



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

June 28, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Riceville, 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 twenty findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 13 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.

Seven 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 RICEVILLE

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023**

City of Riceville



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June 24, 2024

Officials of the City of Riceville
Riceville, 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 Riceville, 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 Riceville 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

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City of Riceville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ivan Houser	Mayor	(Resigned Jan 2023)
Lynn Doane (Appointed Jan 2023)	Mayor	Nov 2023
Kellie Daughtrey	Council Member	(Resigned Apr 2023)
Keith Oulman	Council Member	Jan 2024
Emily Schipper	Council Member	Jan 2024
Wade Wanner (Appointed May 2023)	Council Member	Nov 2025
Sal Gomez	Council Member	Jan 2026
Luke Harken	Council Member	Jan 2026
Mandy Olson	City Clerk/Treasurer	(Resigned Oct 2022)
Paige Bartels (Hired Oct 2022)	City Clerk/Treasurer	Indefinite
William Baresel	Attorney	(Resigned Mar 2023)
John Anderson (Hired Mar 2023)	Attorney	Indefinite

City of Riceville



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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 Riceville 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 Riceville'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 Riceville'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. 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. 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 Riceville'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 Riceville 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 Riceville 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 24, 2024

Detailed Findings and Recommendations

City of Riceville

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 – handling, reconciling and recording.
- (2) Investing – Recordkeeping, investing and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing, distributing and entering rates into the computer system.
- (6) Utilities – billing, collecting, depositing, and posting.
- (7) Long- term debt – recordkeeping, compliance and debt payment processing.
- (8) Journal entries – preparing and recording.
- (9) 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) Bank Reconciliations – Although monthly bank reconciliations were prepared for each cash and investment account, a complete reconciliation summarizing all accounts and reconciling to the City's total fund balance was not prepared. In addition, the reconciliations did not include evidence of review by an independent person. For the two months observed, several items listed as outstanding were unsupported and the book balance exceeded the bank balance by \$10,458 and \$483, respectively.

Recommendation – The City should establish procedures to ensure a complete and accurate bank reconciliation is prepared monthly. Variances, if any, should be supported, reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Riceville

Detailed Findings and Recommendations

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

- (C) Change Fund – The change fund was not approved by the City Council with an authorized amount. The change fund is not maintained on an imprest. An imprest system is one which the change fund is maintained at a fixed, authorized amount.

Recommendation – The City should authorize an approved amount for the change fund by resolution and maintain the balance when preparing daily or weekly deposits. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

- (D) 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.

- (E) Monthly City Clerk's Report – The monthly City Clerk's report to City Council included a summary of the current month's beginning fund balances, cash receipts, cash disbursements and ending fund balances; however, a summary of year-to-date receipts and disbursements was not included. In addition, the monthly reports did not include a comparison of actual disbursements to the budget by function.

Recommendation – To provide better financial information and control and to provide the opportunity for timely amendments to the budget, monthly financial reports should include year-to-date receipts and disbursements and a comparison of actual disbursements to the budget by function.

- (F) Official Depositories – 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 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 – 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 total disbursements from each fund, a list of all claims allowed, including the reason for each claim, and a summary of receipts. Minutes for four of four meetings observed did not include disbursements by fund and a summary of receipts and minutes from one of the meetings observed did not include a list of claims allowed, including the reason for each claim.

In addition, Chapter 380.7 of the Code of Iowa requires minutes to be signed. Minutes for two of four meetings observed were not signed as required. Also, Chapter 21.3 of the Code of Iowa requires the minutes to show sufficient information to indicate the vote of each member present. One of the four meetings observed did not include the vote of each member present as required.

Recommendation – City Council minutes should include disbursements by fund, a summary of receipts and a list of claims allowed, including the reason for each claim, be signed by the City Clerk and include information to indicate the vote of each member, as required by the Code of Iowa.

City of Riceville

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 culture and recreation, 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.

- (I) Payroll – Three timesheets observed for salaried employees were not reviewed or approved prior to the preparation of payroll. In addition, approval of pay increases in the City Council meeting minutes did not document the new hourly rates for one of two hourly employees observed.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to the preparation of payroll. Supervisory review should be evidenced by the supervisor’s initials and the date of approval. Actual approved hourly rates should be documented in the City Council meeting minutes.

