



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Michelle Meyer
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FOR RELEASE

October 18, 2022

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Cambridge, 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 twenty-two 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 and utility reconciliations, disbursements exceeding budgeted amounts and excessive TIF fund balances. 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 CAMBRIDGE

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

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

City of Cambridge



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Rob Sand
Auditor of State

August 16, 2022

Officials of the City of Cambridge
Cambridge, 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 Cambridge, 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 Cambridge 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 Cambridge

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Chubbic	Mayor	Jan 2024
Taylor Basset	Council Member	Jan 2022
Whitney Baxter	Council Member	Jan 2022
Riley Harper	Council Member	Jan 2024
Michael Macki	Council Member	Jan 2024
Barb McBreen	Council Member	Jan 2024
Alan Mead	Finance Director	Indefinite
Debra Thompson	City Clerk	Indefinite
Michael L. Lewis	Attorney	Indefinite

City of Cambridge



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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 Cambridge 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 Cambridge'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 Cambridge'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 recommendations. 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. 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. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
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.

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 Cambridge'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 Cambridge 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 Cambridge 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

August 16, 2022

Detailed Findings and Recommendations

City of Cambridge

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) Investments – recordkeeping, investing, custody, and reconciling.
- (3) Long-term debt – recordkeeping, compliance, and payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing and posting.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording.
- (10) Computer system – performing all general accounting functions and controlling data input and output.

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. The City should prepare an initial listing of mail receipts and implement procedures to have an independent person trace the listing to the system and deposits in the bank.

- (C) Bank Reconciliations – There is no evidence of an independent review of the bank reconciliation. Also, a listing of outstanding checks is not retained monthly for the Library or Fire Department.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. A detailed listing of outstanding checks should be maintained monthly for all accounts.

City of Cambridge

Detailed Findings and Recommendations

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

- (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. Additionally, we were unable to trace all utility receipts to bank deposits because receipts were included as lump sum deposits and were not detailed on the deposit slip. However, utility receipts tied to bank deposits in total.

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. A listing of delinquent accounts should be prepared monthly. Receipts should be in sufficient detail to determine utility payments were received and deposited.

- (E) 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 four meetings tested were not published within fifteen days.

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

- (F) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the debt service 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.

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...”. We noted the following:

- The AFR was not properly submitted by the December 1st deadline.
- Certain receipts and disbursements were not properly reported in the Annual Financial Report.

Recommendation – The City should ensure receipts and disbursements reported on the AFR are supported by the City’s records. The AFR should be submitted by the December 1st deadline, as required.

- (H) Disbursements – Two of thirty disbursements observed were disbursed prior to City Council approval.

Recommendation – All disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by City policy.

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

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

City of Cambridge

Detailed Findings and Recommendations

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

- (J) Monthly City Clerk's Report – A monthly City Clerk's report is prepared, however, it does not include all activity, including interfund transfers and 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 monthly City Clerk's reports should include comparisons to the certified budget by function. Additionally, the report should include all interfund transfers.

- (K) Journal Entries – Supporting documentation was not maintained for journal entries. In addition, journal entries are not prepared for all corrections to the general ledger. Also, journal entries are not reviewed and approved by an independent person.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries and journal entries should be prepared for all corrections. An independent person should review and approve journal entries and the approval should be documented by the signature or initials of the approver and the date of approval.

- (L) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

The City records disbursements for TIF related projects in the General and Enterprise, Water Funds. While the City may have intended the General and Water Fund disbursements to be an interfund "advance" to the TIF Fund, to be repaid with TIF receipts, the advances were never formally approved as a TIF obligation by the City Council. Accordingly, they do not represent a TIF obligation which may be certified to the County Auditor (since only indebtedness, not project costs, can be certified). In addition, it does not appear the City has been repaying the intended advances with TIF receipts since, at June 30, 2021, the Special Revenue, Urban Renewal Tax Increment Fund has a cash balance of \$5,877,469 while the General Fund and the Enterprise, Water Funds had negative cash balances of \$4,376,789 and \$535,369, respectively.

Also, certain disbursements from the General and Enterprise, Water Funds which were identified as TIF disbursements do not appear to be allowable from TIF as it is unclear how they meet the definition of an "urban renewal project" as defined in Chapter 403.17(25) of the Code of Iowa. These disbursements include property taxes, legal services, and supplies.

In addition, supporting documentation was not available to support the amounts, current and past, certified to the County Auditor.

