



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

October 21, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Tiffin, Iowa, for the period July 1, 2019 through June 30, 2020. 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 9 through 14 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts, deficit fund balances and City funds paid to a private non-profit organization for fire protection services and equipment. Sand provided the City with recommendations to address each of the findings.

Nine of the fourteen findings discussed above are repeated from the prior year. 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 TIFFIN
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Tiffin



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September 24, 2021

Officials of the City of Tiffin
Tiffin, 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 Tiffin, Iowa, for the period July 1, 2019 through June 30, 2020. 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 Tiffin 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 Tiffin

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Berner	Mayor	Jan 2020
Michael C. Ryan	Mayor Pro Tem	Jan 2020
Peggy Knowling Upton	Council Member	Jan 2020
James R. Bartels	Council Member	Jan 2022
Oliver A. Havens	Council Member	Jan 2022
Eric Schnedler	Council Member	Jan 2022
Doug Boldt	City Administrator	Indefinite
Ashley Platz	City Clerk	(Resigned Aug 2019)
Abigail Hora (Appointed Aug 2019)	City Clerk	Indefinite
Robert Michael	Attorney	Indefinite
Crystal Raiber	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Berner	Mayor	Jan 2022
Oliver A. Havens	Mayor Pro Tem	Jan 2022
James Bartels	Council Member	Jan 2022
Eric Schnedler	Council Member	Jan 2022
Christine Olney	Council Member	Jan 2024
Rodney Walls	Council Member	(Resigned Jun 2020)
Vacant	Council Member	
Doug Boldt	City Administrator	Indefinite
Abigail Hora	City Clerk	Indefinite
Robert Michael	Attorney	Indefinite
Crystal Raiber	Attorney	Indefinite

City of Tiffin



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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 Tiffin for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Tiffin'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 City of Tiffin's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa requirements. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

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 2020 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. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
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 accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

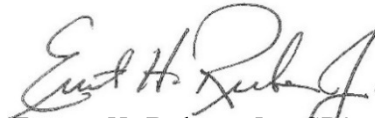
Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Tiffin's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Tiffin and to meet our ethical responsibilities, in accordance with the relevant ethical requirement related to our agreed-upon procedures engagement.

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 Tiffin 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.

A handwritten signature in black ink, appearing to read "Ernest H. Ruben, Jr.", written in a cursive style.

Ernest H. Ruben, Jr., CPA
Director

September 24, 2021

Detailed Findings and Recommendations

City of Tiffin

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (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 the collecting, depositing, recording, reconciling of receipts and maintaining detailed accounts receivable records.

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 – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. In addition, a detailed listing of outstanding checks was not prepared. We attempted to reconcile the general ledger with the bank balance at June 30, 2020. At June 30, 2020, the cash on hand plus bank balance minus estimated outstanding checks plus deposits in transit totals \$4,425,770, a variance of \$14,957 from the City's Fund Balance Report of \$4,440,727.

Recommendation – The City should prepare monthly bank reconciliations, including a detailed listing of deposits in transit and outstanding checks, and variances between book and bank balances should be investigated and resolved in a timely manner. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared monthly. Also, utility collections were not reconciled to deposits.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a City Council designated independent person should review the reconciliations and monitor delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

- (D) Financial Condition – At June 30, 2020, the City had deficit balances of \$3,063 and \$765,753 in the Special Revenue, Road Use Fund and Capital Projects Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

City of Tiffin

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (E) Payroll Rates – An effective internal control system provides for controls relating to payroll, including proper approval of pay rates. Annual salary increases were approved based upon a percentage and the actual approved salaries or wages were not documented in the City Council meeting minutes.

Recommendation – Approved salaries and wages of employees should be documented in the City Council meeting minutes.

- (F) Record Retention – In October 2020, the City changed financial accounting software applications. The new system was able to convert fiscal year transaction totals by account but was unable to unencrypt data for each individual transaction for the period July 1, 2019 through the effective date of the conversion to the new system. The City did not retain a backup of accounting transactional data prior to the date of the conversion.

Chapter 384.20(2) of the Code of Iowa states “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.”

While performing this agreed upon procedures engagement, we were unable to trace selected transactions into the general ledger in order to verify transactions were properly posted and classified.

