

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

September 21, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Armstrong, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twenty 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, deficit fund balances and timesheets not approved by supervisors. 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 ARMSTRONG
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Armstrong



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Des Moines, Iowa 50319-0006

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August 28, 2023

Officials of the City of Armstrong
Armstrong, 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 Armstrong, Iowa, for the period July 1, 2019 through June 30, 2020. 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 Armstrong 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 Armstrong

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gregory Buum	Mayor	Jan 2020
Brad Layne	Council Member	(Resigned Aug 2019)
Ronald Trenary (Appointed Aug 2019)	Council Member	Nov 2019
David Grussing	Council Member	Jan 2020
Dan Moore	Council Member	Jan 2020
Nathan Anderson	Council Member	Jan 2022
Nick Mart	Council Member	Jan 2022
Tracie Lang	City Clerk	Indefinite
David Stein	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gregory Buum	Mayor	Jan 2022
Nathan Anderson	Council Member	Jan 2022
Nick Mart	Council Member	Jan 2022
Ron Trenary	Council Member	Jan 2022
Joann Eaton	Council Member	Jan 2024
Robb Nutt	Council Member	Jan 2024
Tracie Lang	City Clerk	Indefinite
David Stein Jr.	Attorney	Indefinite

City of Armstrong



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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 Armstrong for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Armstrong'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 Armstrong'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. 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 Armstrong'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 Armstrong 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 Armstrong 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 28, 2023

Detailed Findings and Recommendations

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(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, custody of investments and reconciling earnings.
- (3) Long-term debt – recording and handling cash.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Utilities – billing, collecting, depositing and posting.

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 – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the month reviewed, the total balance per the City's general ledger was \$10,221 less than the bank balance. We were unable to determine the reason for this variance. In addition, the bank reconciliations that were prepared for individual accounts are not independently reviewed. Also, not all bank accounts and investments were recorded in the City's books during the fiscal year.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the City Clerk's report and to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Also, all City bank accounts and investments should be included in the bank reconciliation.

(C) Investments – The City does not maintain an accounting record/register for each investment, including cost, description, date purchased, interest rate, maturity date and identifying number.

Recommendation – The City should maintain an accounting record/register maintained for each investment, including cost, description, date purchased, interest rate, maturity date and identifying number.

(D) Receipts – Voided receipts are not being reviewed by an independent person for propriety.

Recommendation – The City should develop policies and procedures to ensure voided receipts are reviewed by an independent person for propriety.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (E) 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.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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.

- (F) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – The City should establish procedures to ensure all journal entries are reviewed and approved by an independent person. That review and approval should be documented by the signature or initials of the reviewer and the date of the review.

- (G) 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, including a total of disbursements by fund and summary of all receipts. Minutes for two of the four meetings observed were not published within fifteen days. Two of the four meeting minutes observed did not have a total of disbursements by fund as required. All four of the meeting minutes observed did not include a summary of receipts.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required. Also, the City should ensure that all required information is included in the published minutes, in accordance with the Code of Iowa.

- (H) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public works, community and economic development, general government, debt service, and business type activities. 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.

- (I) 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 and, as such, the County Auditor shall provide available TIF increment property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. 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.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

In November 2019, the City certified two rebate agreements for \$10,000 each, which were both previously certified. The County Auditor properly identified the debt as being previously certified and did not include as debt to be paid from available TIF funds. One rebate agreement was certified in its entirety in previous years, however, as the agreement contains an annual appropriations clause, only the amounts annually appropriated should be certified each year. Additionally, the City did not retain a copy of one of the rebate agreements.

Also, one rebate agreement stated that 100% of tax increments are to be paid to the developer. However, less than 100% of tax increments were paid in the year ending June 30, 2020.

Recommendation – The City should review its procedures to ensure TIF debt is certified only once, as required, and that agreements with annual appropriation clauses are properly certified each year. Also, the City should develop policies and procedures to ensure that payments made on rebate agreements are in accordance with the terms stated in the agreements. Copies of all rebate agreements should be retained.

(J) Disbursements – The following items were observed:

- Four of five credit card disbursements observed did not have supporting documents.
- One of thirty disbursements observed did not have supporting documentation.
- For two of five credit card transactions observed, a total of \$23 in sales tax was improperly paid.
- One credit card transaction observed included \$7 in interest paid due to a late payment.

Recommendation – The City should maintain support for all disbursements. In addition, the City should develop policies and procedures to ensure that sales tax is not paid on any purchases made by the City. Also, policies and procedures should ensure bills are paid timely, to avoid late fees.