City of Cambridge

Detailed Findings and Recommendations

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

Recommendation – The City should determine if the costs (current and past years) paid from the General and Enterprise, Water Funds are for an allowable TIF project. If they are for an allowable TIF project, the City Council should retroactively approve, via a City Council resolution, the advances from the General and Enterprise, Water Funds to the TIF Fund as TIF obligations. These obligations should be reconciled to costs already certified to the County Auditor to ensure the correct amount has been certified. The City should then approve reimbursements (i.e., transfers) from the TIF Fund to the General and Enterprise, Water Funds to reimburse the advances made from these funds for allowable TIF project costs.

All amounts certified to the County Auditor as TIF obligations should be properly supported by some form of debt instrument, including resolutions approving interfund advances.

(M) Annual Urban Renewal Report – The following were noted regarding the Annual Urban Renewal Report (AURR):

- The City incorrectly reported the 2006 water improvement revenue bond obligation as TIF debt.
- TIF disbursements from the Special Revenue, Urban Renewal Tax Increment Fund were overstated by \$116,423 on the AURR.
- The Annual Urban Renewal Report was not completed and filed before the December 1st deadline.

Recommendation – The City should ensure the amounts reported on the AURR agree with the City’s records, and that the AURR is completed and filed by the December 1 deadline.

(N) Payroll – Salaried City employees are not required to complete timesheets to substantiate hours worked. For those employees that do maintain timesheets, timesheets are not reviewed for propriety. Two out of five employees tested did not have an approved pay rate in fiscal year 2021.

Recommendation – Timesheets should be prepared by all employees to support hours worked and taken as leave time. Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review and approval should be documented by the supervisor’s initials and the date approved. All employees’ salaries and hourly wage rates should be approved by the City Council and documented in the City Council meeting minutes.

(O) General Obligation Bond Payments – Principal and interest on the City’s general obligation bonds was paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part “money 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 – General obligation bond payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

City of Cambridge

Detailed Findings and Recommendations

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

- (P) Revenue Bonds – The provision of the water revenue bond resolutions require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they become due. The City’s fiscal year 2021 net water receipts were less than 110% of the water revenue bond principal and interest due during fiscal year 2021. Also, the City has not established water and sewer sinking and surplus accounts as required per the water and sewer revenue bond agreements. Additionally, the provisions of the water and sewer bonds require the City to establish, impose, adjust, and provide for the collection of rates to be charged to customers of the Utility, including the City, to produce gross revenues. The City was not charged for utility usage in fiscal year 2021.

Recommendation – The City should adjust user rates or reduce other expenses to ensure net receipts equal at least 110% of the principal and interest due each year. The City should establish water and sewer sinking and surplus funds as required per the water and sewer revenue bond agreements. Also, the City should be paying for utility usage as required in the bond resolutions.

- (Q) Depository Resolution – The City has not adopted a resolution naming official depositories as required by Chapter 12C.2 of the Cod of Iowa.

Recommendation – A resolution stating the official depositories of the City and the amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council, as required.

- (R) 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.

Recommendation – To provide better financial information and control the recommended COA, or its equivalent should be followed.

- (S) Financial Condition – At June 30, 2021, the Enterprise, Sewer Fund had a deficit balance of \$88,263.

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

- (T) Petty Cash – Cash on hand at the City was not maintained on an imprest basis. Petty cash expenditures were not supported by receipts.

Recommendation – Cash on hand should be maintained on an imprest basis to provide additional control over these funds. 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/documentated with a vendor receipt. Imprest systems improve the accountability for cash and enhance the reconciliation for receipts and deposits.

- (U) Financial Reporting – The City issued a general obligation urban renewal note to pay for costs of the Cambridge Opera House redevelopment project. The note proceeds were reported as property tax in the Tax Increment Financing (TIF) fund. The note proceeds should have been reported as debt proceeds in the fund from which the Cambridge Opera House development project expenses are to be paid.

Recommendation – The City should implement procedures to ensure loan proceeds are recorded to the proper fund.

City of Cambridge

Detailed Findings and Recommendations

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

- (V) Interfund Transfers – The City approves resolutions for interfund transfers after the transfers are recorded.

Recommendation – The City should implement procedures to ensure transfers are properly approved before the transfer is recorded.

City of Cambridge

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Janet K. Mortvedt, CPA, Manager
Nathan A. DeWit, Staff Auditor
Jessie R. McBroom, Assistant Auditor