

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

NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

August 14, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Armstrong, Iowa, for the period July 1, 2020 through June 30, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twenty-four findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 15 of this report. The findings address issues such as a lack of segregation of duties, the lack of reconciliations of utility billings, collections and delinquent accounts, disbursements exceeding budgeted amounts and deficit fund balances. Sand provided the City with recommendations to address each of the findings.

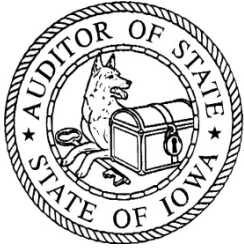
Nineteen of the findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its 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 ARMSTRONG
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021

City of Armstrong



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
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State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834

July 29, 2024

Officials of the City of Armstrong
Armstrong, 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 Armstrong, Iowa, for the period July 1, 2020 through June 30, 2021. 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 Armstrong 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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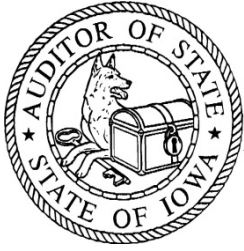
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City of Armstrong

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gregory Buum	Mayor	(Resigned Feb 2021)
David Grussing (Appointed Mar 2021)	Mayor	May 2021
Travis Schueller (Elected May 2021)	Mayor	Jan 2022
Nathan Anderson	Council Member	Jan 2022
Nick Mart	Council Member	Jan 2022
Ron Trenary	Council Member	Jan 2022
JoAnn Eaton	Council Member	Jan 2024
Robb Nutt	Council Member	Jan 2024
Tracie Lang	City Clerk	(Terminated Mar 2021)
Cindy Kendall	Interim City Clerk	Indefinite
David Stein, Jr.	Attorney	Indefinite

City of Armstrong



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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 Armstrong for the period July 1, 2020 through June 30, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Armstrong'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 Armstrong'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 2021 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 to 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.

Due to an ongoing investigation, certain records of the City were seized by the Iowa Division of Criminal Investigation. We confirmed with the City that the following records were unavailable to us for our examination:

1. Supporting documentation for certain disbursements of the City during the fiscal year ended June 30, 2021.
2. Supporting documentation for credit card disbursements of the City during the fiscal year ended June 30, 2021.
3. Supporting documentation for payroll transactions during the fiscal year ended June 30, 2021.
4. City Council meeting minutes for meetings which occurred from July 2020 through November 2020, as well as certain proof of publications for City Council meeting minutes.
5. Bank reconciliations for certain City bank accounts and investments.

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 Armstrong'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 Armstrong 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 Armstrong 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.



Pam Bormann, CPA
Director

July 29, 2024

Detailed Findings and Recommendations

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

(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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Long-term debt – recording and handling cash.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Utilities – billing, collecting, depositing and posting.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the month observed, the total balance per the City's general ledger was \$3,232 less than the bank balance. We were unable to determine the reason for this variance. In addition, the bank reconciliations prepared for individual accounts were not independently reviewed. Also, not all bank accounts and investments were recorded in the City's books during the fiscal year.

In addition, the City was not receiving statements for all accounts, including investments, during the fiscal year ended June 30, 2021.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the City Clerk's report and to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Also, all City bank accounts and investments should be included in the bank reconciliation. In addition, the City should ensure they are receiving statements for all accounts, including investments.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (C) Investments – The City did not maintain an accounting record/register for each investment, including cost, description, date purchased, interest rate, maturity date and identifying number.

Recommendation – The City should maintain an accounting record/register for each investment, including cost, description, date purchased, interest rate, maturity date and identifying number.

- (D) Voided Receipts – Voided receipts were not being reviewed by an independent person for propriety.

Recommendation – The City should develop policies and procedures to ensure voided receipts are reviewed by an independent person for propriety. This review should be documented by the signature or initials of the reviewer and the date of the review.

- (E) 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.

- (F) Journal Entries – Journal entries were not reviewed and approved by an independent person.

Recommendation – The City should establish procedures to ensure all journal entries are reviewed and approved by an independent person. The review and approval should be documented by the signature or initials of the reviewer and the date of review.

