



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

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NEWS RELEASE

Contact: Michelle Meyer
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FOR RELEASE

October 13, 2022

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Elberon, 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 twenty-four findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 14 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank, utility and ambulance reconciliations, disbursements exceeding budgeted amounts, lack of an investment policy and disbursements that may not meet the test of public purpose. 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 ELBERON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Elberon



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Rob Sand
Auditor of State

July 1, 2022

Officials of the City of Elberon
Elberon, 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 Elberon, 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 Elberon 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". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Elberon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Kestl, Sr.	Mayor	Jan 2022
Rynonda Franzen	Council Member	Jan 2022
Scott Pippert	Council Member	Jan 2022
Nancy Braasch	Council Member	Jan 2024
Don Curry	Council Member	Jan 2024
Jerald Fintel	Council Member	Jan 2024
Laurie McMains	City Clerk/Treasurer	Jul 2020
Sharon Schott	City Clerk/Treasurer	Indefinite
Lee Kollmorgen	Attorney	Indefinite

City of Elberon



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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 Elberon 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 Elberon'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 Elberon'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 2019 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. 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.
11. 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.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.
18. We inquired about the purpose of the Community Building bank account and observed disbursements from the Community Building bank account to compare to the stated purpose of the account.
19. We traced certain City receipts into the City's records and City bank accounts.
20. We observed City Council meeting minutes for approval of certain personnel matters.


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 Elberon'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 Elberon 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 Elberon 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

July 1, 2022

Detailed Findings and Recommendations

City of Elberon

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) Investments – custody and record keeping.
 - (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (4) Disbursements – purchasing, invoice processing, check writing, signing, mailing, reconciling and recording.
 - (5) Payroll – entering rates into the system, recordkeeping, preparing, signing, and distributing.
 - (6) Utility receipts – billing, collection, posting, entering rates into the system and maintaining detailed accounts receivable records.

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 – Although a monthly bank reconciliation was prepared, the reconciliation did not include all investment accounts held by the City. In addition, the monthly bank reconciliations did not contain evidence of review by an independent person.

Also, for one bank reconciliation tested, the amounts listed for outstanding checks did not agree between various reports used in the bank reconciliations.

Recommendation – All bank and investment accounts held by the City should be included in the bank reconciliations. An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

All reconciling items used in preparing bank reconciliations should agree with supporting documentation.

City of Elberon

Detailed Findings and Recommendations

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

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

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

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile ambulance 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) Ambulance Receipts – The following items were noted:

- Seven of thirty-seven ambulance receipts observed could not be traced into the City's general ledger.
- Six of thirty-seven ambulance receipts observed could not be traced to a deposit in the City's bank statements.
- Two ambulance receipts received by the City and recorded in the City's general ledger were not reported to the City's third party billing agent, to enable the billing agent to maintain accurate billing records.

Recommendation – The City should develop procedures to ensure that all ambulance receipts are recorded in the City's accounting records and deposited into City bank accounts. Ambulance payments received directly by the City should be reported to the third-party billing agent to enable the third-party billing agent to maintain accurate billing records.

- (F) Monthly City Clerk's Report – A monthly clerk's report is being prepared and is provided to the City Council monthly. However, these reports do not include a comparison of actual disbursements to the certified budget by function.

Recommendation – 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 comparisons of actual disbursements to the certified budget by function.

City of Elberon

Detailed Findings and Recommendations

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

- (G) Receipts – An initial listing of receipts received in the mail is not prepared by an independent person and later traced to proper posting and deposit. Also, voided receipts are not reviewed by an independent person.

In addition, we identified \$1,049 of road use tax (RUT) receipts which were posted to the local option sales tax (LOST) fund.

Recommendation – Someone independent of the receipt recording and deposit function should open the mail and prepare a listing of checks received. The independent person should later test the listing by tracing the receipts to proper posting and deposit. Also, procedures should be developed to have an independent person review voided receipts.

The City should implement procedures to ensure receipts are properly recorded in the City's accounting records.

- (H) Disbursements – The following items were noted:

- Seventeen of thirty-five transactions observed did not document approval by the City Council.
- One of thirty-five transactions observed were not properly supported by an invoice.
- Four of five checks written to a City employee or official were not properly approved by the City Council. Of these checks, two were signed only by the payee.

Recommendation – All disbursements should be approved by the City Council prior to payment, and that approval should be documented in the City Council minutes. The City should maintain supporting documentation for all disbursements. Checks written to an employee or official who has check signing authority should be signed by an individual who is not the payee.

- (I) Payroll – There is no documentation of approval by the City Council of wages for ambulance employees.

Also, the City used an incorrect rate of pay to calculate one employee's pay. The employee's approved hourly rate was \$16 per hour but was paid at the rate of \$15 per hour.

