

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

February 15, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Mystic, Iowa, for the period July 1, 2021 through June 30, 2022. 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 13 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts, lack of resolutions approving pay rates and rental amounts, and a sale of property without a fair market value determination. 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 MYSTIC
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2021 THROUGH JUNE 30, 2022

City of Mystic



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November 29, 2022

Officials of the City of Mystic
Mystic, 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 Mystic, Iowa, for the period July 1, 2021 through June 30, 2022. 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 Mystic 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", written in a cursive style.

Rob Sand
Auditor of State

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City of Mystic

Officials

(Before January 1, 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Carl Clark	Mayor	(Resigned Jun 2021)
Johnny Hatfield (Appointed Aug 2021)	Mayor	Nov 2021
Willis Chambers (Appointed Feb 2021)	Council Member	Nov 2021
Becky Clark (Appointed Feb 2021)	Council Member	Nov 2021
James Hatfield	Council Member	Jan 2022
Johnny Hatfield	Council Member	(Appointed Mayor Aug 2021)
John Warnick	Council Member	Jan 2022
Cynthia Sulser	City Clerk/Treasurer	(Resigned Jul 2021)
Roberta Leffler (Appointed Aug 2021)	City Clerk/Treasurer	(Resigned Aug 2021)
Regan Padget (Appointed Sep 2021)	City Clerk/Treasurer	Indefinite
Deb George	City Attorney	Indefinite

(After January 1, 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Johnny Hatfield	Mayor	Jan 2024
Willis Chambers	Council Member	Jan 2024
Becky Clark	Council Member	Jan 2024
Mike Gill	Council Member	Jan 2024
James Hatfield	Council Member	Jan 2024
John Warnick	Council Member	Jan 2024
Regan Padget	City Clerk/Treasurer	Indefinite
Deb George	City Attorney	Indefinite

City of Mystic



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Rob Sand
Auditor of State

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 Mystic for the period July 1, 2021 through June 30, 2022, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Mystic'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 Mystic'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. 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. 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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Mystic'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 Mystic 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 Mystic 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

November 29, 2022

Detailed Findings and Recommendations

City of Mystic

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (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 the review of pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

- (B) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, depositing, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (5) Utility receipts – billing, collecting, depositing, posting, entering rates into the system and maintaining detail accounts receivable.
- (6) Financial reporting – preparing and reconciling.
- (7) Long-term debt – recordkeeping and debt payment processing.

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) Change Fund – The change fund was not approved by the City Council for an authorized amount.

Recommendation – The City should authorize an approved change fund amount by resolution and maintain the balance when preparing daily or weekly deposits.

City of Mystic

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (D) Bank Reconciliations – The City has a bank reconciliation function available in the City’s software system, however, the bank reconciliation report does not include evidence of review by the City Clerk or other independent person.

Recommendation – The City should establish procedures to ensure all cash balances are properly reported in the City’s general ledger and those balances are reconciled to the bank accounts monthly. Variances, if any, should be resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

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

Recommendation – A resolution naming 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.

- (F) 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.

- (G) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit outstanding obligations, including checks, trust 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.

- (H) Sale of Property – The City took ownership of an abandoned property within the City. Per a conversation with the Appanoose County Assessor, the property included a burned-out house and an 1,800 square foot garage built in 2000, with an assessed value of \$16,030. The City sold the property to Becky Clark, City Council Member for \$1,541, the cost of legal fees paid by the City to take over the abandoned property. The resolution approving the sale of real estate included that the City determined Becky Clark was paying a reasonable price, considering the expense to remove the existing structure. The resolution also stated that the City determined it was in its best interest to sell the property since the City had continued to pay maintenance, utilities and lawn mowing, and the sale would allow the property to be put back on the public real estate tax rolls. However, the City did not obtain an appraisal of the property prior to the sale to determine the fair market value of the property or advertise the sale of the property to ensure the best price for the property was received.

Recommendation – The City should consult legal counsel to resolve this matter. The City should advertise the sale of City property and document procedures to demonstrate the City’s efforts to dispose of property in a manner to ensure the City received the best sales price. In addition, the City should obtain an independent appraisal to ensure the City receives fair market value for any property sold.