- (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 a total of disbursements by fund and summary of all receipts. Minutes for two of the four meetings observed did not have documentation available to determine if the minutes were published within fifteen days. All four of the meeting minutes observed did not have a total of disbursements by fund or a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. For one of the meetings observed, there was no documentation available to ensure proper notice was given as to the time, date and place of the meeting in accordance with Chapter 21.4 of the Code of Iowa. City Council meeting minutes available did not include a listing of bills approved to determine if actual disbursements made by the City were approved by the City Council. Also, no meeting minutes were available for meetings that took place during July 2020 through November 2020.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required. The City should ensure all required information is included in the published minutes, in accordance with the Code of Iowa. The City should maintain documentation of proper notice for all public meetings. The City should ensure a list of bills approved by the City Council is retained and signed off and dated by members of the City Council to evidence their approval for payment. Also, the City should maintain copies of all City Council meeting minutes.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (H) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” In addition, there is no documentation the City published notice of the public hearing on the budget not less than ten nor more than twenty days before the hearing in a newspaper published at least once weekly as required by Chapter 384.16 of the Code of Iowa.

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. In addition, the City should publish notice of a public hearing on the budget not less than ten nor more than twenty days before the meeting in a newspaper published at least once weekly, and documentation of this notice being published should be maintained by the City.

- (I) 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 and, as such, the County Auditor shall provide available TIF increment property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. 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 November 2020, the City certified one rebate agreement for \$10,000, which was previously certified. This agreement was certified in its entirety in previous years, however, as the agreement contains an annual appropriations clause, only the amounts annually appropriated should be certified each year. The City did not maintain documentation that this amount was properly appropriated by the City Council. The County Auditor identified the debt as being previously certified and did not include as debt to be paid from available TIF funds. Additionally, the City did not retain a copy of one of the rebate agreements.

Also, one rebate agreement stated that 100% of tax increments are to be paid to the developer. However, less than 100% of tax increments were paid in the year ending June 30, 2021.

Recommendation – The City should review its procedures to ensure TIF debt is certified only once, as required, and that agreements with annual appropriation clauses are properly certified each year. Also, the City should develop policies and procedures to ensure that payments made on rebate agreements are in accordance with the terms stated in the agreements. Copies of all rebate agreements should be retained.

- (J) Disbursements – The following items were observed:

- Seven of seven credit card disbursements observed did not have supporting documents.
- Twenty-six of thirty disbursements observed did not have supporting documentation.
- Two disbursements observed were coded to the incorrect fund or function in the City’s general ledger.
- The public purpose was not clearly documented for one disbursement for a \$700 donation to Upper Des Moines Opportunity, Inc. for a fundraising campaign.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

Recommendation – The City should maintain support for all disbursements. Also, the City should develop policies and procedures to ensure all disbursements are coded to the correct fund and function in the City’s general ledger. In addition, the City Council should determine and document the public purpose served for payments to organizations related to their fundraising. The City should establish written policies and procedures for proper public purpose documentation.

- (K) Private Nonprofit Organization – During the year ended June 30, 2021, the City donated \$500 to Iowa Rural Water Association, a Chapter 501(c)(3) nonprofit corporation to be used for scholarships.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private nonprofit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which government can’t perform directly.” The Opinions further state, “Even if the function of a private nonprofit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

Political subdivisions and municipalities, including cities, counties, schools and townships are municipal - governmental entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by the government, the private organization is not subject to the same degree of public accountability and oversight as governmental entities.

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private nonprofit corporations.

- (L) Annual Financial Report (AFR) – Chapter 384.22 of the Code of Iowa states “Not later than December 1 of each year, a city shall publish an annual financial report as provided in Section 362.3 containing a summary for the preceding fiscal year of all collections and receipts, all accounts due the city and all expenditures, the current public debt of the city, and the legal debt limit of the city for the current fiscal year.” The City published this report after December 1st.

In addition, the City had the following errors in the AFR relating to the current public debt of the City:

- Total long-term debt outstanding as of July 1, 2020 was understated by \$93,991.
- Total long-term debt retired during fiscal year 2021 was understated by \$11,232.
- Total long-term debt outstanding as of June 30, 2021 was understated by \$82,759.
- Total interest paid in fiscal year 2021 was understated by \$6,312.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

Recommendation – The City should establish procedures to ensure the AFR is published timely. In addition, the City should establish procedures to ensure the amounts reported in the AFR are accurate and supported by the 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.

(M) Financial Condition – The following funds had deficit balances at year end:

- The Special Revenue, Road Use Tax Fund had a deficit balance of \$3,578.
- The Special Revenue, Employee Benefits Fund had a deficit balance of \$10,215.
- The Debt Service Fund had a deficit balance of \$14,629.
- The Enterprise, Water Fund had a deficit balance of \$159,160.
- The Enterprise, Landfill/Garbage Fund had a deficit balance of \$167,343.

