



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

Rob Sand
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NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

September 6, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Dow City, 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 eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 11 of this report. The findings address issues such as a lack of segregation of duties, lack of utility reconciliations, and the lack of bank reconciliation review. 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](#).

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CITY OF DOW CITY
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2021 THROUGH JUNE 30, 2022

City of Dow City



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Rob Sand
Auditor of State

August 23, 2023

Officials of the City of Dow City
Dow City, 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 Dow City, 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 Dow City 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 Dow City

Officials

(Before January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Landon Burhoop	Mayor	Jan 2022
Serilda Block (Appointed Mar 2021)	Council Member	Nov 2021
Derek Soil (Appointed Sep 2020)	Council Member	Nov 2021
Terry TenEyck (Appointed Nov 2019)	Council Member	Nov 2021
Kody Meyer	Council Member	Jan 2022
James Kyle Ahart	Council Member	Jan 2024
Deb Garrett	City Clerk/Treasurer	(Retired Dec 2021)
Riley Kafton-Craigmile (Appointed Jan 2021)	City Clerk/Treasurer	Indefinite
George Blazek	Attorney	Indefinite

(After January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Landon Burhoop	Mayor	Jan 2024
James Kyle Ahart	Council Member	Jan 2024
Serilda Block	Council Member	Jan 2024
Connie Garrett	Council Member	Jan 2026
Robin McCoid	Council Member	Jan 2026
Kody Meyer	Council Member	Jan 2026
Riley Kafton-Craigmile	City Clerk/Treasurer	(Resigned Feb 2022)
Kandice Tomlinson (Appointed Mar 2022)	City Clerk/Treasurer	Indefinite
George Blazek	Attorney	Indefinite

City of Dow City



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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 Dow City 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 Dow City'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 Dow City's management has agreed to and acknowledged that the procedures 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 2022 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 for accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. We traced selected disbursements for 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 determined whether transfers were proper.
15. We traced selected payroll and related transactions for 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 Dow City'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, 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 Dow City 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 Dow City 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 23, 2023

Detailed Findings and Recommendations

City of Dow City

Detailed Findings and Recommendations

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

(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) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, reconciling and recording.
- (4) Debt – recordkeeping, compliance and debt payment processing.
- (5) Payroll – recordkeeping, preparing, distributing, custody of checks and entering payroll rates into the payroll system.
- (6) Utilities – billing, collecting, depositing, reconciling, recording, entering rates and maintaining detailed accounts receivable records.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

(B) Prenumbered Receipts – Prenumbered receipts were not issued for all collections received.

Recommendation – Prenumbered receipts should be issued for all collections. An independent person should account for the numerical sequence of the pre-numbered receipts and compare these collections to the bank deposit and the accounting records, and the evidence of review should be documented with the name or initials of the reviewer and the date of the review.

(C) Annual Financial Report – The fiscal year 2022 Annual Financial Report (AFR) does not agree to City records. The amount reported as Propriety Fund revenue on the AFR was understated by \$37,156, due to federal grant funds not reported.

Recommendation – The City should establish procedures to ensure amounts reported on the AFR reconciles to City records. An independent person should review the AFR for accuracy and document the review by signing or initially and dating the review.

(D) Financial Condition – The Special Revenue, Employee Benefits Fund had a deficit balance throughout the fiscal year, with a deficit of \$29,282 as of June 30, 2022.

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

City of Dow City

Detailed Findings and Recommendations

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

- (E) 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 of the reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (F) City Council Minutes – While the City Council proceedings were posted in three public places, the City should have published the proceedings in the newspaper, in accordance with Chapter 372.13(6) of the Code of Iowa since the City's population is greater than 200.

Recommendation – The City should publish minutes within fifteen days of a regular or special meeting in a newspaper of general circulation.

- (G) Journal Entries – One of two journal entries observed was not properly approved by an independent person.

Recommendation – Journal entries should be reviewed and approved by an independent person and evidence of the approval should be documented.

- (H) Bank Reconciliations – Although the City's accounting system generates a Reconciliation Detail, the account balances per the bank statements and Reconciliation Detail were not traced to the general ledger balances. At March 31, 2022 and June 30, 2022, the cash balance per the City's general ledger was understated by \$2,693 and \$230, respectively, compared to the reconciled cash balance per the bank. Additionally, an independent review of the bank reconciliations was not documented.

Recommendation – To improve financial accountability and control, the City should establish procedures to ensure bank account balances are reconciled to the general ledger each month. In addition, the reconciliations should be reviewed by an independent person, and the review should be documented by the initials or signature of the reviewer and the date of the review.

- (I) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 60% for police protection, 20% for buildings and 20% for streets. While the City allocated the receipts to the proper categories, the City did not track unspent balances to ensure compliance with the ballot provisions.

Recommendation – The City should review the use of LOST receipts and develop a tracking method for unspent LOST receipts from year to year.

- (J) Computer System – The City does not maintain password privacy and confidentiality.

Recommendation – The City should develop written policies to improve the City's control over its computer-based systems. Passwords should not be shared and should be kept confidential.

City of Dow City

Detailed Findings and Recommendations

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

- (K) Interfund Transfers – Section 545-2 of the City Finance Committee Rules requires “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. For transfers of utility surpluses outlined in subrule 2.5(5), the calculation proving the surplus must also be shown in the resolution.”

The resolutions approving the City’s fund transfers were approved in previous years rather than for the current fiscal year. In addition, the City ceased making the monthly transfers in February 2022 rather than continue throughout the entire fiscal year.

Recommendation – A resolution, in accordance with Section 545-2 of the City Finance Committee Rules should be completed each year for all transfers.

City of Dow City

Staff

This engagement was performed by:

Michelle B. Meyer., CPA, Director
Katherine L. Rupp, CPA, Manager
Jared M. Ernst, CPA, Staff Auditor
Austin C. Gohlmann, Assistant Auditor