

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Brian Brustkern
515/281-5834

FOR RELEASE

November 8, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Barnes City, Iowa, for the period July 1, 2022 through June 30, 2023. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, and disbursements exceeding budgeted amounts. 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 BARNES CITY
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023

City of Barnes City



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Rob Sand
Auditor of State

October 26, 2023

Officials of the City of Barnes City
Barnes 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 Barnes City, Iowa, for the period July 1, 2022 through June 30, 2023. 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 Barnes 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, appearing to read "Rob Sand", written in a cursive style.

Rob Sand
Auditor of State

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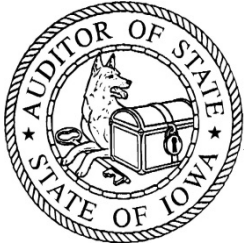
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City of Barnes City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Barbara Davis	Mayor	Jan 2020	Jan 2024
Jeffery Innis	Mayor Pro tem	Jan 2022	Jan 2026
Donald Baker	Council Member	Jan 2020	Jan 2024
Nancy Dunnick	Council Member	Jan 2020	Jan 2024
Gene Davis	Council Member	Jan 2022	Jan 2026
Jennifer McGuire	Council Member	Jan 2022	Jan 2026
Nancy Reed	City Clerk/Treasurer		Indefinite
Dustin Hite	Attorney		Indefinite

City of Barnes 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 Barnes City for the period July 1, 2022 through June 30, 2023, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Barnes 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 Barnes City'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, journal entries 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 to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Barnes 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 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 Barnes 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 Barnes 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.



Brian R. Brustkern, CPA
Director

October 26, 2023

Detailed Findings and Recommendations

City of Barnes City

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

(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 controlling all data input and output.
- (2) Cash – handling, reconciling and recording.
- (3) Long-term debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling, posting and voiding receipts.
- (5) Utility receipts – billing, collecting, depositing, posting and entering rates.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – recordkeeping, preparing, signing, distributing, entering pay rates and adding and removing employees from payroll.

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. A list of outstanding checks was not prepared each month and retained.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly 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. A listing of outstanding checks should be prepared each month and retained. The outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State annually, as required.

City of Barnes City

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (C) Financial Reporting – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. In addition, the City has not implemented the Uniform Chart of Accounts (COA) for Iowa City Governments recommended by the City Finance Committee.

Recommendation – The City should implement a financial reporting system and establish procedures to ensure records are maintained to facilitate fund accounting and the use of the COA or its equivalent.

- (D) 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 should be documented by the signature or initials of the reviewer and the date of the review.

- (E) Monthly City Treasurer’s Report – The monthly City Treasurer’s financial reports to the City Council included cash balances and month to date receipts and disbursements but did not include beginning and ending balances by fund or comparisons to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City’s Treasurer’s monthly financial reports to the City Council should include beginning and ending balances by fund and comparisons to the certified budget by function.

- (F) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. 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) City Council Meeting Minutes – Although minutes of City Council proceedings were published, they did not include the total disbursements from each fund and a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Chapter 372.13(6) of the Code of Iowa requires Cities with a population of less than 200 establish by ordinance 3 designated locations to post minutes. Ordinance 2-9-2 notes the public places to post minutes as Key COOP, Barnes City Post Office, and the local bar or tavern. Discussion with the Clerk and Mayor noted the Ordinance has not been updated and the new locations are the City Hall, Post Office and Phone Office.

Recommendation – The City should include the total disbursements from each fund and a summary of all receipts in the published minutes as required. The City should update the Ordinance to reflect the correct locations that minutes are posted.

City of Barnes City

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (H) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the public safety, culture and recreation and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (I) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (J) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city and all expenditures...”. The City’s Fiscal Year 2022 Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records and are properly reviewed and approved.

- (K) Timesheets – City employees are all salaried, timesheets are not prepared and submitted for approval.

Recommendation – City employees should prepare a timesheet documenting hours worked and leave taken. Timesheets should be submitted to an appropriate supervisor for approval and should be signed by the employee and supervisor.

- (L) Mayor and City Council Member Wages – In fiscal year 2023, a City Council Member received compensation of \$280 for water shutoff and turn on duties. The City does not have an Ordinance to approve this compensation.

During payroll review it was noted the mayor was paid \$20 for each special meeting. However, Ordinance 2-4-2 notes, the Mayor will be compensated \$10 for each special meeting of the City Council.

City of Barnes City

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

Chapter 372.13(8) of the Code of Iowa states in part,

“By ordinance, the council shall prescribe the compensation of the mayor, council members, and other elected city officer, but a change in the compensation of the mayor does not become effective during the term in which the change is adopted, and the council shall not adopt an ordinance changing the compensation of the mayor, council members, or other elected officers during the months of November and December in the year of a regular city election. A change in the compensation of council members becomes effective for all council members at the beginning of the term of the council members elected at the election next following the change in compensation. Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office but may be reimbursed for actual expenses incurred.”

Recommendation - The City should consult legal counsel to determine the disposition of this matter, including corrective action to comply with Chapter 372.13(8) of the Code of Iowa.

- (M) Revenue Bond Funds – The City has not established and made the required transfers to a water revenue sinking account, water revenue operation maintenance account, short-lived asset reserve fund, and water revenue surplus fund within the Enterprise, Water Fund as required by the water revenue bond resolution.

Recommendation – The City should review the water revenue bond resolution and comply with its provisions.

- (N) 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 of 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 between funds are not approved by the City Council by resolution, are not balanced monthly, adequately explained or always classified as transfers rather than receipts or disbursements.

Recommendation – The City should balance transfers monthly and transfers should be properly recorded as transfers in and transfers out rather than as receipts and disbursements. 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.

City of Barnes City

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Director
Janet K. Mortvedt, CPA, Manager
Alex N. Kawamura, CPA, Senior Auditor II
Patrick A. Stewart, Staff Auditor