



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 11, 2022

Contact: Brian Brustkern
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Mount Ayr, Iowa, for the period July 1, 2020 through June 30, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported ten findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of complete bank and utility reconciliations, as well as a lack of independent review of those reconciliations, business transactions that may represent conflicts of interest, unsupported disbursements, and interfund transfer resolutions which did not include the purpose of the transfer. Sand provided the City with recommendations to address each of the findings.

Three of the ten 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://www.auditor.iowa.gov/reports/file/67355/embed>.

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CITY OF MOUNT AYR
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021

City of Mount Ayr



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December 18, 2021

Officials of the City of Mount Ayr
Mount Ayr, 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 Mount Ayr, Iowa, for the period July 1, 2020 through June 30, 2021. 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 Mount Ayr 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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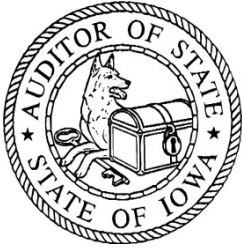
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City of Mount Ayr

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------------|----------------|---------------------|
| Steven Fetty | Mayor | Jan 2022 |
| Mack Greene | Council Member | Jan 2022 |
| Brent Ricker | Council Member | Jan 2022 |
| Brad Elliott | Council Member | Jan 2024 |
| Ken Robertson | Council Member | Jan 2024 |
| Jordan Stewart | Council Member | Jan 2024 |
| Pamella Poore | City Clerk | (Retired Dec 2020) |
| Amanda Cannon (Appointed Jan 2021) | City Clerk | Jan 2022 |
| Jason Palmer | Attorney | Indefinite |

City of Mount Ayr



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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 Mount Ayr for the period July 1, 2020 through June 30, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Mount Ayr'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 Mount Ayr'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. 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. The City had no investments.
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. 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.
10. 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.
11. We traced selected receipts to 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. We traced transfers between funds to proper authorization and accurate accounting and to determine 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 engaged by the City of Mount Ayr'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 Mount Ayr 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 Mount Ayr 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.



Brian R. Brustkern, CPA
Director

December 18, 2021

Detailed Findings and Recommendations

City of Mount Ayr

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

(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 posting.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (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) Bank Reconciliations – The June 30, 2021 bank reconciliation did not include the City’s revolving fund and Library checking and savings accounts. In addition, the City’s bank reconciliations were not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure all City accounts are included in the monthly bank reconciliation. Also, monthly bank reconciliations should be reviewed by an independent person. The independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not properly reconciled throughout the year. Although the software generates a reconciliation report, the City does not verify the billings, collections, delinquent accounts and other reconciling items and the reconciliations are not independently reviewed.

Recommendation – Procedures should be established to verify amounts on the software generated reconciliation report to billings, collections, delinquent accounts and other reconciling items. An independent person should review the reconciliations and adjustments and monitor delinquent accounts. The independent review should be documented by the signature or initials of the reviewer and the date of the review.

City of Mount Ayr

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (D) Payroll – Fiscal year 2022 wage increases for the Library were approved as a percentage increase however the approved salary was not documented in the City Councils meeting minutes.

Recommendation – Actual approved salary should be adequately documented in the City Council meeting minutes as an approved hourly rate or salary and not just a percentage increase, including salaries of Library employees.

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

| Name of Business | Owner | Transaction Description | Amount |
|------------------|-----------------------------------|--|----------|
| Stewart Tire | Jordan Stewart, Council Member | Tire repair and service skid loader, rubber tracks | \$ 7,326 |
| Podium Ink | Brad Elliott Council Member | Detour signs, decals zoning maps | 6,102 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions may represent a conflict of interest since the total transactions were more than \$6,000 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) Disbursements – Disbursements should be properly supported by an invoice or other supporting documentation. We noted four of thirty disbursements traced were not properly supported.

Recommendation – The City should maintain an invoice or other appropriate supporting documentation for all disbursements.

- (G) Credit Card – The City Library has a credit card for use by various employees while on City business. The City Library has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of the credit card charges.

Recommendation – The Library Board should adopt a formal written policy regulating the use of the Library’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, as well as the types of supporting documentation required to substantiate the charges.

- (H) Void Receipts – Void receipts are not reviewed by an independent person.

Recommendation – To improve financial accountability and control, void receipts should be reviewed by an independent person and the review should be documented by the initial or signature of the reviewer and the date of the review.

City of Mount Ayr

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (I) Interfund Transfers – Section 545-2 of the Iowa Administrative Code City Finance Committee Rules require “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, 2021, two of three transfer resolutions did not include a clear statement of the reason or purpose for the transfer.

Recommendation – The resolutions approving all fund transfers should include the information required by Section 545-2 of the Iowa Administrative Code City Finance Committee Rules.

- (J) Journal Entries – One of four journal entries was not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries.

City of Mount Ayr

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Director
Deborah J. Moser, CPA, Manager
Maria R. Collins, Staff Auditor