



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

March 8, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Charter Oak, Iowa, for the period July 1, 2021 through June 30, 2022. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations, disbursements exceeding budgeted amounts, the lack of a credit card policy, petty cash funds not maintained on an imprest basis and record retention for accounting transactions when there is a change in software applications. 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](#).

###

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

City of Charter Oak



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

February 22, 2024

Officials of the City of Charter Oak
Charter Oak, 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 Charter Oak, Iowa, for the period July 1, 2021 through June 30, 2022. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Charter Oak 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".

Rob Sand
Auditor of State

Table of Contents

		<u>Page</u>
Officials		3
Auditor of State’s Independent Report on Applying Agreed-Upon Procedures		4-5
Detailed Findings and Recommendations:	<u>Finding</u>	
Segregation of Duties	A	7
Bank Reconciliations	B	7
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C	7
Certified Budget	D	8
Journal Entries	E	8
Financial Condition	F	8
Payroll	G	8
Annual Financial Report	H	8
Petty Cash	I	8
Disbursements	J	9
City Council Meeting Minutes	K	9
Credit Card	L	9
Record Retention	M	9
Accounting Policies and Procedures Manual	N	10
Staff		11

City of Charter Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Tina Carter	Mayor	Jan 2020	(Resigned Aug 2021)
Randy Ulmer (Appointed Sep 2021)	Mayor	Sep 2021	Dec 2023
Russ Maack	Council Member	Jan 2020	Jan 2024
Peggy Staley	Council Member	Jan 2020	Jan 2024
Jim Wilcox	Council Member	Jan 2020	Jan 2024
Brent Friedrichs	Council Member	Jan 2022	(Resigned Apr 2022)
Alex Castillo (Appointed May 2022)	Council Member	May 2022	Jan 2026
Ben Heyne	Council Member	Jan 2022	Jan 2026
Ashley Mohr	City Clerk/Treasurer		Indefinite
Allen Nepper	Attorney		Indefinite



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

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 Charter Oak 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 Charter Oak'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 Charter Oak'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. 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. The City had no transfers.
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 Charter Oak'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 Charter Oak 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 Charter Oak 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
Deputy Auditor of State

February 22, 2024

Detailed Findings and Recommendations

City of Charter Oak

Detailed Findings and Recommendations

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

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and recording.

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 – Although monthly bank reconciliations were prepared, the City had not included one of the City's investment balances in their general ledger. The City's reconciliation procedures did not detect the general ledger balance on the bank reconciliation was lower than the bank balance by \$ 2,648. In addition, there is no evidence of review of the reconciliations.

Recommendation – The City should establish procedures to ensure a complete bank reconciliation is prepared monthly and accurately. In addition, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) 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.

City of Charter Oak

Detailed Findings and Recommendations

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

- (D) Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amounts budgeted in the community and economic development and general government 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.
- (E) Journal Entries – Journal entries are not reviewed and approved by an independent person.
- Recommendation – An independent person should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries.
- (F) Financial Condition – At June 30, 2022, the City had a deficit balance in the Debt Service Fund of \$54,836.42.
- Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.
- (G) Payroll – Although timesheets were maintained for all employees, there was no evidence of supervisory approval of hours worked or taken as leave time.
- Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.
- (H) Annual Financial Report – We observed the City completed the fiscal year 2021 Annual Financial Report (AFR) and that the AFR was submitted by December 1, 2021, as required. We observed the fiscal 2022 AFR which 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. There was also a variance of \$26,110 between actual expenditures and the amount of expenditures on the AFR. The ending AFR balance does not trace to the general ledger and has a variance of \$21,076.
- Recommendation – The City should ensure receipts, disbursements and transfers reported in the AFR agree with the City’s financial records.
- (I) Petty Cash – Petty cash funds on hand at the library were not maintained on an imprest basis. An imprest system is one in which petty cash is maintained at a fixed, authorized amount and all distributions from the petty cash fund are supported/documented with a vendor receipt. Vendor receipts support the periodic replenishment of the petty cash back to the authorized amount. In addition, the City does not have a resolution establishing an approved amount for petty cash.
- Recommendation – The City Council should approve a fixed, authorized amount to be maintained in each petty cash fund. The petty cash fund should be maintained on an imprest basis to provide additional control over these funds.

City of Charter Oak

Detailed Findings and Recommendations

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

- (J) Disbursements – Two transactions observed for the city included sales tax and late fees totaling \$38. As a government entity, the City maintains a tax-exempt status. As a result, the City should not incur sales tax. Invoices and supporting documentation for two of 30 transactions could not be located. In addition to transactions tested during the audit year, there was one library transaction that did not have supporting documentation totaling \$43. Although this transaction occurred outside of the audit period it was noted during testing.

Recommendation – The City should establish procedures to ensure all payments are reviewed to prevent the payment of sales tax and late fees. Also, the City should ensure all disbursements are properly supported by a vendor invoice or other supporting documentation, including purchases made with credit cards.

- (K) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting, including total disbursement from each fund, a list of all claims allowed, including the reason for each claim, and a summary of receipts. Minutes for two meetings observed did not include total disbursements from each fund, a list of all claims allowed (including the reason for each claim), and minutes from three of the meetings observed did not include a summary of receipts.

Recommendation – The City should comply with the Chapter 372.13(6) of the Code of Iowa and publish City Council minutes including total disbursements from each fund, a list of claims allowed, including the reason for each claim, and a summary of receipts, as required.

- (L) Credit Card – The City has a credit card for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

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) Record Retention – In October 2021, the City changed financial accounting software applications. The City did not retain (from July 2021 to September 2021) a backup of accounting transactional data prior to the date of the conversion. Chapter 384.20(2) of the Code of Iowa states "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." While performing this agreed upon procedures engagement, we were unable to trace selected transactions (from July 2021 to September 2021) into the general ledger in order to verify transactions were properly posted and classified.

Recommendation – The City should take steps to ensure its general ledger information is maintained on a transactional level and in current condition as required by the Code of Iowa. Also, to improve the City's control over its computer system, policies and procedures should be developed to ensure backups of the general ledger are performed and stored off site.

City of Charter Oak

Detailed Findings and Recommendations

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

- (N) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Charter Oak

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Deputy
Deborah J. Moser, CPA, Manager
Mackenzie L. Johnson, Staff Auditor