



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Jim Cunningham
515/281-5834

FOR RELEASE

August 20, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Zearing, Iowa for the period July 1, 2022 through June 30, 2023. The agreed-upon procedures engagement was performed at the request of petitioners pursuant to Chapter 11.6(3) of the Code of Iowa. The petition submitted requested an audit or examination. In accordance with Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns.

Sand reported eighteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 16 of this report. The findings address issues such as a lack of segregation of duties, the lack of reconciliations of cash balances to bank account balances and utility billings, collections and delinquent accounts and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

The City 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 ZEARING
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023

City of Zearing



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0006
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Rob Sand
Auditor of State

July 29, 2024

Officials of the City of Zearing
Zearing, 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 Zearing, 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 the attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Zearing 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

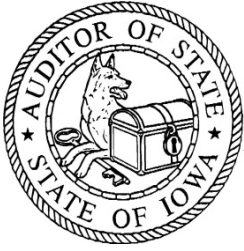
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City of Zearing

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Tim Reed	Mayor	Jan 2021	Jan 2023
Gerald Lee Murrell Jr.	Council Member	Jan 2020	Jan 2024
David Skinner	Council Member	Jan 2020	Jan 2024
Rick L. Good	Council Member	Jan 2022	Jan 2026
Sandy Perisho	Council Member	Jan 2022	Jan 2026
David J. Tisdale	Council Member	Jan 2022	Jan 2026
Karen Davis	City Clerk		(Terminated July 2024)
Lori Bennet	Interim City Clerk		Indefinite
Sarah Franklin	City Attorney		Indefinite



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Rob Sand
Auditor of State

Auditor of State's Independent Report on Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of Zearing in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Zearing 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 Zearing'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 Zearing'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. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B, 10B and 556.1(12) of the Code of Iowa.

9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. 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 Zearing'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 Zearing 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 Zearing 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.



James S. Cunningham, CPA
Chief Deputy Auditor of State

July 29, 2024

Detailed Findings and Recommendations

City of Zearing

Detailed Findings and Recommendations

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

- (A) Fiduciary Oversight – 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. Many of the findings included in the report indicate the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring the review of pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

- (B) 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 – investing, recordkeeping and maintenance of records.
- (3) Receipts – opening mail, collecting, deposit preparations, depositing, recording and reconciling.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording. The same individual also has access to credit cards.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting, maintaining accounts receivable records and enters rates into the utility billing system.
- (7) Long-term debt – recording, reconciling and debt payment processing.
- (8) 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.

City of Zearing

Detailed Findings and Recommendations

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

(C) General Ledger – The City did not properly include all receipts and disbursements in the City’s general ledger. Specifically, the following items were not properly recorded in the City’s general ledger:

- Local option sales tax receipts and disbursements,
- Principal and interest payments made on the City’s building loan,
- Principal, interest and servicing fee on the City’s SRF loan, and
- Four receipts from the State of Iowa.

These deposits and disbursements cleared the City’s bank account. However, as a result of deposits and disbursements not properly recorded in the City’s accounting system, the City’s general ledger is not accurate.

Recommendation – The City should implement procedures to ensure all collections and disbursements are properly recorded in the City’s accounting system in a timely manner.

(D) 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.

Because the City’s general ledger was not kept up-to-date and the amounts reported in the general ledger were not accurate, we were unable to perform a reconciliation of the City’s bank and investment account balances to City records.

Recommendation – The City should maintain an accurate, up-to-date general ledger of the City’s activity and fund balances. In addition, the City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly to ensure all activity is properly recorded in the City’s general ledger and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(E) Annual Financial Report – We observed the City completed the fiscal year 2022 Annual Financial Report (AFR) and that the AFR 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.

Recommendation – The City should maintain an accurate, up-to-date general ledger of the City’s activity and fund balances. The City should then ensure receipts, disbursements and fund balances reported on the AFR agree with the City’s records and that those financial reports are filed timely.

City of Zearing

Detailed Findings and Recommendations

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

(F) City Council Meeting Minutes – The following items were noted with the City Council 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. For the four meeting minutes tested, the minutes were not published within 15 days of the meeting.
- Chapter 372.13(6) of the Code of Iowa requires that a summary of all receipts be included in the City Council minutes. This is not being included in the posted City Council minutes.

Recommendation – The City should comply with chapter 372.13(6) of the Code of Iowa and publish City Council minutes within 15 days of the meeting and include a summary of receipts for each City fund, as required.

