



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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NEWS RELEASE

Contact: Pam Bormann
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FOR RELEASE

March 12, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Conway, 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 nine 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, dual compensation for one elected official and signing checks in advance. 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 CONWAY
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JANUARY 1, 2023 THROUGH DECEMBER 31, 2023

City of Conway



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Rob Sand
Auditor of State

February 20, 2024

Officials of the City of Conway
Conway, 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 Conway, 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 Conway 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 Conway

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Randy Kernen	Mayor	Jan 2022	Jan 2024
Ron Brammer	Council Member	Jan 2022	Jan 2024
Paul Norton	Council Member	Jan 2022	Jan 2024
Susan Smith	Council Member	Jan 2022	Jan 2024
Linda Bauer	City Clerk		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 Conway for the period January 1, 2023 through December 31, 2023, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Conway'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 Conway'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 2023 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City had no investments.
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. The City had no debt.
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 Conway'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 Conway 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 Conway 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

February 20, 2024

Detailed Findings and Recommendations

City of Conway

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) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
- (4) Payroll – recordkeeping, preparing, signing and distributing.
- (5) Financial reporting – preparing and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office 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 review.

- (B) Bank Reconciliations – A monthly bank reconciliation was performed reconciling the bank to the general ledger; however, there is no evidence an independent review of the bank reconciliations was performed.

Recommendation – An independent person should review the bank reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) 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 does not receive an image of the back of each cancelled check.

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

- (D) City Council Meeting Minutes – Although the minutes of City Council proceedings were posted, they did not include the total disbursements by fund or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and include the total disbursements by fund and a summary of all receipts in the posted minutes.

City of Conway

Detailed Findings and Recommendations

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

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city and all expenditures...”. The City’s fiscal year 2023 AFR reported disbursements and fund balances which do not agree with the City’s records.

Recommendation – The City should establish procedures to ensure the AFR disbursements and ending fund balance agrees with the City's records.

- (F) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires 100% of LOST collections be allocated for property tax relief. The City has not properly tracked the use and unspent balance 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.

- (G) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office but may be reimbursed for actual expenses incurred.”

An Attorney General’s opinion dated August 15, 2018, clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8) (2018) bars city elected officers from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion, Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j) and (k) (2018), is retracted.”

For the period January 1, 2023 through December 31, 2023, a City Council member was paid \$850 for mowing, clearing snow and minor maintenance of City owned equipment. This compensation violates Chapter 372.13(8) of the Code of Iowa, which prohibits elected City officials from receiving compensation as a City employee.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$850 improperly paid to the City Council member.

- (H) Charge Account – The City has a charge account used to purchase fuel for the City lawnmower and snowplow. The City has not adopted a formal policy to regulate the use of the charge account.

Recommendation – The City should adopt a formal written policy regulating the use of City charge account. The policy, at a minimum, should address who is authorized to use the charge account and for what purpose, as well as the types of supporting documentation required to substantiate charges.

City of Conway

Detailed Findings and Recommendations

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

- (I) Checks Signed in Advance – The Mayor and the City Clerk are required to sign all checks upon receipt and review of supporting documentation. The Mayor signs checks in advance.

Recommendation – Checks should not be signed in advance and should not be written and held.

City of Conway

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Deborah J. Moser, CPA, Manager
Nichole D. Tucker, Senior Auditor II