



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

August 30, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Griswold, 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 fifteen 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, disbursements exceeding budgeted amount, deficit fund balances and money provided to a nonprofit corporation in violation of Article III Section 31 of the Constitution of Iowa. Sand provided the City with recommendations to address each of the findings.

Three of the fifteen findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

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CITY OF GRISWOLD
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021

City of Griswold



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July 27, 2023

Officials of the City of Griswold
Griswold, 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 Griswold, 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 Griswold 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".

Rob Sand
Auditor of State

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City of Griswold

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|----------------|---------------------|
| Brad Rhine | Mayor | Jan 2022 |
| Julie Adams | Council Member | Jan 2022 |
| Carol Preston | Council Member | Jan 2022 |
| Ryan Askeland | Council Member | Jan 2024 |
| Carmen Sorensen | Council Member | Jan 2024 |
| Kirk Stapleton | Council Member | Jan 2024 |
| Ted Marciniak | City Manager | Indefinite |
| Barbara Teaney | City Clerk | Indefinite |
| David Wiederstein | Attorney | Indefinite |

City of Griswold



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

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2021 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. 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.

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 Griswold'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 Griswold 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 Griswold 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.

A handwritten signature in black ink that reads "Michelle Meyer". The signature is written in a cursive, flowing style.

Michelle B. Meyer, CPA
Director

July 27, 2023

Detailed Findings and Recommendations

City of Griswold

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, preparing and distributing.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Journal entries – preparation and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City officials should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

(B) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the culture and recreation, general government, capital projects 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 disbursement were allowed to exceed the budget.

(C) Deficit Fund Balances – At June 30, 2021, the City had deficit balances of \$58,468 in the Special Revenue, Local Option Sales Tax Fund and \$10,408 in the Debt Service Fund.

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

(D) 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. As a result, debt service and capital project disbursements were not classified to the proper function in the City's ledgers or reported correctly on the Annual Financial Report.

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

City of Griswold

Detailed Findings and Recommendations

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

- (E) Fund Reclassification – The City incorrectly reclassified the 2019 Street Improvement Fund from a Capital Projects Fund to a Debt Service Fund.

Recommendation – The City should reclassify the 2019 Street Improvement Fund as a Capital Projects Fund.

- (F) 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 the city, and all expenditures...” The following were noted regarding the City’s 2021 AFR:

- The total ending balance reported in the AFR was \$665 higher than the City’s records.
- Certain receipts and disbursements reported in the AFR did not agree with the City’s records.

Recommendation – The City should establish procedures to ensure all financial information is properly reported on the AFR and is supported by City Records.

- (G) Untimely Deposits – Three intergovernmental receipts observed were not deposited in a timely manner (within 10 days).

Recommendation – To improve internal controls and safeguard assets, the City should establish procedures to ensure all receipts are deposited timely.

- (H) Tax Increment Financing (TIF) Transfer – The City certified the 2016 Alleyway general obligation capital project note to the County Auditor as TIF debt. Although TIF taxes were collected during fiscal year 2021, the City did not transfer the certified TIF collections from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund, the fund from which the annual payment on the general obligation capital project note was made.

Recommendation – The City should reimburse the Debt Service Fund from allowable TIF collections. In the future, TIF collections recorded in the Special Revenue, Tax Increment Financing Fund for the 2016 Alleyway general obligation capital project note should be transferred to the Debt Service Fund.

- (I) Annual Urban Renewal Report – The amount reported by the City in the Annual Urban Renewal Report on the Levy Authority Summary as TIF debt outstanding for the 2016 Alleyway general obligation capital project note was understated by \$62,673. In addition, the \$7,000 internal advance certified by the City in 2019 was not included in the balance for the TIF debt outstanding. Also, the Annual Urban Renewal Report was not submitted by December 1 as required.

Recommendation – The City should ensure the amount of outstanding debt reported on the annual urban renewal report agrees with City records and the report is filed by December 1 as required.

