



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

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**NEWS RELEASE**

Contact: Brian Brustkern  
515/281-5834

FOR RELEASE

November 29, 2023

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Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Churdan, 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-one findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 14 of this report. The findings address issues such as a lack of segregation of duties, bank and utility reconciliations, disbursements exceeding budgeted amounts, and discrepancies related to payroll. 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 CHURDAN**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2019 THROUGH JUNE 30, 2020**

**City of Churdan**



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Rob Sand  
Auditor of State

November 2, 2023

Officials of the City of Churdan  
Churdan, 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 Churdan, 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 Churdan 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 written in a cursive-like font.

Rob Sand  
Auditor of State

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**City of Churdan**

**Officials**

**(Before January 2020)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joleen Killeen	Mayor	Jan 2020
Buck Kastle	Council Member	Jan 2020
Steve Killeen	Council Member	Jan 2020
Jason Minnehan	Council Member	Jan 2020
Nick Christianson	Council Member	Jan 2022
Heidi Geisler	Council Member	Jan 2022
Krystal Kempf	City Clerk/Treasurer	Indefinite
Jonathan Law	Attorney	Indefinite

**(After January 2020)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joleen Killeen	Mayor	Jan 2022
Nick Christianson	Council Member	Jan 2022
Heidi Geisler	Council Member	Jan 2022
Andrew Hamilton	Council Member	Jan 2024
Anthony Minnehan	Council Member	Jan 2024
Colton Morlan	Council Member	Jan 2024
Krystal Kempf	City Clerk/Treasurer	Indefinite
Jonathan Law	Attorney	Indefinite

**City of Churdan**



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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 Churdan 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 Churdan'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 Churdan'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 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. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
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 Churdan'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 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 Churdan 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 Churdan 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

November 2, 2023

## **Detailed Findings and Recommendations**

City of Churdan

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) Accounting system – performance of all accounting functions and having custody of assets.
- (2) Cash – initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long-term debt – maintaining long-term debt records and handling and recording cash.
- (5) Receipts – collecting, depositing, and recording.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, and recording.
- (7) Payroll – entering rates into the payroll system, recordkeeping, and preparing.
- (8) Utilities – entering rates into the system, billing, collecting, depositing and posting.
- (9) Journal entries – preparing, recording, and reviewing.
- (10) Financial reporting – preparing and reconciling.

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) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. Also, the fire department's bank reconciliation has an unreconciled variance.

Recommendation – The Fire Department should segregate accounting duties to the extent possible. Also, the fire department should develop policies and procedures ensuring that there is no unreconciled variance in the bank reconciliation.

(C) City Library – All accounting functions are handled by one individual without adequate compensating controls. One person is responsible for collecting and opening the mail, recording receipts, preparing and making deposits.

Recommendation – The Library should segregate accounting duties to the extent possible.

City of Churdan

Detailed Findings and Recommendations

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

(D) 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...” We noted the following regarding the City’s 2020 AFR:

- The ending fund balance reported for the City on the AFR does not agree to the ending fund balance per the City’s accounting records. The governmental fund balance was overstated by \$10,099, and the proprietary fund balance was understated by \$20,572.
- Amounts reported on the AFR for utility and other bond debt do not agree with City records. The City overstated utility bonds payable by \$5,000 and understated other bonds payable by \$27,000.

Recommendation – The City should establish procedures to ensure the AFR ending fund balances and financial activity is properly supported and reported. An independent person should review the AFR for accuracy and the review should be documented by the signature or initials of the reviewer and the date of the review.

(E) 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 summary of receipts, total disbursements by fund, and a list of claims that were approved at the meeting. Chapter 380.7 of the Code of Iowa requires the minutes to include a summary of all ordinances adopted and it also requires the City Clerk to sign the minutes. The following items were noted during observation of the minutes:

- One out of four meeting minutes observed did not include a signature of the City Clerk.
- Published meeting minutes did not include expenditures by fund or a summary of receipts.
- One out of four meeting minutes does not appear to have been published.
- One out of four meeting minutes observed did not include a list of claims approved at the meeting.
- One out of four meeting minutes observed did not include a summary of ordinances adopted.

Recommendation – The City should ensure all city council meeting minutes are signed by the City Clerk, as required. The City should also comply with the Code of Iowa and publish City Council meeting minutes within fifteen days of the meeting, as required. Published meeting minutes should include a listing of expenditures by fund, a summary of receipts, and a list of all claims approved and a summary of ordinances adopted.

(F) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, and business type 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.

City of Churdan

Detailed Findings and Recommendations

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

- (G) Utility Rates – Utility rates entered in the utility billing system did not agree with the approved utility rates per the City ordinances. Utility rates were increased by ordinance but the utility rates in the billing system did not agree to what was approved. Customers were billed at a lower rate than what was approved by ordinance.