Recommendation – The City should take steps to ensure its general ledger information is maintained on a transactional level and in current condition as required by the Code of Iowa. Also, to improve the City’s control over its computer system, policies and procedures should be developed to ensure backups of the general ledger are performed and stored off site.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within fifteen days of the meeting and include a summary of receipts. For two of four meetings observed, the published minutes did not include a summary of receipts by fund.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa.

- (H) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public works, community and economic development and general government functions prior to amendment. Also, at year end, disbursements exceeded the amount budgeted in the debt service 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 Tiffin

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (I) Monthly City Clerk's Report – A monthly City Clerk's report, including a summary of revenues, transfers, fund balances and a comparison of actual disbursements to budget by function was not provided to the City Council for the month observed.

Recommendation – To provide better financial information and control, the City Clerk should prepare a monthly City Clerk's report which includes a summary of receipts, disbursements, transfers and ending balances by fund. The City Council should review and approve the City Clerk's report monthly.

- (J) Annual Urban Renewal Report – The City understated the amount reported as Year-End Tax Increment Financing (TIF) Obligations, net of TIF Special Revenue Fund Balance on the Levy Authority Summary by \$224,934. In addition, TIF expenditures, revenues and ending cash balance on the Levy Authority Summary did not agree with the City's records.

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

- (K) Tax Increment Financing (TIF) – 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. Further, Chapter 403.19(10)(b) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Urban Renewal Tax Increment (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable low to moderate income (LMI) assistance.

During the year ended June 30, 2020 the City paid interest totaling \$74,486 on the 2019 General Obligation Bond from the Special Revenue, TIF Fund. This payment did not represent a TIF obligation since it was not certified as TIF debt by City Council Resolution and was not included on the City's TIF Certification to the County. Also, in the prior year, the City transferred \$1,015,065 from the Special Revenue, Urban Renewal Tax Increment (TIF Fund) to the Capital Projects Funds to resolve the deficit balances in those funds. Those transfers do not represent TIF obligations and are not an allowable use of tax increment financing receipts. A correcting entry has not been made.

Recommendation – The City should consult legal counsel to determine the disposition of these matters. If the interest on the 2019 General Obligation Bond is determined to be allowable to be paid from TIF, the City Council should approve a resolution to establish the TIF debt and include the approved debt on the City's next TIF certification to the County. Also, the City should make a correcting transfer of \$1,015,065 to the Special Revenue, TIF Fund from the Capital Projects Funds or clearly document how the transfer was permissible.

- (L) Interfund Transfers – Section 545-2 of the Iowa Administrative Code states "A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred." During the year ended June 30, 2020, transfers between the General, Special Revenue, Urban Renewal Tax Increment, and Debt Service funds were not approved by resolution.

Recommendation – The City Council should comply with the Iowa Administrative Code and ensure all transfers are approved by resolution, as required.

City of Tiffin

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (M) Revenue Bonds and Notes – The provisions of the water and sewer bond resolutions require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they come due. For the year ended June 30, 2020, the following was noted:
1. The City’s Annual Financial Report (AFR) for the Enterprise, Water Fund reported net operating receipts of \$21,488, \$1,988 less than the net operating receipt requirement of \$23,637.
 2. The City’s AFR for the Enterprise, Sewer Fund reported net operating receipts of \$482,063, \$83,394 less than the net operating receipt requirement of \$565,457.

The terms of the sewer bond resolutions also require monthly transfers be made into the Enterprise, Sewer Sinking Fund for the purpose of paying the principal and interest on the bonds. Although the City made transfers during the fiscal year ended June 30, 2020 in excess of the amount of principal and interest paid, for the year ended June 30, 2020 the City reported a deficit balance in the Enterprise, Sewer Sinking Fund totaling \$355,657.

In addition, the City sewer and water revenue bond resolutions require all users of the system, including the City, to be charged for use. City departments are not charged for sewer and water usage.

Recommendation – The City should consult legal counsel and review the City’s utility rates to ensure rates are adequate to produce the required net operating receipts and resolve the deficit in the Enterprise, Sewer Sinking Fund. In addition, the City should establish procedures to ensure all City departments are charged for water and sewer usage, as required.