(G) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amount budgeted in the community and economic development and business type enterprise 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.” Additionally, the fiscal year 2023 budget, which was required to be certified by March 15, 2022, per Chapter 24.17 of the Code of Iowa, was certified on July 5, 2022.

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. Additionally, the City should ensure the budget for subsequent years is certified by March 15th in accordance with Chapter 24.17 of the Code of Iowa.

(H) Property Taxes – Chapter 24.17 of the Code of Iowa states, “The department of management shall certify the taxes back to the county auditor by June 15.” Because the City did not adopt their budget until July 5, 2022, the City did not receive any property tax payments in fiscal year 2023.

Recommendation – The budget should have been adopted in accordance with Chapter 384.18 of the Code of Iowa before the annual deadline.

(I) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. A delinquent listing was prepared monthly, however there was no evidence of independent review of the listing.

Recommendation – 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.

(J) Monthly City Clerk’s Report – The City Clerk is not preparing a monthly City Clerk’s report. The City Council was provided monthly claims listing and monthly credit card statements. The City Council was not provided with detailed receipts and ending balances by fund.

Recommendation – The City should establish procedures to ensure monthly City Clerk’s reports including a summary of beginning balances, receipts, disbursements, transfers, and ending balances by fund are prepared and provided to the City Council every month.

City of Zearing

Detailed Findings and Recommendations

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

- (K) Financial Condition – The fund balance report provided from the City’s accounting system showed that the General Fund, Employee Benefits Fund and the Enterprise Water fund had deficit balances of \$400,638, \$64,020 and \$255,431, respectively, at June 30, 2023. However, because not all receipts and disbursements were entered in the City’s accounting system, we are unable to determine the accuracy of the balances reported.

Recommendation – The City should implement procedures to ensure all collections and disbursements are properly recorded in the City’s accounting system. The City should investigate the reason for these deficit balances and alternatives to eliminate the deficits in order to return the funds to a sound financial position.

- (L) Local Option Sales Tax (LOST) – The City’s LOST ballot requires receipts to be used 100.0% for community betterment. The City has not established a LOST fund. Additionally, LOST receipts and disbursements were not properly recorded in the City’s accounting system. As a result, we were unable to determine compliance with the LOST ballot provisions.

Recommendation – The City should establish a LOST fund, document the collection, disbursement and balance of LOST funds. Disbursement of these funds should be properly identified to document compliance with the LOST ballot provisions.

- (M) Voided Receipts – Reports of voided receipts are not periodically prepared and voided receipts are not independently reviewed.

Recommendation – The City should develop policies and procedures to ensure that reports of voided receipts are periodically prepared and that voided receipts are independently reviewed.

- (N) Payroll – Wage increases were approved by the City Council as a dollar increase rather than as an hourly rate.

Recommendation – The City Council should ensure pay rates are properly approved in resolutions and recorded in the City’s accounting system. In addition, the City Council should review the current hourly rate and the proposed hourly rate to ensure the approved hourly rate increase is applied accurately.

- (O) Disbursements – The following items were noted:

- Six of thirty disbursements tested, were not approved or authorized by the City Council.
- Three of thirty disbursements tested, were approved by the City Council, however they were approved over 2 weeks after the check was issued. The City does not have a policy allowing for the pre-payment of certain disbursements before City Council approval.

Recommendation – All disbursements should be approved by the City Council prior to payment and the approval should be documented in the City Council minutes.

City of Zearing

Detailed Findings and Recommendations

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

- (P) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined by the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Marco	Copier lease payment late fee	\$ 33

According to the opinion, it is possible for such 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 should ensure that obligations of the City are paid timely and intact to avoid late payment fees in the future.

- (Q) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Descriptions</u>	<u>Amount</u>
Rick Good, City Council Member, Owner of Good II Go	Fuel and miscellaneous supplies	\$ 7,743

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member appears to represent a conflict of interest since total transactions were more than \$6,000 during the fiscal year. Business transactions between the City and City officials or employees is discussed in further detail below.

In addition, we noted that 42 of the 124 transactions to “Good II Go” were not properly supported by an invoice, resulting in \$2,489 of unsupported disbursements.

Recommendation – The City should maintain supporting documentation for all disbursements. The City should consult legal counsel to determine the disposition of this matter.

City of Zearing

Detailed Findings and Recommendations

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

(R) Petition for Examination – We received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of Zearing in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner’s concerns and we have performed applicable procedures. The concerns provided to us along with information we obtained while performing the procedures is included in the following paragraphs.

