



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Pam Bormann
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FOR RELEASE

October 3, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Armstrong, Iowa, for the period July 1, 2021 through June 30, 2022. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported nineteen 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 reconciliations of utility billings, collections and delinquent accounts, disbursements exceeding budgeted amounts and transfers not approved by resolution. Sand provided the City with recommendations to address each of the findings.

Eighteen 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, 2021 THROUGH JUNE 30, 2022

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

August 6, 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, 2021 through June 30, 2022. 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Armstrong

Officials

(Before January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Travis Schueller	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
Cindy Kendall	Interim City Clerk	(Resigned July 2021)
Sherry Bradley (appointed July 2021)	City Clerk	(Resigned Sept 2021)
Angela Thompson	City Clerk	Indefinite
David Stein, Jr.	Attorney	Indefinite

(After January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Travis Schueller	Mayor	Jan 2024
JoAnn Eaton	Council Member	Jan 2024
Robb Nutt	Council Member	Jan 2024
Arden Kinnander	Council Member	Jan 2026
Nick Mart	Council Member	Jan 2026
Ron Trenary	Council Member	Jan 2026
Angela Thompson	City Clerk	Indefinite
David Stein, Jr.	Attorney	Indefinite

City of Armstrong



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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 Armstrong for the period July 1, 2021 through June 30, 2022, 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 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 2022 Annual Financial Report to determine whether it was completed timely and accurately reflected the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We observed 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 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

August 6, 2024

Detailed Findings and Recommendations

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

(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 \$7,163 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, 2022.

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.

(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.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

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

Recommendation – The City should develop policies and procedures to ensure voided receipts are retained and 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.

In addition, the City has twenty-five utility customer accounts listed in their billing system with “old” or “unknown” notations after the customer name or account number totaling \$9,394 which should be reviewed to determine whether they can be collected.

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.

In addition, the City should review their existing customer accounts and determine if any accounts are uncollectible. Uncollectible accounts should be reviewed and approved by the City Council and written off.

- (F) Journal Entries – Journal entries were not reviewed and approved by an independent person. In addition, there was no supporting documentation maintained for journal entries.

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 the review. Also, procedures should be established to maintain supporting documentation for all journal entries made in the City’s accounting system.

- (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 one of the four meetings observed did not have documentation available to determine if the minutes were published within fifteen days. Three of the four 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. City Council meeting minutes did not include a listing of bills approved to determine if actual disbursements made by the City were approved by the City Council.

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 publication documentation for meeting minutes of 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.

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (H) Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amounts budgeted in the public works, health and social services, community and economic development, 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, disbursements exceeded the amount budgeted prior to the budget amendment in the capital projects function. Also, there is no documentation the City published notice of the public hearing on the budget amendment 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) Disbursements – The following items were observed:

- One credit card disbursement observed did not have supporting documents.
- One credit card disbursement observed included payment of sales tax. As a government entity, the City maintains a tax-exempt status. As a result, the City should not incur sales tax.
- One credit card disbursement observed include payment of a \$40 late fee.
- One disbursement observed was coded to the incorrect function in the City’s general ledger.

Recommendation – The City should maintain support for all disbursements. The City should establish procedures to ensure all payments are reviewed timely to prevent the payment of sales tax and late charges. Also, the City should develop policies and procedures to ensure all disbursements are coded to the correct function in the City’s general ledger.

- (J) Annual Financial Report (AFR) – Chapter 384.22 of the Code states in part, “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.” Total long-term debt outstanding as of June 30, 2022, reported in the AFR was overstated by \$5,066,710.

Recommendation – The City should establish procedures to ensure 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.

- (K) Financial Condition – At June 30, 2022, the City had deficit balances of \$4,051 and \$148,491 in the Enterprise, Water and Landfill/Garbage Funds, respectively.

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

City of Armstrong

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (L) 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.

- (M) 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 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.” Nine of fifteen transfers were not approved by the City Council by resolution.

In addition, four transfers observed during the fiscal year ended June 30, 2022 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 interfund transfers should be properly recorded in the City's accounting system.

- (N) Utility Billing Rates – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. Documentation could not be located to support the City Council's approval by ordinance of a sewer minimum fee.

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

- (O) 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.

- (P) 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.

- (Q) Annual Urban Renewal Report – The City overstated the amount reported as TIF debt outstanding on the fiscal year 2021 Annual Urban Renewal Report (AURR) Levy Authority Summary by \$30,000.

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, 2021 through June 30, 2022

- (R) Payroll – The following items were observed:
- For one of five hourly employees observed, there was no timesheet available to support the hours paid were actually worked.
 - For two of five employees observed, the hourly rate used did not agree to the hourly rate approved by the City Council. The employees were paid less than their approved rates.

Recommendation – The City should develop policies and procedures to require all employees to keep timesheets, and the City should maintain those timesheets. Timesheets should be approved by a supervisor, as evidenced by signature or initials of the reviewer and the date of the review. Also, the City should develop procedures to ensure the rates used to pay employees agree to rates approved by the City Council.

- (S) Debit Cards – The City has two debit cards available for use; therefore, there was no process for prior approval of purchases made with the debit cards.

In addition, one of the City's two debit cards was opened in the name of a City employee using the employee's social security number.

Recommendation – The City should prohibit the use of debit cards. The function of a debit card is to provide immediate access to City funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, accounts should not be opened in the name of an employee.

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
Patrick A. Stewart, Staff Auditor