



**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

**NEWS RELEASE**

**FOR RELEASE**

**October 2, 2023**

Contact: Michelle Meyer  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Danbury, Iowa for the period July 1, 2021 through June 30, 2022. The agreed-upon procedures engagement was performed at the request of petitioners pursuant to Chapter 11.6(3) of the Code of Iowa. The petition submitted requested an audit or examination. In accordance with Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns.

Sand reported twenty findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 19 of this report. The findings address issues such as a lack of segregation of duties, the lack of reconciliations of cash balances to bank account balances and utility billings, collections and delinquent accounts, and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

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

**City of Danbury**



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Rob Sand  
Auditor of State

August 31, 2023

Officials of the City of Danbury  
Danbury, 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 Danbury, 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 the attestation engagements contained in Government Auditing Standards.

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

## 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>
Fiduciary Oversight	A 9
Segregation of Duties	B 9
Deposits	C 9
Bank Reconciliations	D 10
Annual Financial Report	E 10
Depository Resolution	F 10
Prenumbered Receipts	G 10
Journal Entries	H 10
Reconciliation of Utility Billings, Collections and Delinquent Accounts	I 11
Monthly City Clerk’s Report	J 11
Financial Condition	K 11
Credit Cards	L 11
Interfund Transfers	M 11
Receipts	N 12
Disbursements	O 12
Business Transactions	P 12
Payroll	Q 12
Certified Budget	R 13
Petition for Examination	S 13-19
Special Investigation	T 19
Staff	20

**City of Danbury**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Brock Boyle	Mayor	Jan 2022	Jan 2026
Sherry Welte	Council Member	Jan 2022	Nov 2023
Joesph Allen	Council Member	Jan 2020	Jan 2024
Shari Simmons	Council Member	Jan 2020	Jan 2024
Kathy Scholl	Council Member	Jan 2022	Jan 2026
Kendra Sexton	Council Member	Jan 2022	Jan 2026
Cristy Nelson	City Clerk		Indefinite
Allyson Dirksen	City Attorney		Indefinite
Jake Clemon	Maintenance		Indefinite

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Rob Sand  
Auditor of State

Auditor of State's Independent Report on Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of Danbury in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Danbury 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 Danbury'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 Danbury'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 2022 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 to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. We traced transfers between funds to the proper authorization and accurate accounting and to determine whether transfers were proper.
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 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.
17. We observed the City's Street Finance Report (SFR) to determine whether it was completed and filed timely.

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 Danbury'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 Danbury 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 Danbury 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 31, 2023

## **Detailed Findings and Recommendations**

City of Danbury

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 the 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, reconciling, and recording.
- (2) Investments – investing, recordkeeping and maintenance of records.
- (3) Receipts – opening mail, collecting, deposit preparations, depositing, recording and reconciling.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting, and maintaining accounts receivable records.
- (7) Long-term debt – recording, reconciling and debt payment processing.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing, reviewing and approving.

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) Deposits – We traced collections deposited in the bank and identified several payments from the State of Iowa, and a bond payment electronically deposited into the bank which were not recorded in the City’s accounting system. As a result of deposits not properly recorded in the City’s accounting system, the City’s general ledger is not accurate.

Recommendation – The City should implement procedures to ensure all collections are properly recorded in the City’s accounting system in a timely manner.

City of Danbury

Detailed Findings and Recommendations

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

- (D) 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. Also, the City does not maintain controls over void checks.

Because the City’s general ledger was not kept up-to-date and the amounts reported in the general ledger were not accurate, we were unable to perform a reconciliation of the City’s bank and investment account balances to City records.

Recommendation – The City should maintain an accurate, up-to-date general ledger of the City’s activity and fund balances. In addition, the City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly to ensure all activity is properly recorded in the City’s general ledger and variances, if any, are 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, the City should retain void checks and unused checks should be stored in a secure location at the City.

