



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

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NEWS RELEASE

FOR RELEASE

August 5, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Arlington, 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 thirteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of an independent review of the utility system reconciliation, the lack of proper publication and signing of minutes, potential conflicts of interest, errors in recording debt service disbursements in the general ledger, transfers are not balanced monthly, no supervisory review of timesheets and the Mayor and City Council member compensation was not established by ordinance. 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/audit-reports>.

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

City of Arlington



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June 23, 2020

Officials of the City of Arlington
Arlington, 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 Arlington, Iowa, for the period of 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 Arlington 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 that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Arlington

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Donald Handel	Mayor	Jan 2018	Jan 2020
Dustin Schott	Council Member	Jan 2016	Jan 2020
Sherry Seedorff	Council Member	Jan 2016	Jan 2020
Dean Meisner	Council Member	Jan 2018	Jan 2022
Chris Henry	Council Member	Jan 2018	Jan 2022
Alan Shaffer	Council Member	Jan 2018	Jan 2022
Mary Jo Brown	City Clerk/Treasurer		Indefinite
Pat Dillon	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 Arlington 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 Arlington'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 obtained 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.

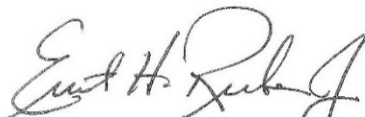
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts for accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. 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.
14. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. 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 Arlington 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

June 23, 2020

Detailed Findings and Recommendations

City of Arlington

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, signing and distributing checks.
- (5) Utilities – billing, recording collections, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Debt – record keeping, compliance and debt payment processing.
- (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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year and a delinquent account listing was prepared monthly, however, the utility reconciliations and delinquent account listings were 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.

(C) Journal Entries – For three journal entries observed there was no evidence they were reviewed and approved by an independent person.

Recommendation – Journal entries should be reviewed and approved by an independent person. This review should be documented by the signature or initials of the reviewer and date of the review.

City of Arlington

Detailed Findings and Recommendations

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

- (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 one meeting observed were not published within fifteen days. In addition, meeting minutes for two meetings observed 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 minutes within fifteen days of the meeting. In addition, the City should ensure all meeting minutes are signed, as required.

- (E) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Don Handel, Mayor, owner of Handel Electric	Electrical work	\$ 6,149
Scott Brown, City Clerk's spouse, Owner of Brown's Pump Service	Plumbing work	4,762
Alan Shaffer, Council Member West Region Manager for Bard Materials	Rock and sand	2,710

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (F) Change Fund – The City maintains a change fund for which no authorization could be located.

Recommendation – The change fund should be formally authorized by the City Council.

- (G) Certified Budget – Chapter 384.18(2) states, in part, “A budget amendment must be prepared and adopted in the same manner as the original budget, as provided in section 384.16...”. For one of two budget amendments observed, a proof of publication for the notice of public hearing was not available to support compliance with Chapter 384.16(3) of the Code of Iowa.

Recommendation – The notice of public hearing for authorization of budget amendments should be retained to support compliance with Chapter 384.16(3) of the Code of Iowa.

- (H) Payroll – Timesheets did not include evidence of supervisory review. Also, Mayor and City Council member compensation was not established by ordinance as required by Chapter 372.13(8) of the Code of Iowa.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Also, the City should establish and approve the compensation for the Mayor and City Council members by ordinance, as required.

City of Arlington

Detailed Findings and Recommendations

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

- (I) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

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

- (J) General Ledger Errors – Fiscal year 2018 disbursements in the culture and recreation and general government functions reported in the City’s general ledger appeared to exceed the budget before the May 22, 2018 budget amendment because \$213,965 and \$33,727 in debt service disbursements were miscoded to the culture and recreation and general government functions, respectively. However, these debt service disbursements were correctly reclassified to the debt service function on the Annual Financial Report.

Recommendation – The City should implement procedures to ensure all disbursements are properly recorded in the City’s general ledger.

- (K) Reimbursements – The City paid for certain purchases made with the City Clerk’s personal credit card by using electronic funds transfers from the City’s account to the City Clerk’s personal credit card issuer. The purchases were properly supported and were properly approved by the City Council.

Recommendation – The City should develop procedures to reimburse employees for purchases made on the City’s behalf. The City should not pay for these reimbursements through direct payment to the employee’s personal credit card.

- (L) Disbursements – While disbursements are approved by the City Council there is no evidence of independent review of supporting documentation.

Recommendation – Supporting documentation should be reviewed by an independent person. Independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

- (M) Transfers – Interfund transfers are not balanced monthly.

Recommendation – Interfund transfers should be balanced monthly.

City of Arlington

Staff

This engagement was performed by:

Ernest H. Ruben, Jr. CPA, Director
Brian R. Brustkern, CPA, Manager
Erin J. Sietstra, Senior Auditor
Brandon G. Sommers, Assistant Auditor