(N) Tiffin Fire Association

Background:

Chapter 364.16 of the Code of Iowa requires the City to provide for the protection of life and property against fire. This section also states in part, “A City has the same governmental immunity outside its corporate limits when providing fire protection as when operating within the corporate limits.” The City’s Code of Ordinances states, “Pursuant to Chapter 28E of the Code of Iowa, the City has entered into a contract agreement with Tiffin Fire Association for fire protection and prevention within the City.”

The Tiffin Fire Association (Non-profit Fire Department) is a private non-profit organization established under Chapter 504 of the Code of Iowa whose purpose, as documented in its by-laws, is to “foster and advance the delivery of emergency fire and medical care to the people of the Tiffin Fire District, and to those who pass through, and Mutual Aid as requested by the Johnson County Mutual Aid Association and the Johnson County Sheriff’s Office.”

City of Tiffin

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

On April 24, 2008, the City passed a resolution to enter into an Agreement and Contract for Fire Protection with the Tiffin Fire Association. The resolution states the agreement is entered into in accordance with Chapter 28E of the Code of Iowa. The agreement does not create a separate legal entity but provides the Fire Association is to “furnish fire protection and other emergency services...in the described response area.” Pursuant to the agreement, the Association will own or lease, maintain, house and staff the fire protection and other emergency equipment used under this agreement. Also, the Association Board shall determine the annual budget for the operation of the department and for all major expenses and purchases of new fire vehicles and equipment and the City Clerk shall transmit all tax monies resulting from the fire protection levies to pay costs agreed to under the contract. Under the terms of the agreement, the agreement may be extended for periods of one year at a time by resolutions of the City Council made at least thirty days prior to March 1.

Relevant statutes:

Chapter 28E.4 of the Code of Iowa states “Any public agency of this state may enter into an agreement with one or more public or private agencies for joint or cooperative action pursuant to the provisions of this chapter, including the creation of a separate entity to carry out the purpose of the agreement. Appropriate action by ordinance, resolution or otherwise pursuant to law of the governing bodies involved shall be necessary before any such agreement may enter into force.”

Chapter 28E.7 of the Code of Iowa states in part, “No agreement made pursuant to this chapter shall relieve any public agency of any obligation or responsibility imposed upon it by law...”

The Constitution of the State of Iowa establishes public funds criteria and requires that public funds may not be used for private benefit.

In addition, Official Attorney General Opinions have stated on at least six occasions since 1972 that, “Political subdivisions and municipalities, including cities, counties, schools, and townships are municipal – governmental – entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support “public services” which are the same or similar to the services provided by government, the private organizations are not subject to the same degree of public accountability and oversight as governmental entities.”

Private, non-profit organizations are not subject to audit requirements and, because the 28E agreement did not create a legally separate 28E entity (which would be subject to audit), the funds paid by the City to the Fire Association under the 28E agreement are not subject to the same scrutiny/audit requirements as the City.

In addition, the Agreement with the Fire Association allows the Association Board to set the annual budget for the operation of the department, and for all major expenses and purchases of new fire vehicles and equipment and requires the City to transmit all tax monies resulting from the fire protection levies to pay costs agreed to under the contract. This arrangement creates an inappropriate situation where the City is issuing a blank check to the Association, rather than paying for services as they are performed.

City of Tiffin

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

We noted the following regarding the agreement and the City's arrangement with the Fire Association:

- (a) The agreement and contract were not extended by City Council resolution for the fiscal year ended 2020, as required.

During fiscal year 2020, the City made monthly dues payments to the Fire Association totaling \$156,312. In addition, during fiscal year 2020, the City paid \$82,800 in principal and interest on General Obligation series 2018A bonds issued for the purpose of financing \$1,072,608 of fire equipment donated to the Fire Association. These payments were not made under an approved agreement.

- (b) In May 2021, the City entered into an agreement with the Tiffin Fire Association, Inc., for the City to establish a fire department and fully transition all services and equipment from the Association to the City. The terms of the Agreement commence on July 1, 2021 and the transition is to be completed no later than June 30, 2022.

Recommendation – The City should take steps to ensure the terms of the transition agreement with the Tiffin Fire Association, Inc., are met and the transition is completed no later than June 30, 2022.

City of Tiffin

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Gwen D. Fangman, CPA, Manager
Adjoa S. Adanledji, Senior II Auditor
Matthew R. Baumhover, Assistant Auditor