Recommendation – All employee salaries and hourly wage rates should be approved by the City Council and documented in the City Council meeting minutes. In addition, payroll should be reviewed by an independent person to ensure employees are properly paid and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (J) Timesheets – Timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll. In addition, timesheets are not required for salaried employees.

Recommendation – Timesheets should be required for all employees, salaried as well as hourly. The timesheets should be signed by the employee and should be reviewed and approved by supervisory personnel prior to the preparation of payroll. Supervisory review/approval should be evidenced by the supervisor's initials and the date approved.

City of Elberon

Detailed Findings and Recommendations

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

- (K) Debit Card – The City uses a debit card for certain purchases. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. Also, there is no process for prior approval of purchases made with a debit card.

Recommendation - The City Council should prohibit the use of debit cards for all City purchases.

- (L) Journal Entries – Journal entries are 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.

- (M) Disaster Recovery Plan – The City does not have a written disaster recovery plan for financial data.

Recommendation – The City should develop a written disaster recovery plan. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, weekly back up of computer files, copies of user documentation and the disaster recovery plan should be maintained at an off-site location.

- (N) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the 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.

- (O) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Independent Tech Solutions	Sales tax	\$ 5
Office Depot	Sales tax	25
Hy-Vee	Food for training and sales tax	33

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

As a governmental entity, the City maintains a tax-exempt status. As a result, the City should not incur any sales tax.

City of Elberon

Detailed Findings and Recommendations

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

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

The City should ensure procedures are implemented which ensure sales tax is not paid for purchases made for City operations.

- (P) Deposits and Investments – 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 – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. 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.

- (Q) City Council Minutes – For three of the four meeting minutes observed, a summary of receipts was not included in the minutes as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – Minutes of City Council meetings should include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

- (R) Annual Urban Renewal Report – The Annual Urban Renewal Report was not certified to the Iowa Department of Management on or before December 1, as required. Also, there was no evidence of approval of the Annual Urban Renewal Report by the City Council.

Recommendation – The City should develop policies and procedures to ensure the Annual Urban Renewal Report is submitted timely to the Iowa Department of Management. Also, the Annual Urban Renewal Report should be approved by the City Council prior to submission.

- (S) Tax Increment Financing – Chapter 403.19(6)(a)(1) of the Code of Iowa states that a municipality shall certify to the County auditor on or before December 1 the amount of debt that will qualify for payment of tax increment financing revenues. The City did not submit this certification on or before December 1.

In addition, the City requested \$8,971 on the tax increment financing certification submitted to the County Auditor in fiscal year 2020 for the purposes of making a related payment. This payment was never made.

Also, the City was unable to provide support for the amount certified for TIF rebates included on the certification and annual urban renewal report.

Recommendation – The City should develop policies and procedures to ensure that all reports are submitted timely as required.

The City should make all required tax increment financing payments.

Also, the City should maintain documentation for amounts certified for TIF and reported in the Annual Urban Renewal Report.

City of Elberon

Detailed Findings and Recommendations

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

- (T) Utility Rates – Solid Waste fees rates have been established by ordinance as required by Chapter 384.84 of the Code of Iowa. However, the rates charged by the City in billings for solid waste collection services do not agree with the rates approved in the City ordinance.

Recommendation – The City should bill utility customers in accordance with City ordinances.

- (U) Compensation of Elected Officials – The City has not adopted an ordinance establishing compensation for the Mayor or City Council members, as required by Chapter 372.13(8) of the Code of Iowa.

Recommendation – The City should adopt an ordinance establishing compensation for the Mayor and the City Council.

- (V) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office but may be reimbursed for actual expenses incurred.”

An Attorney General’s opinion dated August 15, 2018, clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8) (2018) bars city elected officers from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion, Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j) and (k) (2018), is retracted.”

During the year ended June 30, 2020, an elected official was paid \$652 for snow removal services provided to the City. This compensation violates Chapter 372.13(8) of the Code of Iowa, which prohibits elected City officials from receiving compensation as a City employee.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$652 improperly paid to the elected official.

- (W) 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 to the City and all expenditures...” We noted total receipts and disbursements reported on the AFR did not agree to City records at June 30, 2019.

Recommendation – The City should establish procedures to ensure the AFR reconciles to the general ledger and other City records. An independent person should review the AFR for accuracy and document their review by signing or initialing and dating the review.

- (X) Financial Condition – The Special Revenue, Employee Benefits Fund and the Enterprise, Water Fund had deficit balances of \$4,236 and \$36,260, respectively at June 30, 2020.

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

City of Elberon

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Lesley R. Geary, CPA, Manager
Brett S. Gillen, CPA, Senior Auditor II
Vivian J. Hustad, Staff Auditor