



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

July 28, 2020

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Contact: Ernest Ruben  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of St. Charles, Iowa, for the period April 1, 2018 through March 31, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as the lack of segregation of duties, the Fire Department and Rescue Unit bank accounts held outside of the City's control, unresolved bank reconciliation variances, not all disbursements were authorized by the City Council prior to payment and disbursements exceeding budgeted amounts. 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/reports/audit-reports/>.

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**CITY OF ST. CHARLES**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**APRIL 1, 2018 THROUGH MARCH 31, 2019**

**City of St. Charles**



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July 21, 2020

Officials of the City of St. Charles  
St. Charles, 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 St. Charles, Iowa, for the period April 1, 2018 through March 31, 2019. 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 St. Charles 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 St. Charles**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Dennis Smith	Mayor	Jan 2018	Jan 2020
Megan Allison	Council Member	Jan 2018	Jan 2020
John Goering	Council Member	Jan 2016	Jan 2020
Thomas Blomme	Council Member	Jan 2018	Jan 2022
Ashley Downs (appointed)	Council Member	Sep 2018	Nov 2019
Rusty Gyles	Council Member	Jan 2018	Jan 2022
Tracy Kozak	City Clerk/Treasurer		Indefinite
Bob Stuyvesant	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 St. Charles for the period April 1, 2018 through March 31, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of St. Charles' 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. 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.


8. 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.
9. The City had no TIF.
10. We traced selected receipts for accurate accounting and consistency with the recommended COA.
11. The City had no voter approved levies.
12. We traced 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.
13. We traced transfers between funds to proper authorization and accurate accounting and determined if transfers were proper.
14. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
15. 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 St. Charles 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

July 21, 2020



## **Detailed Findings and Recommendations**

City of St. Charles

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

(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) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Long-term debt – recording, payment processing and reconciling.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and recording.

For the Fire Department and Rescue Unit who maintain separate bank accounts, one individual has control over each of the following areas.

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City, Fire Department and Rescue Unit should review their 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) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The St. Charles Fire Department and Rescue Unit maintain bank accounts for activity separate from the City Clerk’s accounting records. While these Departments are part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

City of St. Charles

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account's receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Bank reconciliations were not prepared for the separately maintained bank accounts.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the St. Charles Fire Department and Rescue Unit separate accounts should be integrated with the City's accounting records in the City Clerk's office. The financial activity should be included in the City Clerk's accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of each account's receipts, total disbursements and listings of claims allowed each month should be published, as required.

The City should establish procedures to ensure bank balances are reconciled to the book balances monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Bank Reconciliations – Although bank reconciliations were prepared monthly, the bank balance was \$19,896 higher than the book balance at June 30, 2018. The variance was not resolved. In addition, the bank reconciliations were not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (D) Investment Policy – 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.

- (E) City Council Meeting Minutes – Chapter 380.7 of the Code of Iowa requires minutes to be properly signed. Minutes for four of twelve meetings reviewed were not properly signed.

Recommendation – The City should comply with the Code of Iowa and ensure all City Council meeting minutes are properly signed, as required.

- (F) Disbursements – Ten of thirty disbursements traced were not authorized by the City Council prior to payment.

Recommendation – The City should ensure disbursements are authorized by the City Council prior to payment.

City of St. Charles

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (G) Credit Card – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card purchases. One of five credit card transactions traced was not authorized prior to payment and one of five did not have proper supporting documentation.

Recommendation – The City should adopt a formal written policy regulating the use of credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to support the purchase. The City should ensure disbursements are authorized prior to payment and proper supporting documentation is maintained for all disbursements.

- (H) Payroll – Although timesheets were prepared for all employees, there was no evidence the City Clerk’s timesheets were reviewed and approved. In addition, the approved hourly wage of City Clerk was not documented in the City Council minutes.

Recommendation – The City should establish procedures to ensure the City Clerk’s timesheets are reviewed and approved. In addition, wage rates should be adequately documented in the minutes and approved by the City Council.

- (I) Transfers – Fifteen of forty transfers traced were not approved by the City Council.

Recommendation – The City Council should review and approve all transfers as part of the minutes record.

- (J) Fire Department Disbursements – One of five disbursements traced did not have proper supporting documentation and one was not paid timely incurring a late fee. In addition, one invoice scanned was paid twice creating a credit balance with the vendor.

Recommendation – The department should establish procedures to ensure proper supporting documentation is maintained for all disbursements, disbursements are paid timely to avoid late fees and duplicate payments are not made. Also see finding and recommendation (B).

- (K) Certified Budget – At June 30, 2018, disbursements 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.

City of St. Charles

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (L) Computer System –The following weaknesses in the City’s computer systems, used primarily for utility billing, were noted.

The City does not have written policies for:

- (1) Requiring the maintenance of password privacy and confidentiality.
- (2) Requiring passwords be changed at least every 60-90 days.
- (3) Requiring backups of system information.
- (4) Ensuring only software licensed to the City is installed on computers.
- (5) Requiring an anti-virus program on computers.
- (6) Personal use of computer equipment and software.
- (7) The City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer systems. Also, a written disaster recovery plan should be developed and tested periodically.

- (M) Accounting Procedures Manual – The City does not have a current 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.

City of St. Charles

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director  
Donna F. Kruger, Manager  
Nichole D. Tucker, Senior Auditor  
Nathan A. DeWit, Staff Auditor