



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

June 27, 2023

Contact: Michelle Meyer
515/281-5834

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

Sand reported seventeen 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 reconciliations of investment balances to bank and investment account balances, a lack of independent review of reconciliations of utility billings, collections and delinquent accounts, disbursements exceeding budgeted amounts and deficit balances in certain funds. 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 website at [Audit Reports – Auditor of State](#).

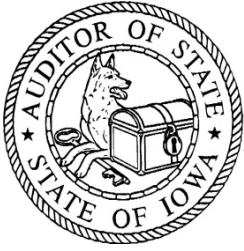
###

CITY OF SALEM

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

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

City of Salem



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

April 20, 2023

Officials of the City of Salem
Salem, 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 Salem, Iowa, for the period April 1, 2020 through March 31, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Salem 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

Table of Contents

		<u>Page</u>
Officials		3
Auditor of State’s Independent Report on Applying Agreed-Upon Procedures		5-7
Detailed Findings and Recommendations:	<u>Finding</u>	
Segregation of Duties	A	9
Bank Reconciliations	B	9
Monthly Clerk’s Report	C	9
City Council Meeting Minutes	D	10
Reconciliation of Utility Billings, Collections and Delinquent Accounts	E	10
Certified Budget	F	10
Journal Entries	G	10
Financial Condition	H	10
Disbursements	I	10
Interfund Transfers	J	11
Payroll	K	11
Personal Cell Phones	L	11
Sewer Revenue Capital Loan Note	M	11
Utility Rates	N	12
Annual Financial Report	O	12
Separately Maintained Records	P	12
Stock Investment	Q	12-13
Staff		14

City of Salem

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Dan Patterson	Mayor	Jan 2018	Jan 2022
Chris Feehan	Council Member	Jan 2018	Jan 2022
Gary Tedrow	Council Member	Jan 2018	Jan 2022
Matt Francy	Council Member	Jan 2020	Jan 2024
Mary Hoyer	Council Member	Jan 2020	Jan 2024
David Tedrow	Council Member	Jan 2020	Jan 2024
Haylee Stecker	City Clerk		Indefinite
Steven Leidinger	Attorney		Indefinite

City of Salem



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

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 Salem for the period April 1, 2020 through March 31, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Salem'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 Salem's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. 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 for 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 Salem'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 Salem 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 Salem 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

April 20, 2023

Detailed Findings and Recommendations

City of Salem

Detailed Findings and Recommendations

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

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

- (1) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, investing, reconciling, custody of investments and reconciling earnings.
- (3) Long-term debt – recording, reconciling, custody, and debt 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 – entering rates into system, recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing, posting and entering rates into the system.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording.
- (10) Transfers – authorization and recording.

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 – There was no evidence of review for two of the bank reconciliations observed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Monthly Clerk's Report – The monthly City Clerk's report presented to the City Council does not include a report of total receipts, disbursements, transfers, and balances of each fund. The report also does not provide a comparison of actual disbursements for all funds to the certified budget by function.

Recommendation – The City Clerk should prepare monthly City Clerk reports which include a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of total disbursements to the certified budget by function.

City of Salem

Detailed Findings and Recommendations

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

- (D) 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 three meetings observed 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.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – There is no evidence the utility reconciliations were independently reviewed.

Recommendation – 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.

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

- (G) 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. In addition, an independent person should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries.

- (H) Financial Condition – For the period ended March 31, 2021, the General Fund had an overall deficit balance of \$19,152. The General Fund deficit balance was the result of deficit balances in the following General Fund sub-funds; Fire Department, Garbage and Library sub-funds of \$18,710, \$3,564 and \$754, respectively. In addition, the Debt Service Fund had a deficit balance of \$12,812.

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

- (I) Disbursements – Disbursements should be properly supported by an invoice or other supporting documentation. The City disbursed \$300 to a Council Member to purchase Easter candy and baskets to hand out to the community. Documentation, including itemized receipts of the items purchased, were not maintained to support the disbursement of City funds. In addition, two credit card purchases with the USPS totaling \$11 were not supported by an itemized receipt.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Purchases made with credit cards should be supported by original vendor invoices or itemized receipts and should be reconciled to the monthly statements.

City of Salem

Detailed Findings and Recommendations

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

- (J) Interfund Transfers – Section 545-2 of the Iowa Administrative Code City Finance Committee Rules require “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.” Transfers were not approved by the City Council by resolution.