- (E) Annual Financial Report – We observed the City completed the fiscal year 2022 Annual Financial Report (AFR) and that the AFR was submitted by December 1, 2022, as required. However, because the City’s general ledger was not up-to-date and accurate, we were unable to determine if the AFR accurately reflects the City’s financial activity and beginning and ending fund balances for fiscal year 2022.

Recommendation – The City should maintain an accurate, up-to-date general ledger of the City’s activity and fund balances. The City should then ensure receipts, disbursements and fund balances reported on the AFR agree with the City’s records.

- (F) Depository Resolution – A resolution naming official depositories could not be located by City officials; therefore, we were unable to determine if the City had a depository resolution as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City Council, by resolution should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (G) Prenumbered Receipts – Prenumbered receipts were not issued for 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 date of the review.

- (H) Journal Entries – Supporting documentation was not maintained for journal entries. In addition, journal entries were not approved by an independent person.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Also, journal entries should be approved by an independent person and evidence of the approval should be documented by initialing and dating the journal entries.

City of Danbury

Detailed Findings and Recommendations

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

- (I) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent listing was not prepared monthly.

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. In addition, a delinquent listing should be prepared each month and reviewed in a timely manner by someone independent of any other utility duties.

- (J) Monthly City Clerk's Report – Monthly City Clerk's reports, including a summary of beginning balances, receipts, disbursements, transfers, and ending balances by fund were prepared and provided to the City Council; however, these reports did not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – The City Clerk should prepare monthly City Clerk's reports which include a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements to the certified budget by function. The City Council or a designated member should review and approve the monthly City Clerk's reports and the review/approval should be evidenced by the reviewer's initials and the date approved.

- (K) Financial Condition – The Debt Service Fund and the Enterprise, Sewer Fund had deficit balances of \$19,882 and \$20,983, respectively, at June 30, 2022.

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

- (L) Credit Cards – Credit card receipts or other supporting documentation is not required to be maintained to substantiate charges and reviewed and approved for propriety. In addition, the City has not adopted a formal policy to regulate the use of the City's credit card.

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

- (M) 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. In addition, transfers in and transfers out were not recorded in the proper funds, in the same accounting period or on a timely basis. Also, transfers were not balanced monthly and were not adequately explained and documented.

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. In addition, transfers should be recorded in the proper funds, in the same accounting period and on a timely basis. Transfers should be balanced monthly and adequately explained and documented.

City of Danbury

Detailed Findings and Recommendations

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

(N) Receipts – An initial listing of receipts received in the mail is not prepared by an independent person and later traced to proper posting and deposit.

Recommendation – Someone independent of the receipt recording and deposit function should open the mail and prepare a listing of checks received. The independent person should later test the listing by tracing the receipts to proper posting and deposit.

(O) Disbursements – The following items were noted:

- Twelve of thirty transactions observed were not properly supported by an invoice.
- Supporting documentation such as invoices were not canceled to prevent their reuse.
- Two withdrawals from the City’s bank account were not approved or authorized by the City Council.

Recommendation – All disbursements should be approved by the City Council prior to payment and that approval should be documented in the City Council minutes. The City should maintain supporting documentation for all disbursements and canceled to prevent reuse.

(P) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Descriptions	Amount
Kendra Sexton, City Council Member, Part owner of KCK Food & Fuel	Fuel	\$ 4,103
Kendra Sexton, City Council Member, Sexton Oil owned and operated by family and employed at business	Fuel and a 55-gallon tank	2,299
Shari Simmons, Council Member, Simmons Construction owned by spouse	Building repair and maintenance	13,482

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Members appear to represent a conflict of interest since total transactions were more than \$6,000 during the fiscal year for both members.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

(Q) Payroll – The following items were noted:

- Written approval was not required for employees to be added to or deleted from payroll.
- One of seven payroll transactions observed had an hourly rate which was not properly authorized and supported.