Recommendation – The City should investigate alternatives to eliminate these deficit balances in order to return these funds and balances to a sound financial position.

(N) Monthly City Clerk’s Report – Documentation was not maintained to support the monthly City Clerk’s report was provided to the City Council.

Recommendation – The City should develop procedures to ensure a monthly City Clerk’s report is provided to the City Council. This report should include receipts, disbursements, transfers, and balances for each fund and a comparison of actual disbursements to budget by function. In addition, a copy of these reports should be maintained by the City.

(O) Revolving Loans – At June 30, 2021, the City had seven outstanding economic development loans with an estimated total of \$88,058. The City did not maintain updated supporting documentation to show what the actual uncollectible balance was as of June 30, 2021. Based on discussions with City personnel, the City does not believe they will collect on these loans.

Recommendation – The City Council should determine whether balances of the uncollectible loans should be written off. Also, the City should track payment terms, loans disbursed, payments received and amounts outstanding for all revolving loans.

(P) Interfund Transfers – Section 545-2 of the City Finance Committee Rules require “A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose 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.” Transfers were not approved by the City Council by resolution.

In addition, there were twelve transfers observed during the fiscal year ended June 30, 2021 which were not properly recorded as transfers in or transfers out.

Recommendation – Transfers should be approved by resolution and the resolutions approving all fund transfers should include the information required by Section 545-2 of the City Finance Committee Rules. In addition, all transfers should be properly recorded in the City’s ledgers as transfers in and transfers out.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (Q) Utility Billing Rates – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. We observed the approved rates for water and sewer were not properly applied, or the City did not retain ordinances of the current approved utility rates. In addition, documentation could not be located to support the City Council’s approval of a sewer minimum fee and a sewer improvement fee.

Recommendation – The City should ensure all utility rates are established by City ordinance and ensure all ordinances are retained, as required. The City should ensure approved utility rates are used for all utility billings.

- (R) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires the LOST collections be allocated in varying percentages to a variety of different functions. The City has not properly tracked the use and unspent balances of LOST collections to demonstrate compliance with the ballot requirements.

Recommendation – The City should establish procedures to track the use of LOST collections and unspent balances to ensure LOST collections are being used in accordance with the ballot.

- (S) Water Revenue Capital Loan Notes – Section 19 of the water revenue capital loan notes resolution requires that rents, rates and other charges shall be at least sufficient to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest due the succeeding fiscal year on the revenue note. The Enterprise, Water Fund did not meet the net revenue requirement during the year.

Recommendation – The City should review the utility rates and make appropriate adjustments to ensure sufficient net revenues are produced to pay principal and interest due the succeeding fiscal year in accordance with the net revenue requirement.

- (T) Receipts – We observed the City recorded in the general ledger three receipts relating to the City’s pool on October 15, 2020 in the total amount of \$181 which could not be traced to a deposit in any of the City’s bank accounts.

Recommendation – The City should implement procedures to ensure all receipts are recorded timely, properly and are supported and deposits in the City bank accounts agree to the general ledger.

- (U) Surety Bonds – The City has an ordinance requiring surety bond coverage for the Mayor and the City Clerk. The current bonds in place provide coverage for the Mayor up to \$2,000 and the City Clerk up to \$5,000. These limits may be insufficient in case of loss.

Recommendation – The City should review and determine if the amount of coverage in the current ordinance for the surety bonds on City officials and employees is sufficient and amend as necessary.

- (V) Annual Urban Renewal Report – The City overstated the amount reported as TIF debt outstanding on the fiscal year 2020 Annual Urban Renewal Report (AURR) Levy Authority Summary by \$50,000.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with City records.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

(W) Payroll Rates – There were two wage increases approved for City employees where the approved wage was not clearly stated in the City Council minutes.

Recommendation – The City should clearly state approved wages in the City Council minutes.

(X) Criminal Investigation – Former officials of the City are currently under investigation. As a result of the investigation, certain records were seized by the Iowa Division of Criminal Investigation. See page 6 of this report for a list of items that were unavailable during the examination.

City of Armstrong

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Lesley R. Geary, CPA, Manager
Brett S. Gillen, CPA, Senior II Auditor
Kari L. Middleton, Staff Auditor