City of Griswold

Detailed Findings and Recommendations

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

(J) Transfers – The City transfers money to and from various funds periodically. The following transfers approved by the City Council were duplicated in the accounting system:

- Resolution 19-2021 approving transferring \$35,000 from the General Fund to the Capital Projects Fund on April 12, 2021 was recorded in the accounting system on May 21, 2021 as a transfer from the Special Revenue, Local Option Sales Tax Fund to the Capital Projects Fund. The transfer was recorded a second time in the accounting system on June 23, 2021 as a transfer from the General Fund to the Capital Projects Fund.
- Resolution 20-2021 approving transferring \$57,360 from the General Fund to the Capital Projects Fund on April 12, 2021 was recorded in the accounting system on May 21, 2021 as a transfer from the Special Revenue, Local Option Sales Tax Fund to the Capital Projects Fund. The transfer was recorded a second time in the accounting system on June 23, 2021 as a transfer from the General Fund to the Capital Projects Fund.
- Resolution 22-2021 approving transferring \$21,911 from the General Fund to the Capital Projects Fund on April 12, 2021 was recorded in the accounting system on May 21, 2021 as a transfer from the Special Revenue, Local Option Sales Tax Fund to the Capital Projects Fund. The transfer was recorded a second time in the accounting system on June 23, 2021 as a transfer from the General Fund to Capital Projects Fund.

Recommendation – The City should make a correcting transfer of \$114,271 from the Capital Projects Fund to the Special Revenue, Local Option Sales Tax Fund to reimburse the Special Revenue, Local Option Sales Tax Fund for the transfers made in error.

(K) Monthly City Clerk's Report – The total fund balance reported in the June 2021 City Clerk's report was \$70,293 less than the City's total general ledger balance.

Recommendation – The City should ensure the fund balances reported in the City's Clerks report agree with the general ledger balances.

(L) Unclaimed Property – Chapter 556.11 of 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 State annually. The City did not remit a check outstanding for greater than two years.

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 Griswold

Detailed Findings and Recommendations

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

(M) Bank Reconciliations – We reviewed the November 2020 and June 2021 bank reconciliations and noted the following:

- The November 2020 outstanding check listing did not agree to the bank reconciliation by \$65.
- Although the bank balances reconciled in total to the general ledger for November 2020, the checking account and certificate of deposit accounts did not reconcile individually.
- For June 2021, although the certificate of deposit accounts in the general ledger agreed to the bank in total, the individual certificates of deposit did not agree to the City's general ledger.

Recommendation – The City should resolve all variances between the general ledger and bank balances.

(N) Disbursements – The City paid a \$26 late fee on a lease payment.

Recommendation – The City should establish procedures to ensure disbursements are paid timely to avoid late fees.

(O) Private Nonprofit Organizations – The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private nonprofit corporation. 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."

Effective December 4, 2017, the Griswold Youth Sports Complex, Inc. formed a Chapter 501(c)(3) nonprofit corporation. Subsequent to June 30, 2018, \$11,294 of funds held by the City for the Griswold Youth Sports Complex were transferred to the Griswold Youth Sports Complex, Inc.

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 or 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 government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities."

The Griswold Youth Sports Complex, Inc. has not provided the City with an accounting for these public funds.

City of Griswold

Detailed Findings and Recommendations

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

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private nonprofit organizations. If the Griswold Youth Sports Complex, Inc. provides a service to the City, the City may enter into an agreement properly established under Chapter 28E of the Code of Iowa with the Griswold Youth Sports Complex, Inc. The 28E agreement should detail the services provided and the cost of those services. If the Griswold Youth Sports Complex, Inc. is not providing a service to the City, the City should recover the remaining funds provided to the Griswold Youth Sports Complex, Inc., including all income derived from the investment of the funds from the time they were remitted to the Griswold Youth Sports Complex, Inc. In addition, the City should require an immediate accounting for these public funds from the date of the donation.

City of Griswold

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Suzanne R. Dahlstrom, CPA, Manager
Taylor A. Hepp, Staff Auditor
Ridge G. Nennig, Staff Auditor