

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

July 15, 2022

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Delaware, Iowa, for the period April 1, 2020 through March 31, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twelve findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations, disbursements exceeding budgeted amounts and lack of employee timesheets. 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 [Audit Reports - Auditor of State](#).

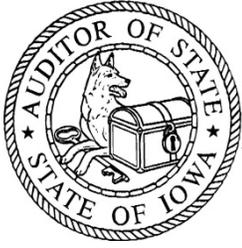
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CITY OF DELAWARE

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2020 THROUGH MARCH 31, 2021**

City of Delaware



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May 28, 2022

Officials of the City of Delaware
Delaware, 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 Delaware, Iowa, for the period April 1, 2020 through March 31, 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 Delaware 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

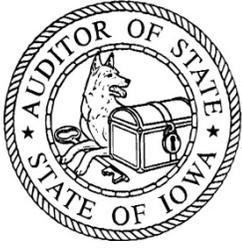
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City of Delaware

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|---------------|----------------------|-------------------|---------------------|
| Harlan Bond | Mayor | Jan 2020 | Jan 2022 |
| Kevin Clark | Council Member | Jan 2020 | Jan 2022 |
| Burt Davis | Council Member | Jan 2020 | Jan 2022 |
| Lonny Fishler | Council Member | Jan 2020 | Jan 2022 |
| Rick Lahr | Council Member | Jan 2020 | Jan 2022 |
| Barb Ries | Council Member | Jan 2020 | Jan 2022 |
| Erin Learn | City Clerk/Treasurer | | Indefinite |
| Jim Peters | Attorney | | Indefinite |



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Delaware for the period April 1, 2020 through March 31, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Delaware'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 Delaware'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. 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. 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 Delaware'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 and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Delaware 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 Delaware 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.


Michelle B. Meyer, CPA
Director

May 28, 2022

Detailed Findings and Recommendations

City of Delaware

Detailed Findings and Recommendations

For the period April 1, 2020 through March 31, 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) Debt – recordkeeping, compliance and debt payment processing.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting and entering rates into the system.

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 – Cash balances in the City's general ledger were reconciled to bank balances throughout the year, however, the reconciliations were not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure bank reconciliations are reviewed by an independent person and document the review by signing or initialing and dating the monthly reconciliations.

(C) 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 the 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.

(D) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit those obligations, as required.

Recommendation – Outstanding obligations should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

City of Delaware

Detailed Findings and Recommendations

For the period April 1, 2020 through March 31, 2021

- (E) Monthly City Clerk's Report – The monthly City Clerk's report presented to the City Council for approval does not include a comparison of actual disbursements to the certified budget by function.

Recommendation – The monthly City Clerk's report presented to the City Council for approval should include a comparison of actual disbursements for all funds to the certified budget by function.

- (F) Payment of General Obligation Bonds – Principal and interest on the City's general obligation sewer improvement note were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should establish a Debt Service Fund and payments on the general obligation bonds should be made from the Debt Service Fund, as required by Chapter 384.4 of the Code of Iowa. Funds available or pledged from sources other than property tax which will be used to pay general obligation debt must be transferred into the debt service fund prior to payment of the debt.

- (G) Financial Condition – At March 31, 2021, the City had deficit balances of \$15,710 in the Enterprise, Water Fund and \$7,494 in the Special Revenue, Street Fund.

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

- (H) 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.

- (I) Disbursements – The following were noted:

- For three of thirty disbursements observed, a total of \$40 in sales tax was improperly paid.
- For one of thirty disbursements observed, the support did not document the hourly rate for services provided.
- For one of thirty disbursements observed, supporting documentation could not be located.

Recommendation – The City should ensure sales tax is not paid on purchases and disbursements should be supported by an invoice, written agreement or other supporting documentation.

City of Delaware

Detailed Findings and Recommendations

For the period April 1, 2020 through March 31, 2021

- (J) Payroll – Timesheets were not maintained for all employees and there is no evidence hours worked were reviewed and approved. In addition, wage increases for one employee were approved as a percentage increase and the actual approved hourly rate was not documented in the City Council meeting minutes.

Recommendation – Timesheets should be prepared and retained to support time worked. Timesheets should be reviewed and approved by supervisory personnel before payroll checks are prepared. In addition, actual approved wage rates or salary should be adequately documented in the City Council meeting minutes.

- (K) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amount budgeted in the public safety, public works, 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.

- (L) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

City of Delaware

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Jennifer L. Wall, CPA, Manager
Luke M. Bormann, CPA, Senior Auditor II
Vivian J. Hustad, Staff Auditor