

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

December 14, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Osterdock, 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 eighteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 13 of this report. The findings address issues such as a lack of segregation of duties, a lack of bank reconciliations, a lack of monthly City Clerk's reports to the City Council, errors in the Annual Financial Report, unsupported disbursements and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

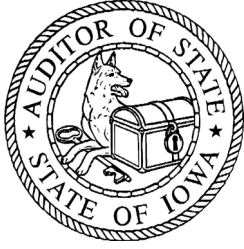
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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 OSTERDOCK
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Osterdock



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Rob Sand
Auditor of State

November 30, 2021

Officials of the City of Osterdock
Osterdock, 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 Osterdock, 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 Osterdock 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".

Rob Sand
Auditor of State

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City of Osterdock

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Brad Miller	Mayor	Jan 2020	Jan 2022
Phoebe Johnson	Council Member	Jan 2020	Jan 2022
Clifford Junkins	Council Member	Jan 2020	Jan 2022
Robert Petsche	Council Member	Jan 2020	Jan 2022
Elmer Radabaugh	Council Member	Jan 2020	Jan 2022
Dennis Sargent	Council Member	Jan 2020	Jan 2022
Nicole Maiers	City Clerk		Indefinite

City of Osterdock



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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 Blue Grass 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 Osterdock'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 Osterdock'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 recommendations. This report may not be suitable for any other purpose. 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. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.

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. The City had no debt.
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 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.
14. The City had no transfers.
15. We traced selected payroll and related transactions for 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.

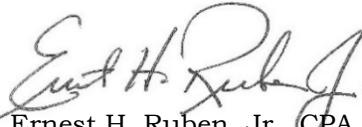
Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations,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

We were engaged by the City of Osterdock'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 Osterdock and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements 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 Osterdock 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

November 30, 2021

Detailed Findings and Recommendations

City of Osterdock

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 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 and signing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City 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) Bank Reconciliation – The cash and investment balances in the City’s general ledger were not reconciled to the bank account balances throughout the year. As a result, we attempted to reconcile all fiscal year ended June 30, 2020 receipt and disbursement activity per the bank to the Transactions by Payee report. That report includes detailed transactions, however, does not include balances by fund. With the exception of certificate of deposit interest not recorded in the Transactions by Payee report, the bank activity reconciled to the books.

Recommendation – The City should establish procedures to ensure all cash and investment balances are properly reported in the City’s general ledger and those balances are reconciled to the bank accounts monthly. Variances, if any, should be resolved timely. A listing of outstanding checks should be prepared monthly and retained to support the reconciliation. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent should be followed.

City of Osterdock

Detailed Findings and Recommendations

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

(D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures....” We noted the following regarding the City’s fiscal year 2020 AFR:

- Receipts and disbursements reported on the AFR did not agree with the City’s records.
- Special Revenue, Road Use Tax and Local Option Sales Tax Funds and General Fund interest receipts from certificates of deposit totaling \$228, \$412, and \$59, respectively were not recorded in the general ledger, and therefore were not reported on the AFR.
- The General Fund ending fund balance did not include certificates of deposit totaling \$76,851.
- The Special Revenue, Local Option Sales Tax Fund was incorrectly reported in the General Fund instead of a Special Revenue Fund.

Recommendation – The City should ensure receipts and disbursements reported on the AFR agree to the City’s records. Also, the City should ensure all receipts are properly recorded in the general ledger and reported on the AFR. Further, the ending balances on the AFR should include all certificates of deposit and the Special Revenue, Local Option Sales Tax Fund should be properly reported as a Special Revenue Fund.

(E) Monthly City Clerk’s Report – Monthly City Clerk’s reports, including a summary of receipts, disbursements, transfers and beginning and ending balances by fund were not prepared and provided to the City Council for review and approval. In addition, the City Council is not provided a monthly comparison of actual year-to-date disbursements to the certified budget by function.

Recommendation – For better financial information, monthly City Clerk’s reports, including a summary of receipts, disbursements, transfers and beginning and ending balances by fund, should be prepared and provided to the City Council for approval. Also, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include a comparison of actual year-to-date disbursements to the certified budget by function.

(F) Disbursements – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported and approved. We noted the following:

- Ten of twenty-seven disbursements traced to payees other than the Clerk were not properly supported by an invoice or appropriate supporting documentation.
- Eight disbursements totaling \$1,154 were written to the City Clerk during the fiscal year ended June 30, 2020. The memo line on the checks indicates the disbursements were for wages and/or reimbursement of office supplies. Of the \$1,154, \$883 was not properly supported by either adequate payroll records or vendor invoices and receipts.