Recommendation – The City Council should establish policies and procedures to ensure additions to or deletions from the payroll system require written approval and are properly supported. In addition, the City should ensure pay rates are properly approved in resolutions and recorded in the City’s accounting system.

City of Danbury

Detailed Findings and Recommendations

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

- (R) Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amount budgeted in the public safety and community and economic development 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.” Additionally, the fiscal year 2022 budget, which was required to be certified by March 15, 2021, per Chapter 24.17 of the Code of Iowa, was certified on April 21, 2021.

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. Additionally, the City should ensure the budget for subsequent years is certified by March 15<sup>th</sup> in accordance with Chapter 24.17 of the Code of Iowa.

- (S) Petition for Examination – We received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of Danbury in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner’s concerns and we have performed applicable procedures. The concerns provided to us along with information we obtained while performing the procedures is included in the following paragraphs.

1) Budget – The following concerns were identified:

- The fiscal year 2022-2023 budget was certified late.
- The City has been operating under a negative budget, without amendments, for multiple years.
- The fiscal year 2022 certified budget had a line-item expense of \$1,560,000 which was not shown on the re-estimated fiscal year 2022 budget section on the fiscal year 2023 budget.
- There is no expense listed for Landfill in the General Fund for the fiscal year 2023 budget. The garbage revenue was \$42,000 and the garbage expense was \$42,000 on the budget.
- The water tower project did not significantly increase expenses for Water expense in the fiscal year 2023 budget.
- Water and Sewer Revenue were not budgeted correctly on the fiscal year 2023 budget.

Auditor’s Response –

- We observed the fiscal year 2023 budget was certified on June 6, 2022. Per Chapter 24.17 of the Code of Iowa, the budget should have been certified by March 15, 2022.
- We observed the fiscal year 2022 Annual Financial Report (AFR) and the fiscal year 2023 budget. The fiscal year 2022 AFR reported a deficit ending fund balance in the Debt Service Fund of \$14,809. The fiscal year 2023 budget included deficit ending fund balances at June 30, 2023, in the General Fund and the Debt Service Fund of \$180,036 and \$25,349, respectively.



City of Danbury

Detailed Findings and Recommendations

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

- The City included \$1,560,000 on the expense line item, Enterprise, Capital Projects, in the fiscal year 2022 budget. The re-estimated expenditures for fiscal year 2022, included in the fiscal year 2023 budget reported no expenditures on the line item, Enterprise, Capital Projects. Instructions for City Budget Preparation state that if the expenditures and revenues are not on track as previously estimated, to update the estimates. We observed the capital project disbursements included on the State Revolving Fund request for payments for fiscal year 2022 totaled \$58,089.
- We observed the fiscal year 2023 budget included \$42,000 on the expense line-item garbage and \$42,000 on the revenue line-item landfill/garbage. Garbage and landfill refer to the same receipt and disbursement category.
- City officials were unable to provide support detailing the determination of the Enterprise, Water and Sewer Fund budgets. Therefore, we are unable to determine if the expense for the water tower project was included in the budget.

Recommendation – The City should ensure the budget is certified by March 15<sup>th</sup> in accordance with Chapter 24.17 of the Code of Iowa. In addition, the City Council, in its fiduciary capacity, should adopt a City budget which provides for the City to remain in a sound financial position. Also, the City should retain documentation supporting the development of the budget.

- 2) Monthly City Clerk’s Report – The financial report summaries presented at recent meetings and meeting minutes published do not balance. For example, the end of February balances do not match the March beginning balance and columns do not have correct totals.

Auditor’s Response – We observed the monthly City Clerk’s reports in the City Council meeting minutes for the period December 2021 through March 2022, and we noted the following:

- Multiple line items and columns did not foot or cross foot for several monthly City Clerk reports.
- For three of four monthly City Clerk reports observed, the prior months ending balances did not agree to the subsequent month beginning balances.

Recommendation – The City should ensure all monthly City Clerk reports are mathematically accurate and totals, including beginning and ending balances, are correct.