Recommendation – Transfers should be approved by resolution and the resolutions approving all fund transfers should include the information required by Section 545-2 of the Iowa Administrative Code City Finance Committee rules.

- (K) Payroll – For three of five timesheets observed, there was no evidence of review and approval by supervisory personnel. In addition, for one of five timesheets observed, the timesheet was not approved by the employee. Also, the City Clerk’s timesheets are not reviewed and approved by the City Mayor or Council.

The Library Board sets the rate of pay for the Library employees. For two Library employees, there was no evidence of approval by the Library Board or the City Council for the wage rates paid. In addition, for one Library employee, the number of hours worked were not included on the timesheet. Also, for one Library employee’s timesheet observed, there was no evidence of review and approval by a supervisor or Library Board Member.

Recommendation – The City should ensure all timesheets are reviewed and approved. In addition, although the Library Board sets the rate of pay for the Library employees, the City Council should still review and approve the salaries or hourly rates for Library employees, as it is a Department of the City.

- (L) Personal Cell Phones – Reimbursements to City employees should be made in accordance with policies and procedures established by the City. One disbursement observed was for a cell phone reimbursement.

The City does not have a cell phone policy which includes details of who may be reimbursed for City use of a personal cell phone, proper usage, and the amount to be reimbursed.

Recommendation – If this practice is continued, the City should establish written policies and procedures for this type of reimbursement. The policy should include requirements for supporting documentation for the amount and authorization of the payments.

- (M) Sewer Revenue Capital Loan Note – The City’s sewer revenue capital loan note requires the City to establish a reserve fund for the “purpose of paying principal at maturity of or interest on the Notes and Parity Obligations for the payment of which insufficient money shall be available in the Sinking Fund.” The City has not established a reserve fund in accordance with the loan agreement.

Recommendation – The City should establish the reserve fund in appropriate amounts, as required.

City of Salem

Detailed Findings and Recommendations

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

- (N) Utility Rates – Chapter 388.6 of the Code of Iowa states in part, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the City or its agencies ...” The Salem Recreational building and Lewelling Quaker Museum are not billed for utility usage.

Recommendation – The City should not provide free utility service and should charge all utility customers for service as required by Chapter 388.6 of the Code of Iowa. The City should consult legal counsel to determine whether to seek payment from the Salem Recreational building and Lewelling Quaker Museum for past utility service.

- (O) 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 two expenditure totals on the AFR that did not agree with the City’s general ledger.

Recommendation – The City should ensure receipts, disbursements and fund balances reported on the AFR agree with the City’s records.

- (P) Separately Maintained Records – The Salem Library maintains accounting records for certificates of deposit (CD) that are not reflected in the City’s accounting system or monthly fund balances.

In 2021, the Library turned over all CDs to the City to be included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (Q) Stock Investment – In 2006, the Crew Public Library Building Foundation was bequeathed shares of stock in the Ameren Corporation from the estate of Vera Bradshaw Fisher. In 2012, the residual stock held by the Crew Public Library Building Foundation was transferred to the Crew Public Library Board of Trustees.

Concerns were brought to our attention by the City that the Library had transferred ownership of the Ameren Corporation stock in the form of a gift to a Friends of the Public Library 501(c)(3) organization in April 2019. Discussions with the City indicate that the City Council never approved the transfer, wasn’t supportive of the transfer, and was actively communicating with Library staff that the transfer was not to occur.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private, nonprofit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

City of Salem

Detailed Findings and Recommendations

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

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which the government could perform directly. The Opinions further state, “Even if the function of a private nonprofit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

“Political subdivisions and municipalities, including cities, counties, schools and townships are municipal – governmental – entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by the government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities.”

In addition, the City’s investment in stock is not an allowable investment in accordance with Chapter 12B.10 of the Code of Iowa.

In June 2021, the Friends of the Library returned the Ameren Corporation stock to the City. The City sold the stock shares and deposited the funds in a City account reserved for the Library.

Recommendation – In the future, the City should ensure gifts of City funds are not made to private, nonprofit corporations. In addition, all City investments should comply with Chapter 12B.10 of the Code of Iowa.

City of Salem

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Tiffany M. Ainger, CPA, Manager
Sarah J. Swisher, CPA, Senior Auditor II
Alyson J. Logel, Staff Auditor
Kelsey R. Sauer, Staff Auditor