



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

NEWS RELEASE

FOR RELEASE

February 16, 2022

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Thurman, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed at the request of petitioners pursuant to Chapter 11.6(3) of the Code of Iowa. The petition submitted requested an audit or examination. In accordance with Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns.

Sand reported twenty-two 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, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts, non-compliance regarding city meeting minutes, and business transactions that may represent conflicts of interest. 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://www.auditor.iowa.gov/reports/file/67848/embed>.

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

City of Thurman



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February 4, 2022

Officials of the City of Thurman
Thurman, 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 Thurman, 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 Thurman 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". The signature is stylized with a large, looped "R" and a cursive "Sand".

Rob Sand
Auditor of State

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City of Thurman

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kelli Perrin	Mayor	Jan 2020
Theresa Achenbach	Council Member	Jan 2020
Nicolette McCullough	Council Member	Jan 2020
Twillia Potter	Council Member	Jan 2020
Tobby Townsend	Council Member	Jan 2020
Adam Wendland	Council Member	Jan 2020
Jennifer Wendland	City Clerk/Treasurer	Indefinite
Bri Sorensen	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kelli Perrin	Mayor	Jan 2022
Theresa Achenbach	Council Member	Jan 2022
Brandy Blake	Council Member	Jan 2022
Nicolette McCullough	Council Member	Jan 2022
Charlene Townsend	Council Member	Jan 2022
Adam Wendland	Council Member	Jan 2022
Jennifer Wendland	City Clerk/Treasurer	Indefinite
Bri Sorensen	Attorney	Indefinite

City of Thurman



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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 received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of Thurman in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Thurman 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 Thurman'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 Thurman's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report 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. We observed the City's fiscal year 2019 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 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. The City had no transfers.
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.

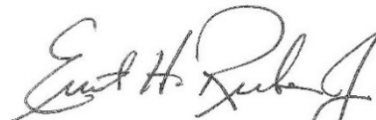
Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations,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

We were engaged by the City of Thurman'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 Thurman 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 Thurman 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
Deputy Auditor of State

February 4, 2022

Detailed Findings and Recommendations

City of Thurman

Detailed Findings and Recommendations

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

- (A) Fiduciary Oversight – 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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring and reviewing pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented, and monitored to ensure compliance.

- (B) 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, maintaining detailed accounts receivable records, and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, 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 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.

- (C) Bank Reconciliations – The City’s savings account was not included in the monthly bank reconciliations. A list of outstanding checks for the City checking account was not retained throughout the year. In addition, one of two monthly bank reconciliations observed did not include evidence of an independent review.

Recommendation – Procedures should be established to ensure all bank accounts are included in the City’s monthly bank reconciliations and all reconciliations are reviewed by an independent person. The independent review should be documented by signing or initialing and dating the reconciliation. In addition, a list of outstanding checks should be retained.

City of Thurman

Detailed Findings and Recommendations

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

- (D) 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. In addition, the City has a Special Revenue, Road Use Tax Fund; however, road use tax receipts are recorded in the General Fund.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Road use tax receipts should be recorded in the Special Revenue, Road Use Tax Fund.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. 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.

- (F) Monthly City Clerk Reports – The monthly City Clerk's report to the City Council included a summary of the current month's beginning fund balances, cash receipts, cash disbursements and ending fund balances; however, a summary of year-to-date receipts and disbursements is not included. In addition, the monthly reports do not include a comparison of actual disbursements to the budget by function. Also, one of the City's bank accounts is not included in the monthly reports.

Recommendation – To provide better financial information and control and to provide the opportunity for timely amendments to the budget, monthly financial reports should include all City bank accounts, year-to-date receipts and disbursements, and a comparison of actual disbursements to the budget by function.

- (G) City Council Meeting Minutes – The following were noted:

- Four of four meeting minutes observed were not properly signed as required by Chapter 380.7 of the Code of Iowa.
- Meetings were not preceded by public notice as required by Chapter 21.4 of the Code of Iowa.
- Three of four meeting minutes observed were not published within fifteen days of the meeting, as required by Chapter 372.13(6) of the Code of Iowa.
- Four of four published meeting minutes observed did not include a listing of total disbursements by fund or a summary of receipts as required by Chapter 372.13(6) 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. City Council meeting minutes should be published within fifteen days of the meeting and include a summary of receipts and total disbursements by fund, as required. In addition, all minutes should be signed as required.