- 3) Annual Financial Report (AFR) – The City’s AFR did not report any debt.

Auditor’s Response – Based on our observation of the fiscal year 2022 AFR and the City’s accounting records, the City has a truck loan with payments for fiscal year 2022 totaling \$5,072. However, the debt was not included in the Indebtedness section of the Annual Financial Report. In addition, the City did not include the State Revolving Fund loan in the fiscal year 2022 AFR.

Recommendation – The City should ensure all debt balances including debt issued and debt retired during the year are included in the Annual Financial Report.

City of Danbury

Detailed Findings and Recommendations

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

4) Payroll Withholdings, Sales Tax and IPERS – The following concerns were identified:

- Payments of Federal and State payroll withholdings, Iowa Sales Tax, and IPERS were not listed in the bill's listings.
- Payments of Federal and State payroll withholdings, Iowa Sales Tax, and IPERS had not been paid since March 2020.

Auditor's Response – We observed Federal Withholdings and FICA (Medicare and Social Security) were not paid for the fourth quarter of 2019 through the first quarter of 2022. We traced a payment from the City's bank statements in June 2022 in the amount of \$51,948 for payment of the fourth quarter 2019 through the first quarter of 2022 for the Federal Withholdings and FICA amounts due. This payment was included on the June 14, 2022 bills listing. We observed the IPERS payments were made electronically and were approved in the September 14, 2021, March 8, 2022, and May 10, 2022 bill listings. However, IPERS payments should have been paid monthly.

Based on our observation of the City's bank statements, the former City Clerk issued checks to the Iowa Department of Revenue for "Sales use/Excise taxes," "Taxes," and "State Taxes." During our observation of the City Council meeting minutes and published minutes, we were unable to locate routine payments included on the bills listing for the Iowa Department of Revenue.

Recommendation – The City should ensure all disbursements are approved by the City Council prior to payment. In addition, the City should ensure all payroll taxes, state sales tax and IPERS contributions are made timely.

5) Monthly Bill's Listing – A payment issued to Simmons Construction in the amount of \$13,482 was not listed in the bills listing.

Auditor's Response – Based on our observations, the City Councils' approval for the payment to Simmons Construction dated March 10, 2022 for \$13,482 was not documented in the City Council meeting minutes.

Recommendation – The City should ensure all disbursements are approved by the City Council prior to payment.

6) Street Finance Report – The City's Street Finance Report (SFR) was not filed timely resulting in penalties incurred.

Auditor's Response – We observed the fiscal year 2021 SFR was filed on March 8, 2022. Chapter 312.14 of the Code of Iowa requires all cities to submit the SFR by December 1 of each year. According to the City Clerk, there were no late fees or penalties incurred from the late filing of the fiscal year 2021 report.

Recommendation – The City should ensure the SFR is filed by December 1 of each year.

City of Danbury

Detailed Findings and Recommendations

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

- 7) Fuel Sales Tax – Concerns were identified regarding the filing and posting of Fuel Sales Tax Refunds.

Auditor's Response – Based on discussions with the City Clerk, the City did not pay any fuel sales tax, therefore, Fuel Sales Tax Refund reports were not required to be filed.

- 8) Housing Authority – The City's housing authority had expense's greater than the projected revenues. Also, there were concerns regarding the tracking of the Housing Authority's utility expenses incurred by the City.

Auditor's Response – We observed the City's Enterprise, Housing Authority Funds receipts and disbursements for fiscal year 2022 and identified the Enterprise, Housing Authority Fund had disbursements in excess of receipts of \$10,436 for the year ended June 30, 2022. The Treasurer's Report reported a positive fund balance of \$26,285 at June 30, 2022. According to the City's accounting system, the City incurred \$15,547 in building repairs and maintenance for new windows and doors for fiscal year 2022 compared to \$353 spent in fiscal year 2021 for building repairs and maintenance.

In addition, utilities such as water, sewer, and garbage were not billed to the Enterprise, Housing Authority Fund.