1) Budget – The following concerns were identified:

- The City has not made the deadline for the budget to be certified for four years.
- The fiscal year 2023 budget was certified late, resulting in the loss of property tax to the City.
- The City Clerk turned down an offer of help from the department of management to help complete the City’s budget in time.

Auditor’s Response –

- We observed the fiscal year 2019, 2020, 2021, 2022 and 2023 budgets. We determined that the fiscal year 2019 and 2020 budgets were properly adopted prior to the March 31st deadline, being adopted on March 19, 2018 and on March 25, 2019, respectively. We determined the fiscal year 2021 and 2023 budgets were not properly adopted prior to the March 31st deadline, being adopted on May 18, 2020 and on July 5, 2022, respectively. We determined the City did not adopt a fiscal year 2022 budget as required by the Code of Iowa.
- Based on conversations with Department of Management (DOM) officials, the City Clerk did not reach out for assistance, but DOM did correspond with the City in the Spring of 2022 about the budget not being submitted.

Recommendation – The City should ensure the budget is certified by March 15th in accordance with Chapter 24.17 of the Code of Iowa. In addition, the City Council, in its fiduciary capacity, should adopt a City budget which provides for the City to remain in a sound financial position. Also, the City should retain documentation supporting the development of the budget.

2) Community Catalyst Grant – The petitioners noted a concern with the Grant being awarded to Rick Good, a City Council member, when the Zearing Library was expected to receive the funds. The City’s Library Board had completed the paperwork requesting the funds and not Mr. Good.

Auditor’s Response – Based on our review of the Community Catalyst Grant and supporting documentation maintained by the Iowa Economic Development Authority and the City of Zearing, it was determined the City of Zearing owns the property that the Community Catalyst Grant was awarded for the façade project. The funds were remitted properly, and the City followed the grant guidelines and standard procedures established by the grant.

City of Zearing

Detailed Findings and Recommendations

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

- 3) Derecho Clean Up – The City issued a check to Rick Good, a City Council Member for work completed for the City’s benefit. Other volunteers were not reimbursed for their time or use of equipment related to the derecho storm clean up.

Auditor’s Response – We reviewed disbursements from the City’s bank accounts and charges on the City’s credit card for the period of August 10, 2020 through June 30, 2023, the period identified as related to the Derecho clean up. We identified a total of Thirty-one disbursements from the City’s checking account totaling \$305,561.03 were for goods and/or services related to the derecho storm clean up and/or repairs made to City owned property after the storm.

- Three of the thirty-one disbursements are included in finding 7 related parties below.
- We identified one payment of the remaining twenty-eight disbursements that was not properly supported by an invoice in the City’s records, resulting in \$667.38 of unsupported disbursements. Additionally, we determined that three of the twenty-eight disbursements were not properly approved by the City Council totaling \$21,345.72.
- Nine charges on the City’s Chase credit card that were for goods and/or services related to the derecho storm clean up and/or repairs made to City owned property after the storm. Based on review of supporting documentation, these nine charges were properly supported and reasonable for the operation of the City.

Recommendation – The City should document in the City Council minutes which disbursements were approved at that meeting. Also, the City should develop policies and procedures to maintain supporting documentation for disbursements.

- 4) COVID Utility Assistance – During the COVID-19 pandemic, citizens were encouraged to seek out water utility payment assistance through a program ran by Low-Income Household Water Assistance (LIHWAP). Concerns were made about how these funds were awarded and who received assistance as a part of this program.

Auditor’s Response – Based on our review of documentation regarding the LIHWAP program, this was administered by Mid-Iowa Community Action, Inc; the City did not determine eligibility or issue assistance to citizen as part of this program.

Based on our review of the City Council meeting minutes, the City’s only action taken regarding utility payments during the COVID-19 pandemic was the approval of not shutting off service to citizens due to late payment during calendar year 2020.

- 5) Staggering of City Council Member’s Terms – City Council members’ terms are not staggered.

Auditor’s Response – Based on our review of election ballots for the period of July 1, 2019 through June 30, 2023, the City is properly staggering terms of City Council members.

City of Zearing

Detailed Findings and Recommendations

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

- 6) Holiday Bonuses for City Employees – Holiday bonuses were paid to City employees.

Auditor’s Response – Based on our review of City Council meeting minutes and the City’s bank records for the period of July 1, 2019 through June 30, 2023, there were no instances of holiday bonuses paid to City employees.

- 7) Related Party Transactions – Concerns were identified regarding business transactions with elected officials.