City of Mystic

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (I) City Council Meeting Minutes – Chapter 380.7 of the Code of Iowa requires that all minutes of City Council proceedings be signed by the City Clerk. Minutes for five of the five meetings observed were not signed by the City Clerk. Also, Chapter 21.5 of the Code of Iowa requires the City Council to publicly announce during open session the specific exemption for going into closed session and to document the reason in the minutes. Additionally, the vote to hold a closed session should be documented in the minutes. The City Council went into closed session on April 14, 2022 and did not document the vote to hold a closed session or the reason for the closed session in the meeting minutes.

Recommendation – The City should comply with the Code of Iowa and ensure all City Council meeting minutes are properly signed by the City Clerk, as required. Also, the City should comply with Chapter 21.5 of the Code of Iowa and document the specific exemption and vote of Council members to enter into a closed session.

- (J) Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amounts 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.

- (K) Surety Bond Coverage – The City has no surety bond coverage as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in order to comply with Chapter 64 of the Code of Iowa.

- (L) 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. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Menards	Sales tax	\$ 11

According to the opinion, it is possible for certain 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.

Recommendation – The City should implement procedures to ensure sales tax is not paid for purchases made for City operations.

City of Mystic

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (M) Monthly City Clerk's Reports – The monthly City Clerk's reports to the City Council did not include a comparison of actual disbursements to the certified budget by function or a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund.

Recommendation – To provide better financial information and control over budgeted disbursements and to provide the opportunity for timely amendments to the certified budget, the monthly City Clerk's reports should include a comparison of actual disbursements to the certified budget by function and a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund.

- (N) Sewer Revenue Loan – The City's sewer improvement loan resolution requires the City to establish a reserve account in an amount of \$17,452 (one annual payment amount) at all times. At June 30, 2022, the City had a deficit balance of \$12,358 in the Proprietary, Sewer Reserve Fund. The agreement also requires the City to have a short-lived asset reserve fund in which the City deposits at least \$3,000 annually to cover repair/maintenance costs on sewer work. The City has not established a short-lived asset reserve fund.

Recommendation – The City should establish the reserve account in appropriate amounts, as required. Also, the short-lived asset reserve fund should be established.

- (O) Financial Condition – At June 30, 2022, the Special Revenue, Road Use Tax Fund had a deficit balance of \$17.

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

- (P) Community Center – The City rents the Community Center to the public for personal events. The City Council has not adopted by approved resolution the rental rates or security deposit amount.

Recommendation – The City Council should establish the community center rental rates and security deposit amount by resolution.

- (Q) Interfund Transfers – Section 545-2 of the Iowa Administrative Code states “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.” During the year ended June 30, 2022, transfers between the General, Special Revenue, Local Option Sales Tax and Proprietary, Sewer Fund were not approved by resolution.

Recommendation – The City should comply with the Iowa Administrative Code and ensure all transfers are approved by resolution, as required.

- (R) Payroll – For ten of ten timesheets observed, there was no evidence of approval by supervisory personnel. Also, the City Clerk's wage was not approved and documented in the City Council meeting minutes.

Recommendation – Timesheets should be signed and dated by an appropriate supervisor prior to the preparation of payroll. Procedures should be established to ensure all wages are adequately documented in the City Council meeting minutes.

City of Mystic

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

(S) Disbursements – The following were noted:

- For one of thirty disbursements observed, the invoice did not match the general ledger posting by \$6.
- Five of thirty disbursements observed were not included in the list of monthly claims to be approved by the City Council.
- Two of thirty disbursements observed did not agree to the amount approved by the City Council. The disbursements were issued for \$16 and \$4 more than approved amount.
- Checks were not issued in sequential order.

Recommendation – To improve financial reporting accuracy the City should have a council member or other independent person review ledger data to ensure that what is reported on the claims listing is accurate and to spot check invoices to verify completeness.

Checks should be issued in numeric order to properly account for the checks being issued for valid purposes.

(T) Credit Card Policy – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purpose, as well as the types of supporting documentation required to substantiate the charges.

(U) Computer Inventory – It was brought to our attention that a computer located at City Hall disappeared during calendar year 2020. This was during a previous administration. The monitor was observed at City Hall; however, the computer processor was not located.

Recommendation – The City should maintain an inventory of equipment, including computers, which includes serial numbers, date of purchase and description. Periodically, employees not responsible for the equipment should conduct a physical inventory and investigate any missing equipment.

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

Recommendation – Voided receipts should be reviewed by an independent person for propriety. The review should be documented by signing or initialing the voided receipt.

City of Mystic

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Katherine L. Rupp, CPA, Manager
David A. Slocum, CPA, Senior Auditor