



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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Des Moines, Iowa 50319-0006
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NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

September 13, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of New Sharon, 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 nine findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 and 10 of this report. The findings address issues such as a lack of segregation of duties, disbursements exceeding budgeted amounts, deficit fund balances and an incomplete depository resolution. Sand provided the City with recommendations to address each of the findings.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

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CITY OF NEW SHARON

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

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

City of New Sharon



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

May 17, 2024

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

Sincerely,

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

Rob Sand
Auditor of State

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City of New Sharon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeffrey Long	Mayor	Jan 2024
Larry Applegate	Council Member	Jan 2024
Ron Wyatt	Council Member	Jan 2024
Tom German	Council Member	Jan 2026
Ben Hanson	Council Member	Jan 2026
Justin Stout	Council Member	Jan 2026
Lisa Munn	City Clerk	Indefinite
Dustin Hite	Attorney	Indefinite

City of New Sharon



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Rob Sand
Auditor of State

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 New Sharon 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 New Sharon'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 New Sharon'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 were in place and incompatible duties, from a control standpoint, were 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 were 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. The City had no TIF.
11. We traced selected receipts for accurate accounting and consistency with the recommended COA.
12. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
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. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
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 New Sharon'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 New Sharon 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 New Sharon 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

May 17, 2024

Detailed Findings and Recommendations

City of New Sharon

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) Investments – recordkeeping, investing, custody of investments and reconciling.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Journal entries – preparing, reviewing and approving.

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) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the business type activities function before the budget was amended. 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.

(C) Financial Condition – At June 30, 2023, the City had deficit balances in the Special Revenue, Employee Benefits Fund and Enterprise, Water Fund of \$124,477 and \$2,420, respectively.

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

(D) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit these obligations, as required.

Recommendation – Outstanding obligations should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

City of New Sharon

Detailed Findings and Recommendations

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

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

Recommendation – The City should adopt a formal written policy regulating the use of credit cards. The policy, at a minimum should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the type of supporting documentation required to support the charges.

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report (AFR) to contain "a summary for the preceding fiscal year of all collections and receipts, all accounts due to the City, and all expenditures..." Certain receipts included in the City's AFR for the fiscal year ending June 30, 2023 did not agree to City's records.

Recommendation – The City should establish procedures to ensure amounts reported in the AFR agree to 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.

- (G) 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 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 City made transfers between funds totaling \$80,500 which were not approved by resolution. In addition, the City incorrectly coded \$9,523 of regular disbursements as transfers.

Recommendation – The City Council should ensure all transfers are approved by resolution as required by Section 545-2 of the City Finance Committee Rules. In addition, the City should develop procedures to ensure disbursements and transfers are properly coded.

- (H) Depository Resolution – Although a resolution naming official depositories has been approved by the City, the maximum deposit amounts for each bank were not included on the depository resolution 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 12.C.2 of the Code of Iowa.

- (I) 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.

City of New Sharon

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Tiffany M. Ainger, CPA, Manager
Hunter W. Penton, Staff Auditor
Amila Tursunovic, Staff Auditor