City of Osterdock

Detailed Findings and Recommendations

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

- Disbursements are not properly approved by the City Council because the meeting minutes did not include information sufficient to indicate each member's vote on the listing of bills as required by Chapter 21.3 of the Code of Iowa.
- Disbursements after March 11, 2020 were not approved by the City Council since the City Council cancelled subsequent meetings due to COVID-19 concerns.

Recommendation – All disbursements should be supported by an invoice, timesheet or other supporting documentation. The City Council should approve all disbursements during the City Council meetings and the minutes should be sufficient to indicate the vote of each member present. Disbursements should not be paid in advance of City Council approval unless the City Council passes a resolution authorizing the City Clerk to pay certain bills prior to the City Council's approval.

- (G) Void Checks – The City does not maintain controls over void checks.

Recommendation – Voided checks should be properly mutilated and retained to provide accountability.

- (H) City Council Compensation – Chapter 372.13(8) of the Code of Iowa states in part “By ordinance the council shall prescribe the compensation of the mayor, council members and the other elected city officers...” For the period observed, the Mayor was paid \$300 annually and the City Council Members were paid \$32 per meeting attended. The City was unable to locate an ordinance authorizing the amounts paid to the Mayor and City Council.

Recommendation – The City Council should adopt a City Ordinance approving the Mayor and City Council Member compensation, as required.

- (I) Payroll – The City was unable to locate documentation approving the hourly rate for the City Clerk. Timesheets were not prepared documenting hours worked. In addition, because certain City Clerk's payroll checks also included reimbursement for office supplies and the supplies were not always adequately supported by an invoice or receipt, we were unable to determine the total amount of payroll paid to the City Clerk. Also, the City Clerk's August 15, 2019 payroll check for September 2019 through December 2019 wages, as noted on the check's memo line by the City Clerk, was written in advance of being earned.

Recommendation – Employee hourly rates, including increases, should be approved by the City Council and the approval should be adequately documented in the City Council meeting minutes. In addition, timesheets should be required for all City employees to support hours worked and leave time taken. The timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. All reimbursements should be adequately documented and supported. Employees should not be paid in advance of hours worked.

- (J) Debit Card – The City has a debit card available for City purchases.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. The function of a debit card is to 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 the debit card.

City of Osterdock

Detailed Findings and Recommendations

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

- (K) 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 and 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 for the City’s bank account.

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.

- (L) Change Fund – A change fund is not maintained for customers paying cash for their annual garbage bill. The City Clerk occasionally makes change for customers from her personal funds.

Recommendation – A change fund should be approved by the City Council and maintained on an imprest basis to provide additional control over the fund. An imprest system is one in which the change fund is maintained at a fixed, authorized amount. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. An independent person should perform surprise cash counts to ensure the amount authorized in the change fund is properly maintained.

- (M) Deposits and Investments – An investment register was not maintained for each Certificate of Deposit (CD) investment. Also, the City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – An investment register which includes the cost, description, date purchased, interest rate, maturity date, and identifying number for each investment should be maintained and updated as necessary to reflect the current status of investments. Also, the City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. In addition, the City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (N) Surety Bond – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

- (O) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the general government function by \$1,057. 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 Osterdock

Detailed Findings and Recommendations

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

- (P) City Council Meeting Minutes – Chapter 21.4 of the Code of Iowa requires City Council meetings be preceded by proper notice. Proper notice for a City with a population of less than 200 includes posting the agenda in three places designated by City ordinance. Notice of City Council meetings including the tentative agenda were not posted in three public places, as required. In addition, for cities with a population of less than 200, Chapter 372.13(6) of the Code of Iowa, requires minutes of all City Council proceedings be posted in three public places within fifteen days of the meeting, including total disbursements for each fund, a list of claims allowed and a summary of all receipts. City Council minutes were not posted in three public places, as required. In addition the minutes were not signed by the City Clerk as required by Chapter 380.7 of the Code of Iowa and did not show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and provide public notice of meetings by posting the agenda in three public places designated by City ordinance. The City should ensure the City Council minutes are posted and include total disbursements by fund, a list of claims allowed and a summary of receipts, as required. In addition, the official minutes should be signed by the City Clerk and contain information sufficient to indicate the vote of each City Council Member present, as required.

- (Q) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts be allocated 50% for public safety and 50% for street repairs, replacement and improvements. The City has not properly tracked the use and unspent balance of LOST receipts to demonstrate compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

- (R) Garbage Fee – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. No ordinance was located establishing a rate for the garbage utility.

Recommendation – The City should ensure garbage rates are established by City ordinance and ensure all ordinances are retained, as required.

City of Osterdock

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Gwen D. Fangman, CPA, Manager
David A Slocum, CPA, Staff Auditor