- (J) Disbursements – The City pays certain routine, repetitive transactions from vendors by ACH prior to approval by the City Council. The City does not have a policy allowing specific types of disbursements which are routine and repetitive to be paid in advance of City Council approval.

Recommendation – If the City Council determines certain disbursements should be paid in advance of City Council approval, the City Council should pass a resolution authorizing the City Clerk to pay certain bills prior to the City Council’s approval.

- (K) Debit Card – The City has a debit card for certain online purchases.

Recommendation – The City Council should prohibit the use of a debit card. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card. If the City replaces the debit card with a credit card, the City should adopt a formal written policy regulating the use of the 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.

- (L) Restrictive Endorsement – Checks are not restrictively endorsed immediately after they are received by the City Clerk.

Recommendation – To safeguard collections, the City should develop policies and procedures to ensure checks received by the City are endorsed immediately upon receipt.

- (M) Annual Urban Renewal Report – The City did not submit the Annual Urban Renewal Report (AURR) by December 1 as required by Chapter 384.22 of the Code of Iowa

Recommendation – The City should ensure the AURR is filed by December 1 as required.

- (N) Sewer Improvement Rate Ordinance – Chapter 384.84 of the Code of Iowa requires utility rates be established by City ordinance. City officials were unable to provide the City ordinance which established the sewer improvement rate in effect during the fiscal year.

Recommendation – The City should ensure all utility rates are established by City ordinance and ensure all ordinances are retained as required.

City of Riceville

Detailed Findings and Recommendations

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

- (O) Golf Course Receipts – The City has an agreement with Riceville Area Development Corporation (RAD) which owns 10th Hole Inn & Suite located adjacent to the City Golf Course on land purchased from the City. The land purchase agreement states that RAD will provide staff and customer service for the golf course and the services shall be provided in accordance with a revenue sharing plan whereby RAD receives 10% of the proceeds and the City receives 90%.

For the month observed, sales summary information was provided to the City; however, point of sale detail was not provided to support the summary information. Also, for the month observed, the City did not receive the full 90% of proceeds because 3% was deducted from the City's portion for credit card sales. The City could not provide support for the 3% deduction related to credit card sales.

Recommendation – The City should review the terms of the agreement with RAD and determine whether it should be modified to address the proper process for payment of a credit card fee and the calculation of the proceeds to the City and to RAD. The City should also work with RAD to establish procedures to obtain detailed point of sale information in order to reconcile collections. The City should review the reconciliations and this review should be documented by the signature or initials of the reviewer and the date of the review.

- (P) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires 70% of LOST collections be allocated for street improvements and 30% for economic development. The City has a system to track LOST collections and disbursements to ensure compliance with the LOST ballot requirements. However, during the fiscal year ended June 30, 2023, the City purchased a police vehicle for \$9,000 using LOST funds dedicated to economic development. The purchase of a police vehicle does not appear to be in compliance with the economic development purpose as required by the LOST ballot.

Recommendation – The City should reimburse the LOST fund for the purchase of the police vehicle.

- (Q) 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 the 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.” The transfers approved by resolution did not include the purpose of each transfer.

Recommendation – The City Council should ensure all transfers are approved by resolution and the resolution should include the information required by Section 545-2 of the City Finance Committee Rules.

- (R) Journal Entries – For the two journal entries observed, there was no evidence of independent review and approval.

Recommendation – All journal entries should be reviewed and approved by an independent person and the review should be evidenced by the signature or initials of the reviewer and the date of the review.

City of Riceville

Detailed Findings and Recommendations

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

- (S) Questionable Disbursement – 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. A certain disbursement was 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. This disbursement is detailed as follows:

Paid to	Purpose	Amount
Post Prom Committee	Post Prom Donation	\$ 100

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 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.

- (T) Prenumbered Receipts – Prenumbered receipts were not issued for all collections received.

Recommendation – Prenumbered receipts should be issued for all collections. An independent person should account for the numerical sequence of the prenumbered 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 the date of the review.

City of Riceville

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Gwen D. Fangman, CPA, Manager
William J. Sallen, CPA, Senior Auditor
Anthony G. Puetsch, Assistant Auditor