Recommendation – The City should ensure applicable utility expenses are properly billed to the Enterprise, Housing Authority Fund.

- 9) COVID Relief Funds (ARPA Funds) – COVID Relief Funds (ARPA Funds) were not properly reported, posted and expensed.

Auditor's Response – The petitioner refers to the City receiving COVID funds; however, the City actually received ARPA funds. We observed documentation to support the City received ARPA funds on September 9, 2021 in the amount of \$25,334 and on August 25, 2022 in the amount of \$25,419. We traced both receipts to the City's bank account to confirm the ARPA funds were properly deposited. However, we were unable to trace that the receipts were posted in the City's general ledger.

According to supporting documentation observed, the City allocated the ARPA funds for the painting of the water tower. Per City Council meeting minutes, on April 12, 2022, the City accepted the bid from Viking Industrial Painting for the painting of the water tower. In addition, we observed an invoice for Viking Industrial Painting for "Interior & Exterior Coating Renovation with Upgrades 2022 Installment" for \$60,000. This invoice was paid on October 12, 2022 and was properly recorded in the City's general ledger.

Recommendation – The City should ensure all receipts collected are properly posted to the City's accounting system.

City of Danbury

Detailed Findings and Recommendations

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

- 10) Water Excise Tax – Sales tax is not properly assessed, collected, and remitted on utility billings. In addition, sales tax was not listed in the bill's listing and had not been paid since March 2020. Also, water excise tax is not properly calculated, and water excise tax is listed on utility bill statements rather than sales tax.

Auditor's Response – In 2018, the Iowa legislature passed SF 512 effective July 1, 2018, which created the water service excise tax (WET). Prior to the enactment of this law, the sale of water was subject to the 6% state sales tax. The WET exempts the sale of water service from state sales tax but imposes a 6% excise tax on the sale of water. Based on observation of the utility billing history, the WET of 6% was properly assessed on water billings.

The current City Clerk stated the Water Excise Tax (WET) has not been filed or the tax paid for the three years ending December 2022. We confirmed her statement through observation of the City's financial records. According to the City Clerk, in January 2023, the City has paid all past due amounts and was not assessed late fees.

Recommendation – The City should ensure payments are made timely.

- 11) RUT and LOST Collections – Concerns regarding that Road Use Taxes (RUT) and Local Option Sales Taxes (LOST) ACH payments are posted into the accounting system and the accuracy of the balances.

Auditor's Response – Based on our comparison of payments issued to the City for RUT and LOST to collections recorded in the City's accounting records for fiscal year 2022, RUT and LOST receipts were properly recorded in the City's accounting records.

- 12) Sewer Base – Concern regarding if the City is tracking the sewer base utility fee that was created to start a fund for an upcoming lagoon project.

Auditor's Response – Based on observations, a water base utility fee of \$15 changed to a sewer base utility fee of \$15 due to a City ordinance change on March 29, 2022. We observed the City's general ledger, included a "Sewer Base Fees" line item which was collected from April 26, 2022 through June 27, 2022 for a total of \$5,488 at June 30, 2022. Per discussion with the City Clerk, the sewer base utility fee is to be used to fund the lagoon project which is due to begin in the Fall of 2023. In addition, the City Clerk further stated the sewer base utility fees have not been used and are being held until the lagoon project starts.

- 13) Utility Billings – Concerns regarding inaccurate utility bills including overcharges and adjustments needed.

Auditor's Response – We observed various utility bills for one month. The utility bills observed were accurate.

- 14) Timely Deposits – The length of time between receipt of rent payments and the deposit of rent payments is excessive.

Auditor's Response – We were unable to determine the length of time between collections and deposit because sufficient supporting documentation was not available.

Recommendation – The City should develop and implement procedures to track rent collections and ensure all collections are deposited in a timely manner.