(K) 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 total receipts and disbursements reported on the Annual Financial Report did not agree to amounts reported in the City’s general ledger. Also, one of the City’s loans at June 30, 2020 was not included in the Annual Financial Report.

Recommendation – The City should establish procedures to ensure the receipts, disbursements, and loans reported on the AFR agree to City records.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(L) Payroll – The following items were noted in observing payroll transactions for three employees:

- For three employees, the rate of pay was not approved by the City Council.
- For one employee, seven of forty timesheets were not approved by a supervisor.
- For another employee, one of eighteen timesheets were not approved by a supervisor.
- For one employee, we were unable to verify that the hours paid were the hours worked because the employee's timesheets were not maintained.

Recommendation – The City should develop policies and procedures to ensure all employee pay rates approved by the City Council. In addition, policies and procedures should be developed to ensure that all timesheets are approved by a supervisor and timesheets are maintained for all employees.

(M) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for city governments.

Recommendation – The City should fully implement the Uniform Chart of Accounts for city governments.

(N) Financial Condition – The following funds had deficit balances at year end:

- The General Fund had a deficit balance of \$43,925.
- The Special Revenue, Employee Benefits Fund had a deficit balance of \$1,275.
- The Capital Projects Fund had a deficit balance of \$5,000.
- The Enterprise, Landfill/Garbage Fund had a deficit balance of \$186,806.

Also, the following restricted fund balances had a deficit balance at year end:

- The Special Revenue, Local Option Sales Tax Fund had a deficit balance restricted for library of \$1,921, and a deficit balance restricted for senior citizens of \$1,296.
- The Enterprise, Water Fund had a deficit balance for the operating account of \$9,784.

Recommendation – The City should investigate alternatives to eliminate these deficit balances in order to return these funds and balances to a sound financial position.

(O) Monthly Clerk's Report – The monthly City Clerk's report provided to the City Council did not include comparisons of actual disbursements to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendment to the certified budget, the City Clerk's monthly financial reports to the City Council should include comparisons of actual disbursements to the certified budget by function.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (P) Revolving Loans – At June 30, 2020, the City had seven outstanding economic development loans with an estimated total of \$88,058. The City did not maintain updated supporting documentation to show what the actual uncollectible balance was as of June 30, 2020. Based on discussions with City personnel, the City does not believe they will collect on these loans. Also, the City made an additional loan of \$15,000 on June 8, 2020 which was not included in the tracking sheet.

Recommendation – The City Council should determine whether balances of the uncollectible loans should be written off. Also, the City should track payment terms, loans disbursed, payments received and amounts outstanding for all revolving loans.

- (Q) Local Option Sales Tax (LOST) Fund Disbursements – The City’s LOST ballot states that the LOST receipts should be allocated in varying percentages to a variety of different functions. The City is not tracking individual disbursements in a manner to demonstrate that LOST receipts are being allocated and used for the purposes stated in the LOST ballot.

Recommendation – The City should develop policies to track individual disbursements in a manner to demonstrate that LOST receipts are being allocated and used for the purposes stated in the LOST ballot.

- (R) Utility Billing Rates – In scanning utility billings, we noted the approved rates for water and sewer were not properly applied, or the City did not retain documentation of the current approved utility rates. In addition, we could not locate documentation to support the City Council’s approval of a sewer minimum fee and a sewer improvement fee.

Recommendation – Utility rates should be established by ordinance of the City Council, as required by Chapter 384.84 of the Code of Iowa. The City should ensure approved utility rates are used for all utility billings. In addition, the City should maintain documentation of the approved utility rates.

- (S) Depository Resolution – Chapter 12C.2 of the Code of Iowa states that a governmental entity must approve a resolution selecting a financial institution to be a depository of that entity’s public funds. That resolution should state the name of the financial institution and the maximum amount to be kept on deposit. While the City has approved a resolution selecting a financial institution to be a depository of their public funds, that resolution did not state a maximum amount to be kept on deposit.

Recommendation – The City should approve a depository resolution that includes a maximum amount to be kept on deposit at each approved financial institution.

- (T) 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.

- (U) Criminal Investigation – Former officials of the City are currently under investigation.

City of Armstrong

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Lesley R. Geary, CPA, Manager
Brett S. Gillen, CPA, Senior II Auditor
Molly N. Kalkwarf, Senior Auditor
Kari L. Middleton, Staff Auditor
Brad M. Hofer, Assistant Auditor