



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

June 27, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Mount Ayr, 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 eight findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of supporting documentation for library disbursements and credit card policy, disbursements exceeding budgeted amounts and a deficit balance. Sand provided the City with recommendations to address each of the findings.

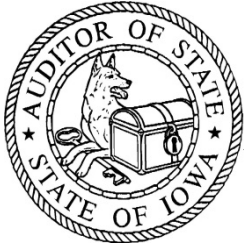
Six of the findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary 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 MOUNT AYR
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023

City of Mount Ayr



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June 12, 2024

Officials of the City of Mount Ayr
Mount Ayr, 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 Mount Ayr, 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 Mount Ayr throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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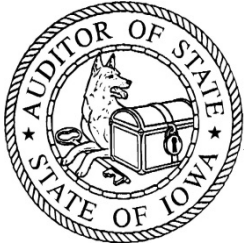
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City of Mount Ayr

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven Fetty	Mayor	Jan 2024
Jordan Stewart	Council Member	(Resigned May 2023)
Brad Elliott	Council Member	Jan 2024
Ken Robertson	Council Member	Jan 2024
Jessica Bishop	Council Member	Jan 2026
Mack Greene	Council Member	Jan 2026
Amanda Cannon	City Clerk	Jan 2025
Jason Palmer	Attorney	Indefinite

City of Mount Ayr



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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 Mount Ayr 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 Mount Ayr'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 Mount Ayr'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 2023 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. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts for accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

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

We were engaged by the City of Mount Ayr'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 Mount Ayr 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 Mount Ayr 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.

A handwritten signature in black ink that reads "Pam Bormann". The signature is written in a cursive, flowing style.

Pam Bormann, CPA
Director

June 12, 2024

Detailed Findings and Recommendations

City of Mount Ayr

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) Cash- handing, reconciling, and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling, and posting.
- (3) Long-term debt – recordkeeping, compliance and debt payment processing.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling, and recording.
- (5) Payroll – recordkeeping, preparing, and distributing.
- (6) Utilities – billing, collecting, depositing, and posting and maintaining accounts receivable and write-off records.

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) Disbursements – Disbursements should be properly supported by an invoice or other supporting documentation. We noted one of five Library disbursements observed was not adequately supported. In addition, five credit card transactions from one credit card statement observed for the Library included sales tax of \$20 and one credit card transaction observed for the City included sales tax of \$17. As a government entity, the City maintains a tax-exempt status. As a result, the City should not incur sales tax.

Recommendation – The City should establish procedures to maintain invoices or other appropriate supporting documentation for all disbursements and establish procedures to ensure all payments are reviewed to prevent the payment of sales tax.

(C) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amount budgeted in the general government function. 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.

(D) Financial Condition – At June 30, 2023, the City had a deficit balance in the Special Revenue, CDBG Housing Grant Fund in the amount of \$4,000.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

City of Mount Ayr

Detailed Findings and Recommendations

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

- (E) Bank Reconciliations – Although monthly bank reconciliations were prepared, the Library balance was not included as part of the monthly reconciliation. For the December 2022 reconciliation, the bank balance exceeded the general ledger balance by \$2,403. The reconciliation did not document any reason or investigation into the variance.

The City also has a separate revolving loan checking account. At June 30, 2023 the general ledger balance exceeded the bank balance by \$1,000. A subsequent adjustment was made in the amount of \$1,000 to resolve the variance; however, documentation of the adjustment was not maintained by the City.

In addition, there were no independent reviews of the monthly reconciliations. The Mayor who is currently reviewing the reconciliations also signs checks.

Recommendation – The City should establish procedures to ensure a complete bank reconciliation is performed monthly, which includes the Library’s account, ensure all variances are investigated in a timely manner and the resulting adjustments are documented. The City should also establish procedures to ensure the monthly bank reconciliations are reviewed by an independent person. The independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

- (F) 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 to the City, and all expenditures...” The AFR ending balance at June 30, 2023 was \$14,751 lower than the City’s records.

Recommendation – The City should establish procedures to ensure the AFR ending balances agree with City’s records. 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.

- (G) Payroll – The wage increase approved by the City Council for one employee was a percentage increase and not a salary or hourly rate.

Recommendation – Wage rates and increases should be adequately documented in the minutes as an approved hourly rate or salary and not just a percentage increase, to ensure the actual pay rate is clearly documented.

- (H) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

City of Mount Ayr

Detailed Findings and Recommendations

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

On September 5, 2018, the City entered into a development agreement for the renovation of the Mount Ayr Inn. The City agreed to make eight annual economic development tax increment payments during the term of the agreement not to exceed \$90,000. The payments are to be made on June 1 of each fiscal year, beginning June 1, 2020, and continuing through and including June 1, 2027, or until such an earlier date upon which total payments equal the maximum payment. The agreement required annual appropriations by the City Council.

We noted the following regarding the City's tax increment financing (TIF) obligations, certification to the County Auditor and the Special Revenue, Urban Renewal Tax Increment Financing Fund (TIF Fund) disbursements:

- The City certified the full \$90,000 on September 5, 2018 to the County Auditor rather than the annual appropriation required by the agreement.
- Under the agreement the Company agreed to certify to the City each year the estimated incremental property tax receipts anticipated to be paid in the fiscal year with respect to the taxable valuation of the property. The Developer has not submitted annual certifications to the City.
- The City is accumulating TIF receipts collected pursuant to this development agreement and has remitted six payments to the developer totaling \$34,784. Based on discussion with the current City Clerk, the first five payments were based on the actual receipts collected rather than the amount certified by the developer. The sixth payment on June 19, 2023 appeared to have been based on the estimated incremental property tax receipts which were budgeted.

Recommendation – The City should establish procedures to ensure the City properly certifies the annual appropriation each year. The City should also establish procedures to ensure the certification from the developer is received when required (October 15 of each year) and ensure the certification received is used as a basis to make the final payments to the developer. In addition, the City should consult legal counsel to determine proper compliance with the development agreement.

City of Mount Ayr

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Suzanne R. Dahlstrom, CPA, Manager
Deborah J. Moser, CPA, Manager
Maria R. Collins, Staff Auditor