Recommendation – The City should ensure the utility billing system rates are updated after each change in rate by ordinance. An independent person should review the rates entered in the system to ensure they are accurate and agree to the current ordinance. The City should keep copies of all ordinances passed.

- (H) Revenue Note – The water revenue note resolution states the City will set utility rates “to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond and any other obligations secured by a pledge of the net revenues falling due in the same year.” The City had not complied with this provision.

Recommendation – The City should review the utility rates and make appropriate adjustments to ensure sufficient net revenues are produced to pay principal and interest requirements and create reserves as provided in the resolution.

- (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 the back of each cancelled check. The City Library and the City Fire Department do not receive an image of the front and back of each cancelled check.

Recommendation – The Library and the Fire Department should obtain and retain an image 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) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were observed which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Reader Service	Sales tax	\$ 3
Iowa Department of Revenue	Penalty for underpayment of sales tax	7
Hy-Vee	Gift cards, thank you card, sales tax	104

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these types of disbursements prior to authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

City of Churdan

Detailed Findings and Recommendations

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

(K) Disbursements – The following instances were observed during testing:

- Three disbursements observed did not have supporting documentation.
- One out of five fire department disbursements observed did not have supporting documentation.
- One disbursement observed was not posted to the City’s accounting records.
- 21 of 30 disbursements observed were not approved by the City Council. Also, there were two disbursements observed with a check dated before City Council approval.

Recommendation – All disbursements should be approved by the City council before payment is made. The City should maintain supporting documentation for all disbursements. Also, all disbursements should be entered into the City’s accounting records.

(L) Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City Fire Department and the City Library maintain bank accounts for activity separate from the City Clerk’s accounting records. While these Departments are part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire and Library Department separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

City of Churdan

Detailed Findings and Recommendations

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

- (M) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not retained each month.

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.

- (N) 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 is not being maintained. Also, the EMS Certificate of deposits are not included in the City’s general ledger and interest from the separately maintained accounts has not been posted to the general ledger.

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 bank reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (O) Financial Condition – The Special Revenue, Employee Benefits Fund, Enterprise, Water Fund, and the Enterprise, Water Sinking Fund had deficit balances of \$432, \$173,169 and \$662, respectively, at June 30, 2020.

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

- (P) Journal Entries – Supporting documentation is not maintained for journal entries.

Recommendation – The City should develop policies and procedures to maintain supporting documentation for all journal entries.

- (Q) Payroll Rates – There is no documentation that the City Council approved the wage rates for City employees.

Recommendation – All wage rates should be approved by the City Council and documented in the minutes record.

- (R) Timesheets – Timesheets are prepared by employees who are paid hourly, but not by salaried employees. Also, there is no documentation showing evidence of independent review of timesheets.

Recommendation – Policies and procedures should be developed to have all employees prepare timesheets. Also, timesheets should be reviewed and initialed by the employee’s supervisor or by an independent official who is not involved in payroll.



City of Churdan

Detailed Findings and Recommendations

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

- (S) Employee Benefits Fund – The City transferred \$19,636 from the employee benefits fund to the general fund during fiscal year 2020. However, the City is paying employee benefits out of the employee benefits fund, so the transfer should have been made.

Recommendation – The City should review this matter and take appropriate corrective action. Also, the City should ensure property tax is levied and expended for employee benefits only for employees paid from the General Fund and the Special Revenue, Road Use Tax Fund.

- (T) 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.

Five interfund transfers were observed totaling \$20,674 that were not approved by a City Council resolution.

Recommendation – The resolutions approving all fund transfers should include the information required by Section 545-2 of the City Finance Committee rules and each transfer resolution should be approved before the transfer is recorded in the City’s general ledger.

- (U) Former City Clerk – During the period of July 1, 2019 to June 30, 2020, the former City Clerk was paid \$460.23 more than what she should have been paid based on available timesheets. This appears to be due to miscalculations in preparing the paycheck. Also, four payroll checks paid to the former City Clerk were not supported by timesheets. In addition, there were four non-payroll checks written to the former City Clerk totaling \$674.32 for which there was no supporting documentation.

Recommendation – The City should establish procedures to ensure that employees are paid the proper amounts based on the hours worked and at the approved pay rates. In addition, the City should develop procedures to ensure that timesheets and other supporting documentation is maintained on all disbursements.

City of Churdan

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Director  
Janet K. Mortvedt, CPA, Manager  
Brett S. Gillen, CPA, Senior II Auditor  
Mason R. Brown, Assistant Auditor