City of Thurman

Detailed Findings and Recommendations

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

- (H) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, and business type activities functions. 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.

- (I) 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...” The following were noted regarding the City’s 2019 AFR:

- The AFR was not submitted by December 1st, as required by Chapter 384.22 of the Code of Iowa.
- Total receipts and disbursements reported on the AFR do not agree to City records.

Recommendation – The City should establish procedures to ensure the City’s financial activity is properly reported. Also, the City should submit the Annual Financial Report by December 1st, as required by Chapter 384.22 of the Code of Iowa.

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

Recommendation – The City 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 a debit card.

- (K) 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
Theresa Achenbach, City Council Member, husband owns Achenbach Construction	Water line repairs, and snow removal	\$ 7,100

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions may represent a conflict of interest since 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.

- (L) Timesheets – Timesheets are not prepared by employees.

Recommendation – Timesheets should be prepared by all City employees, and timesheets should be approved by a supervisor. The supervisor should document their review by signing or initialing the timesheets of each employee.

City of Thurman

Detailed Findings and Recommendations

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

- (M) Void Transactions – There is no policy to ensure voided receipts and voided checks are properly mutilated and retained.

Recommendation – The City should develop a policy to properly mutilate and retain voided receipts and checks.

- (N) Interfund Transfers – Rule 545-2 of the Iowa Administrative Code requires transfers between funds be passed by resolution and 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.

The City's transfers were not approved by resolution. An explanation of transfers is not documented, and transfers were incorrectly classified as receipts and disbursements.

Recommendation – The City should comply with Rule 545-2 of the Iowa Administrative Code.

- (O) 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 an 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 several bank accounts.

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.

- (P) Disbursements - The following were noted:

- Two of thirty-five disbursements traced were not properly supported, including a \$100 cash withdrawal for Christmas holiday contest gift cards and a \$204 purchase at Wal-Mart, City was unable to identify what was purchased.
- Two of thirty-five disbursements traced included sales tax totaling \$23.

Recommendation – The City should ensure supporting documentation is retained for all disbursements and sales tax is not paid on purchases.

- (Q) Utility Billings – For nine customer utility billings traced, we noted the following:

- Chapter 384.84 of the Code of Iowa requires utility rates be established by ordinance of the City Council. A landfill fee of \$5.50 is charged monthly to customers. The City was unable to locate an ordinance supporting this change.
- One billing traced was assessed a late fee, although the total amount due on the account was paid timely.
- One customer was not charged a late fee for one month observed.

Recommendation – The City Council should approve all utility rates by ordinance. Late fees should be assessed according to the approved procedures of the City, and all accounts should be reviewed by an independent person to ensure customers are billed the approved rates. The review should be documented by the reviewer's signature and date of the review.

City of Thurman

Detailed Findings and Recommendations

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

- (R) Credit Card – The City has a credit card for use by City 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.

Recommendation – The City should adopt a formal written policy regulating the use of the City'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 charges.

- (S) Notice of Public Hearing for Public Improvements – The City did not publish notice of a public hearing for the selection of bids for a road work project, as required by Chapter 26.12 and Chapter 362.3 of the Code of Iowa.

Recommendation – Before entering into a contract for a public improvement with an estimated cost in excess of the competitive bid threshold, the City Council should hold a public hearing and give notice at least four but not more than twenty days prior to the hearing.

- (T) Bond Coverage – 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 ensure compliance with surety bond requirements of Chapter 64 of the Code of Iowa.

- (U) Sales Tax Exemption – The City did not apply for a refund of sales tax paid to a contractor for a capital project. Alternatively, the City did not provide the contractor with a purchasing agent authorization letter and a sales tax exemption certificate to present to the retailer as provided in Chapter 423.3(80)(b) of the Code of Iowa.

Recommendation – The City should ensure they file for a refund of sales tax paid on capital projects, or alternatively comply with Chapter 423.3(80)(b) of the Code of Iowa.

- (V) Petition for Examination – Except as noted above, all items in the petition for examination have been resolved.

City of Thurman

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Deputy
Tammy A. Hollingsworth, CIA, Manager
Brett S. Gillen, CPA, Senior Auditor
Molly N. Kalkwarf, Staff Auditor