 less than the City's records.

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

City of Alburnett

Detailed Findings and Recommendations

For the period January 1, 2018 through December 31, 2018

- (E) 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. For one of four monthly meeting minutes tested, the meeting minutes were not published within fifteen days.

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

- (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.

- (G) Disbursements – Unused checks are not properly safeguarded.

Recommendation – Unused checks should be properly safeguarded.

- (H) Payroll – The following items were noted during our testing of payroll:

- Although time cards were prepared by all employees, there was no evidence the time cards were reviewed and approved by supervisory personnel.
- Vacation time earned and used is not formally tracked.
- Wage and withholding rates entered into the payroll system are not reviewed by an independent person.
- Payroll checks are not properly safeguarded before they are distributed to employees.

Recommendation – Time cards 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. A written policy should be adopted, and procedures should be established to provide for the proper tracking of vacation time earned and used. An independent person should periodically review and test wage and withholding rates entered in the system for proper calculations. The City should properly safeguard payroll checks before distribution.

- (I) Credit Card – The City has a credit card for use by employees while on City business. Although the City has adopted a credit card policy which requires receipts to be provided for credit card charges, the policy does not address who controls the credit card or appropriate credit card purchases.

Recommendation – The City should amend the written policy regulating the use of the City's credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes.

City of Alburnett

Detailed Findings and Recommendations

For the period January 1, 2018 through December 31, 2018

- (J) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public safety, general government and capital projects functions. 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.

- (K) Petty Cash/Change Fund – The City maintains a petty cash/ change fund for which no authorization could be located. In addition, the fund was not included in the City's accounting records and resulting fund balances.

Recommendation – The petty cash/change fund should be formally authorized by the City Council. In addition, 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 funds and accounts, including petty cash, should be included in the Clerk's accounting system.

- (L) Monthly Financial Report – The monthly City Clerk's Report presented to the City Council for approval does not include a comparison of actual disbursements by function to the certified budget.

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

- (M) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

- (N) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (O) Journal Entry Approval – Journal entries are not approved by an independent person.

Recommendation – Journal entries should be approved by an independent person and evidence of the approval should be documented.

City of Alburnett

Detailed Findings and Recommendations

For the period January 1, 2018 through December 31, 2018

- (P) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

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

Recommendation – An independent person should review utility rates entered into the system periodically and when rate changes occur to ensure proper utility calculations and billings.

City of Alburnett

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Michelle B. Meyer, CPA, Manager
Steven O. Fuqua, CPA Senior Auditor II
Noelle M. Luebbers, Assistant Auditor