



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

Contact: Michelle Meyer
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FOR RELEASE

July 19, 2022

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Scranton, 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 nineteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, transfers not approved by resolution and lack of supervisory approval for timesheets. Sand provided the City with recommendations to address each of the findings.

Fourteen of the nineteen 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 [Audit Reports - Auditor of State](#).

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CITY OF SCRANTON

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

FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021

City of Scranton



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Rob Sand
Auditor of State

June 27, 2022

Officials of the City of Scranton
Scranton, 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 Scranton, 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 Scranton 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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City of Scranton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cole Gustoff	Mayor	Jan 2022
Jerry Boyd	Council Member	Jan 2022
David Dideriksen	Council Member	Jan 2022
Jeramie Phillips	Council Member	Jan 2024
Zach Sukovaty	Council Member	Jan 2024
Cassidy Wilson	Council Member	Jan 2024
Lisa Mobley	City Clerk/Treasurer	Indefinite
Jonathan Law	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 Scranton 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 Scranton'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 Scranton'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 2021 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. 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. 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 Scranton'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 or 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 Scranton 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 Scranton 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

June 27, 2022

Detailed Findings and Recommendations

City of Scranton

Detailed Findings and Recommendations

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

- (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. Corrective action should be implemented to address deficiencies noted in this report.

- (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) Petty cash – the custodians of the petty cash funds are not prohibited from handling more than one fund or other receipts.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – entering rates, billing, collecting, depositing, reconciling, and posting.
- (7) Financial reporting – preparing and reconciling.
- (8) Journal entries – preparing and recording.
- (9) Long term debt – maintaining records, recording and reconciling.
- (10) Investments – investing, recordkeeping and custody.

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 – Although the City’s accounting system generates a Reconciliation Summary, the reconciling items were not reviewed, and the account balances per the bank statements and the Reconciliation Summary were not traced to the general ledger balances.

City of Scranton

Detailed Findings and Recommendations

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

Recommendation – To improve financial accountability and control, the City should establish procedures to ensure bank account balances are reconciled to the general ledger each month. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

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

Recommendation – A listing of delinquent accounts should be prepared monthly. 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.

- (E) Utility Rates – Utility rates are not entered into the system by an independent person. Also, the rates entered into the system are not periodically reviewed by an independent person to ensure proper utility rates are used to calculate utility billings.

Recommendation – An independent person should periodically review utility rates entered in the system and when rate changes occur to ensure proper rates are used to calculate utility billings.

- (F) Financial Condition – The Capital Projects Fund had a deficit balance of \$151,226 as of June 30, 2021.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

- (G) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amount budgeted in the general government 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.

- (H) Interfund Transfers – Section 545-2 of the Iowa Administrative Code requires “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.”

For the year ended June 30, 2021, transfers were approved as part of the budget approval process and did not include a clear statement of 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 of Scranton

Detailed Findings and Recommendations

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

- (I) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. The City incurred \$75 in late charges, due to a late payment on a Casey’s business credit card. We believe this disbursement may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefit to be derived has not been clearly documented.

Recommendation – The City should ensure all payments are made timely.

- (J) Disbursements – Disbursements should be properly supported by an invoice or other supporting documentation. We noted one of thirty disbursements that was not supported by an invoice or other supporting documentation.

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

- (K) Payroll – Timesheets observed were not approved and initialed by the employee’s supervisor or other responsible official.

Recommendation – The City should develop policies and procedures to ensure timesheets are reviewed and approved by a supervisor or other responsible official, and that approval should be documented.

- (L) Library Payroll – The total annual wages for all library employees were approved as a total wage amount in the annual library budget which was approved by the Library Board. The Library Board did not document the approval of the hourly wage or annual salary for each library employee.

Recommendation – The hourly wage or annual salary for each library employee should be approved by the Library Board and included in the Library Board meeting minutes.

- (M) Local Options Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts to be allocated as follows: 20% for the operating expenses of the Scranton Public Library, 30% for the general expenses of the City of Scranton, 30% for costs associated with the Public Works Department, and 20% for costs associated with the water and sewer operations. LOST disbursements were not tracked in a manner to document compliance with the requirement that 30% of LOST receipts are used for the Public Works Department.

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

- (N) Journal Entries – Journal entries were not properly supported and were not approved by an independent person.

Recommendation – Supporting documentation should be maintained for all journal entries. Journal entries should be reviewed by someone independent of the journal entry process, and that review should be documented with the initials or signature of the reviewer and dated.

City of Scranton

Detailed Findings and Recommendations

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

- (O) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting's minutes observed was not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and ensure minutes are published within fifteen days of the meeting, as required.

- (P) Petty Cash – Receipts were not retained for all purchases from petty cash to enable the City to reconcile the petty cash on hand to the authorized amount. Total petty cash observed was less than the authorized amount of \$100.

Recommendation – The petty cash fund should be maintained on an imprest basis to provide additional control over the fund. An imprest system is one in which petty cash is maintained at a fixed, authorized amount and all distributions from the petty cash fund are supported/documented with a vendor receipt. Imprest systems improve the accountability for cash and enhance the reconciliation of receipts and deposits. In addition, the petty cash account should be reconciled by an independent person and the review should be documented by signing or initialing and dating the reconciliation.

- (Q) Voided Receipts – Voided receipts are not reviewed by an independent person.

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

- (R) Credit Card Transactions – The City uses a credit card for certain purchases involving City business. The City has not adopted a formal policy to regulate the use of the credit cards and to establish procedures to require adequate supporting documentation be maintained for credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of 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 type of supporting documentation required to substantiate charges.

- (S) Monthly City Clerk's Report – The City Clerk's report provided to the City Council shows total receipts and disbursements for all City funds but does not show the beginning and ending balances for each fund or the fund balance for all funds combined. Also, although the City Clerk's report compared actual disbursements by function to budgeted amounts, the budgeted amounts displayed on the report did not reflect the final budgeted amounts passed by the City Council.

Recommendation – The City should establish procedures to ensure monthly City Clerk's reports include individual beginning and ending fund balances as well as the combined fund balance. Also, the City Clerk's report should compare actual disbursements by function to the final budgeted amounts to allow the City's elected officials to monitor the City's compliance with the approved budget.

City of Scranton

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Janet K. Mortvedt, CPA, Manager
Adam J. Sverak, Staff Auditor
Nolen R. Schultz, Assistant Auditor