



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

October 3, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Ainsworth, Iowa, for the period April 1, 2023 through March 31, 2024. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations and disbursements exceeding budgeted amounts. 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 AINSWORTH
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2023 THROUGH MARCH 31, 2024

City of Ainsworth



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STATE OF IOWA

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Telephone (515) 281-5834

August 29, 2024

Officials of the City of Ainsworth
Ainsworth, 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 Ainsworth, Iowa, for the period April 1, 2023 through March 30, 2024. 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 Ainsworth 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

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	4-5
Detailed Findings and Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Bank Reconciliations	B 7
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C 7
Certified Budget	D 8
Journal Entries	E 8
Electronic Check Retention	F 8
Deposits and Investments	G 8
Chart of Accounts	H 8
Accounting Policies and Procedures Manual	I 9
Computer System	J 9
Monthly City Clerk's Report	K 9
Staff	10

City of Ainsworth

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Troy McCarthy	Mayor	Jan 2022	Jan 2026
Tim Bean	Council Member	Jan 2022	Jan 2026
Jared Waters	Council Member	Jan 2022	Jan 2026
Devan Worthington-Bentley	Council Member	Jan 2022	Jan 2026
Ron Greiner	Council Member	Jan 2024	Jan 2028
Dave Roberts	Council Member	Jan 2024	Jan 2028
Cheryl Smith	City Clerk/Treasurer		Indefinite
Adam Parsons	Attorney		Indefinite



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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 Ainsworth for the period April 1, 2023 through March 31, 2024, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Ainsworth'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 Ainsworth'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 are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2023 Annual Financial Report to determine whether it was completed timely 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 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. The City had no TIF.
11. We traced selected receipts for 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 Ainsworth'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 Ainsworth 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 Ainsworth 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 29, 2024

Detailed Findings and Recommendations

City of Ainsworth

Detailed Findings and Recommendations

For the period April 1, 2023 through March 31, 2024

(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: investing, record keeping, custody and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (7) Utilities – entering rates into the system, billing, collecting, depositing, posting and maintaining accounts receivable.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording.

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

(B) Bank Reconciliations – Although monthly bank reconciliations were prepared, there was no evidence of review of the reconciliations by an independent person. In addition, the bank reconciliation does not clearly document the total outstanding checks and a listing of outstanding checks is not prepared each month and retained.

Recommendation – An independent person should review the bank reconciliations and document the review by signing or initialing and dating the monthly reconciliation. In addition, the total amount of outstanding checks should be clearly documented on the bank reconciliation and a detailed list of outstanding checks should be prepared each month and retained.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation – 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 date of the review.

City of Ainsworth

Detailed Findings and Recommendations

For the period April 1, 2023 through March 31, 2024

- (D) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the public safety function. In addition, disbursements exceeded the amount budgeted prior to the budget amendment in the culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

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.

- (F) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City did not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (G) Deposits and Investments – A resolution naming the official depository has been adopted by the City Council, but it did not specify the maximum dollar amount which may be kept at the depository as required by Chapter 12C.2 of the Code of Iowa. In addition, a written investment policy has been adopted by the City, however, the policy refers to an outdated Chapter of the Code of Iowa.

Recommendation – The City Council, by resolution, should approve an amount sufficient to cover anticipated balances at the approved depository. In addition, the City should modify the written investment policy to reference Chapter 12B.10B of the Code of Iowa.

- (H) Chart of Accounts – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City did not maintain its accounting system in a format to facilitate clear identification of disbursements by function.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

City of Ainsworth

Detailed Findings and Recommendations

For the period April 1, 2023 through March 31, 2024

- (I) Accounting Policies and Procedures Manual – The City did not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decision so they will not have to be made each time the same, or a similar, situation arises.

- (J) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures over the computer systems for:

- Password privacy and confidentiality.
- Requiring passwords to be changed every 60 to 90 days.
- Requiring backups be performed daily and stored offsite.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer-based system. Also, a written disaster recovery plan should be developed and tested periodically.

- (K) Monthly City Clerk’s Report – The monthly City Clerk’s reports to the City Council included cash balances and month to date receipts and disbursements but did not include beginning balances by fund and comparisons of actual disbursements to the certified budget by function. In addition, the amount of outstanding checks was not included in the disbursements reported.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include beginning and ending balances by fund and comparisons to the certified budget by function. In addition, the amount of outstanding checks should be included in the amount of disbursements reported.

City of Ainsworth

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Gwen D. Fangman, CPA, Manager
Maria R. Collins, Staff Auditor
Jon J. Wilson, Assistant Auditor