Auditor’s Response – Based on our review of disbursements issued from the City’s bank accounts and charges on the City’s Chase credit card, the following concerns were identified:

- Sixteen disbursements from the City’s checking account totaling \$26,845.24 that were issued to R.L. Good Oil Co, which is owned by City Council member Rick Good for the period of July 1, 2019 through June 30, 2022.

Fiscal Year	Number of Transactions	Transaction Descriptions	Amount
2020	6	Fuel, miscellaneous supplies	\$ 1,825.39
2021	8	Fuel, truck rental, misc. supplies	12,429.38
2022	2	Miscellaneous supplies	12,590.47
Total	16		\$ 26,845.24

In addition, we noted that six of the sixteen transactions to R.L. Good Oil Co were not properly supported by an invoice, resulting in \$898.71 of unsupported disbursements.

- 242 charges on the City’s Chase credit card totaling \$9,315.50 at Good II Go, which is owned by City council member Rick Good for the period of July 1, 2019 through June 30, 2022 and July 1, 2023 through July 31, 2023. The fiscal year 2023 activity is included in Finding Q above.

Fiscal Year	Number of Transactions	Transaction Descriptions	Amount
2020	46	Fuel, miscellaneous supplies	\$ 752.58
2021	80	Fuel, miscellaneous supplies	2,914.69
2022	101	Fuel, miscellaneous supplies	4,662.88
2024*	15	Fuel, miscellaneous supplies	985.35
Total	242		\$ 9,315.50

* - Only included July 2023 activity for this line item.

In addition, we noted that 72 of the 242 charges to Good II Go were not properly supported by an invoice, resulting in \$2,669.23 of unsupported disbursements.

We also identified one charge to Good II Go totaling \$3.20 for Jalapeno Poppers. The \$3.20 is considered an improper purchases.

City of Zearing

Detailed Findings and Recommendations

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

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member appears to represent a conflict of interest since total transactions were more than \$6,000 per fiscal year for fiscal year 2021 and 2022, respectively.

Recommendation – The City should maintain supporting documentation for all disbursements. Additionally, the City should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation. The City should consult legal counsel to determine the disposition of this matter.

- 8) Credit Card Transactions – Concerns were identified regarding meals purchased with the City's Chase credit card, as well as interest and late fee charges.

Auditor's Response – Based on our review of charges made on the City's credit card, the following concerns were identified:

- Twenty-four transactions totaling \$1,143.98 were for purchase interest charges and/or late fees. The \$1,143.98 are improper charges.
- Six transactions totaling \$235.62 were for purchases at local restaurants for meals, these six transactions were not properly supported in the City's records.

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

- 9) Utility Billings – Concerns regarding inaccurate utility bills including overcharges and adjustments needed.

Auditor's Response – We observed the Utility Billing History report for all accounts and the Utility system's adjustment report for the period of July 1, 2019 through June 30, 2023 and identified the following concerns:

- 120 adjustments were made to individual utility accounts. Fifteen of the 120 were writing off bad debts. Eight of the adjustments did not have an explanation or reason listed in the City's utility system. One of the 120 adjustments was approved by the City Council.
- The August 16, 2021 City council meeting minutes mentioned a glitch in the City's utility system and that meters were being re-read for accounts with large variances from their normal billings, however the City Council did not make a motion for this action.
- 752 instances where late fees were not assessed. This affected 128 accounts.

City of Zearing

Detailed Findings and Recommendations

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

- Nine utility accounts showed no usage for various periods of time totaling 164 months with no usage listed on the utility system.
- 1,204 months affecting 249 utility accounts where the current reading on the utility billing history report matched the previous month's ending reading. Specifically, there was no change to the current month in water and wastewater usage.

Additionally, it was noted that 197 accounts all had their current monthly usage matching the previous month's ending usage for the July 2021 billing.

Recommendation – The City should develop policies and procedures to ensure adjustments are periodically reviewed and approved by someone independent. Delinquent accounts should not be written off without City Council approval. In addition, City officials should establish policies and procedures and ensure compliance with policies regarding service or late fees and accounts in arrears such as shut offs and liens. The City should consult legal counsel to resolve the issue regarding late fees that should have been assessed but were not.

City of Zearing

Staff

This engagement was performed by:

James S. Cunningham, CPA, Chief Deputy
Ryan T. Jelsma, CFE, Manager
Ridge G. Nennig, Staff Auditor
Gono Quaye, Staff Auditor