



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

October 3, 2024

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

Sand reported fifteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts and the City's meeting minutes not being signed and not including total disbursements by fund, or a summary of all receipts as required. 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 BALDWIN

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

**FOR THE PERIOD
JANUARY 1, 2023 THROUGH DECEMBER 31, 2023**

City of Baldwin



OFFICE OF AUDITOR OF STATE
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State Capitol Building
Des Moines, Iowa 50319-0006
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Rob Sand
Auditor of State

August 26, 2024

Officials of the City of Baldwin
Baldwin, 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 Baldwin, Iowa, for the period January 1, 2023 through December 31, 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 Baldwin 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", written in a cursive style.

Rob Sand
Auditor of State

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City of Baldwin

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|-------------------|----------------|-------------------|---------------------|
| William Rohwedder | Mayor | Jan 2022 | Jan 2024 |
| Sara Bartels | Council Member | Jan 2022 | Jan 2024 |
| Katie Daniels | Council Member | Jan 2022 | Jan 2024 |
| Kelly Eckelberg | Council Member | Jan 2022 | Jan 2024 |
| Amy Hayward | Council Member | Jan 2022 | Jan 2024 |
| Teresa McLeod | Council Member | Jan 2022 | Jan 2024 |
| Carrie Browne | City Clerk | | Indefinite |
| Sara Davenport | Attorney | | Indefinite |



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

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Baldwin for the period January 1, 2023 through December 1, 2023, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Baldwin'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 Baldwin'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 timely and accurately reflects the City's financial information.
7. The City has no investments.
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. The City had no debt.
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. 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 Baldwin'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 Baldwin 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 Baldwin 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 26, 2024

Detailed Findings and Recommendations

City of Baldwin

Detailed Findings and Recommendations

For the period January 1, 2023 through December 31, 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) Accounting system – performing all accounting functions.
- (2) Cash - handling, reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.

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) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, pre-numbered receipts are not issued, and accounting records did not exist to facilitate the proper recording and classification of receipts or disbursements.

Recommendation – The City and Fire Department should work together to ensure accounting duties are segregated to the extent possible, require the issuance of pre-numbered receipts for all collections and record all transactions in the accounting records which properly classify receipts and disbursements.

(C) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to bank balances throughout the year. In addition, a list of outstanding checks was not prepared each month and retained.

For the Fire Department, cash balances in the Fire Department’s check register were not reconciled to bank balances monthly.

Recommendation – The City and the Fire Department should establish procedures to ensure bank balances are reconciled to the general ledger or Fire Department check register monthly and variances, if any, are reviewed and resolved timely. A listing of outstanding checks should be prepared each month and retained. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the signature or initials of the independent reviewer and the date of review.

City of Baldwin

Detailed Findings and Recommendations

For the period January 1, 2023 through December 31, 2023

- (D) General Ledger and Monthly City Clerk's Report– The City's General Ledger does not include activity for the City's savings accounts. The City Clerk's monthly reports to the City Council included year-to-date receipts and disbursements and ending balances for each of the City's checking accounts but excluded activity and balances for the City's savings accounts. The City Clerk's report also did not compare disbursements by function to budgeted amounts. In addition, there is no evidence of an independent review of the City Clerk's Report.

For the period January 1, 2023 through December 31, 2023, the deposits and withdrawals not included in the General Ledger and monthly City Clerk's reports was \$4,126 and \$11,800, respectively. The December 31, 2023 total savings account balance not included in the December City Clerk's report was \$128,772.

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 all checking and savings accounts and comparisons to the certified budget by function. The monthly City Clerk's report should be reviewed by an independent person and the review should be documented by the signature or initials of the independent reviewer and the date of review.

- (E) 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.

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

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. In addition, the delinquent account listing is not reviewed by an independent person.

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.

- (G) Receipts – An initial listing of receipts was not prepared by a person who is independent of the receipt and deposit function.

Recommendation – Someone independent of the receipt recording and deposit function should open the mail and prepare a listing of checks received. The independent person should later test the listing by tracing the receipts to proper posting and deposit.

City of Baldwin

Detailed Findings and Recommendations

For the period January 1, 2023 through December 31, 2023

- (H) Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use and disposition of any property.”

The City Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. While the Department is a part of the City, the transactions and resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month was not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (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 decisions so they will not have to be made each time the same, or a similar, situation arises.

- (J) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the health and social services and culture and recreation 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.

City of Baldwin

Detailed Findings and Recommendations

For the period January 1, 2023 through December 31, 2023

- (K) 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 total disbursement from each fund, a list of all claims allowed, including the reason for each claim and a summary of receipts. The minutes publication for four of four meetings observed did not include total disbursements from each fund and a summary of receipts.

Chapter 380.7 of the Code of Iowa requires minutes of all City Council proceedings be signed by the City Clerk or Mayor. Meeting minutes for one of four meetings observed was not signed by the City Clerk or Mayor.

Recommendation – The City should comply with the Code of Iowa and include total disbursements by fund and a summary of receipts in the published minutes and ensure all City Council meeting minutes are signed by the City Clerk or Mayor as required.

- (L) Private Nonprofit Organizations – During the year ended June 30, 2023, the City donated \$150 each to Operation New View and the YWCA Clinton, both Chapter 504 nonprofit corporations.

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

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

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

Recommendation – We are not aware of any statutory authority for the City to donate public funds to a private nonprofit organization. If the nonprofit organization provides a service to the City, the City may enter into a contract for services. The agreement should detail the services provided and the cost of those services, as well as provide transparency for the City which allows confirmation the funds were spent as agreed and a clawback provision in the event they were not spent as agreed. If the donation is not providing a service to the City, the City should immediately cease making such donations.

- (M) Restrictive Endorsement – Checks are not restrictively endorsed immediately after they are received by the City Clerk.

Recommendation – To safeguard collections, the City should develop policies and procedures to ensure checks received by the City are restrictively endorsed immediately upon receipt.

City of Baldwin

Detailed Findings and Recommendations

For the period January 1, 2023 through December 31, 2023

- (N) Disbursements – Six of thirty disbursements observed were not supported by a detailed invoice or other supporting documentation.

In addition, one transaction observed included sales tax of \$27. As a government entity, the City maintains a tax-exempt status. As a result, the City should not incur sales tax.

Recommendation – All disbursements should be supported by invoices or other adequate supporting documentation. In addition, the City should establish procedures to ensure all payments are reviewed to prevent the payment of sales tax.

- (O) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The City Council has adopted a resolution naming official depositories as required by Chapter 12C.2 of the Code of Iowa; however, the maximum authorized to be on deposit was exceeded for one month observed.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

City of Baldwin

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Gwen D. Fangman, CPA, Manager
David A. Slocum, CPA, Senior II Auditor
Jon J. Wilson, Assistant Auditor