City of Danbury

Detailed Findings and Recommendations

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

- 15) State Revolving Fund (SRF) Fund Balance – The balance in the SRF fund in the May 2022 City Council minutes City Clerk’s report went from \$27,541 to \$0 without a listed reason in the minutes.

Auditor’s Response – Disbursements from the SRF Fund totaling \$27,541 were properly approved by the City Council and disbursed by the City.

- 16) Park Camping Electricity – The budget for park and camper electrical services was exceeded.

Auditor’s Response – Formal and legal budgetary control is based upon functions, not by fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund, or line item. Park disbursements are budgeted in the culture and recreation function. We compared the fiscal year 2022 budget to the fiscal year 2022 AFR. The budget for culture and recreation was not exceeded.

- 17) Public Works Employee – A public works employee submitted over 300 plus hours of compensatory time for payment and compensatory time was paid at an incorrect rate. The public works employee was also filling in at the City Clerk’s desk at the time.

Auditor’s Response – Per discussion with the City Clerk, the public works employee was performing City Clerk duties from May 2022 to August 2022. Based on our observations of the City’s payroll records for the public works employee from January 2022 to July 2022, there was a lack of supporting documentation for the public works employee’s approved pay rate.

The City allows compensatory (comp) time to be earned for non-exempt employees for every hour worked past 40 hours. The City pays comp time at a rate of 1.5 for each comp time hour worked. When comp time is earned, the hours are recorded separately on the timesheet. The actual comp time worked is entered from the timesheet into the accounting system, prior to the time being increased at the rate of 1.5 per hour. The accounting system automatically calculates the comp time recorded by the rate of 1.5 for each hour recorded.

Due to the concern, we observed payroll records for the period January 20, 2022 through August 25, 2022 which included comp time hours recorded. As a result of our observations, we identified the following:

- For three of the 18 pay periods observed for the period January 20, 2022 to August 25, 2022, the comp time earned recorded on the timesheet was reported at a rate of 1.5 times the actual hours worked. When these hours were reported in the accounting system based on the comp time rate of 1.5 to 1.0 of actual hours worked, the accounting system again increased these hours at a rate of 1.5. The three instances of comp time improperly calculated resulted in 14.99 hours of improper comp time. The pay rate used was \$25 per hours resulting in a total of \$375 of improper comp time paid out.

City of Danbury

Detailed Findings and Recommendations

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

- In addition, we observed one timesheet during the August 25, 2022 pay period which reported 46.71 total hours, including 6.71 hours of comp time earned. However, according to the City's payroll register, the employee was paid for 46.71 hours, which included the 6.71 hours of comp time earned and also banked comp time of 6.71 hours. Based on our observations of the payroll register, excess pay for 6.71 hours of both paid and banked comp time resulted in excess gross wages \$173.
- One instance was observed where 3.65 hours of comp time was earned per the timesheet; however, the payroll journal reported 3.65 hours of comp time used.

Recommendation – The City should develop procedures to ensure comp time earned and used is accurately recorded in the City's accounting system. The City should consult legal counsel to resolve the issue regarding incorrect payroll payments.

18) Special Meetings – City Council members are paid double for Special City Council meetings.

Auditor's Response – For payroll journals observed, City Council members were not paid double for special meetings.

(T) Special Investigation – In addition to the agreed-upon procedures performed for the City of Danbury, Iowa, for the period July 1, 2021 through June 30, 2022, we also performed a special investigation of the City of Danbury, Iowa for the period March 1, 2020 through May 31, 2022. The special investigation was completed, and a report was issued by the Auditor of State and is available on the Office of Auditor of State's website. The report includes the concerns identified regarding internal controls, utility billings and collections, disbursements, and credit card transactions.

Recommendation – Oversight by City officials is essential and should be an ongoing effort. City officials should exercise due care and review all pertinent information. City officials should also ensure sufficient information is prepared and provided to them for making decisions and appropriate policies and procedures are adopted, implemented, and monitored to ensure compliance.

City of Danbury

Staff

This engagement was performed by:

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