



The State of Iowa has completed an audit of the City of Buffalo's financial records, providing a thorough analysis of our financial documentation and operational processes. This audit plays a crucial role in ensuring transparency, accountability, and the responsible management of taxpayer funds.

We recognize and welcome the importance of this financial review in assessing our fiscal health and identifying opportunities for improvement. By carefully examining the audit findings, we continue to prioritize financial stability and seek corrective measures to enhance our reporting, compliance, and overall financial management.

As part of our commitment to openness and accountability, we have provided responses to the auditors' comments below, ensuring that residents remain informed about how their tax dollars are being managed. We welcome constructive feedback and remain dedicated to implementing necessary improvements that support the long-term financial health of our community.

The City of Buffalo will continue working diligently to strengthen financial practices, address recommendations, and uphold the highest standards of fiscal responsibilities.

Report/Responses:

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 – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, recording, reconciling, maintaining accounts receivable and posting.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

Response: As with many municipalities of similar size, the City of Buffalo has consistently received the recommendation regarding segregation of duties in our audit reports. Over the years, we have inquired about potential measures to mitigate this concern, and the auditors have acknowledged that, given our limited staffing, complete segregation of duties is not feasible.

To address this, we have implemented additional review procedures to enhance oversight and mitigate associated risks. We remain committed to evaluating and strengthening these controls to ensure adequate review and accountability in financial processes.

(B) Bank Reconciliations – Although the November 2023 and June 2024 bank reconciliations were reviewed by an independent person, the reviews were not done timely. In addition, the city record is overstated due to a duplicate journal entry to record June 2024 interest of \$419.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliation timely and document the review by the signature or initials of the reviewer and the date of review on the monthly reconciliations.

Response: The City of Buffalo takes this recommendation seriously and has implemented new procedures to address the issue. However, due to the timing of audits—which assess the previous fiscal year once the next or current year has ended—any procedural changes enacted will only be reflected in the subsequent audit cycle.

During our last audit, we were informed that a review by the Finance Ordinance Committee would be sufficient, with no specific timeline imposed for implementation. Since that time, we have completed another fiscal year and have successfully mitigated this issue through enhanced review procedures.

(C) 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 the Treasurer of State annually. The city did not remit one check which was outstanding for greater than two years.

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

Response: The City of Buffalo has taken proactive steps to address the issue of outstanding uncashed checks reported to the State of Iowa. In response to audit recommendations, we have implemented a new policy to ensure timely review and resolution of outstanding checks, enhancing accountability and compliance with state reporting requirements.

(D) Certified Budget – Disbursements during the year ended June 30, 2024 exceeded the amounts budgeted in the community and economic development, debt service, capital projects and business type activities functions prior to amendment. 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, according to Chapter 24.17 of the Code of Iowa, the 2024 budget was required to be certified by April 30, 2023; however, it was certified on May 18, 2023.

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 ensure the budget for subsequent years is certified in accordance with Chapter 24.17 of the Code of Iowa.

Response: The City of Buffalo has implemented new procedures to ensure the timely filing of budgets and amendments. As part of these improvements, we now require enhanced accountability of expenses before initiating a budget amendment. These measures aim to strengthen financial oversight, improve accuracy in budget planning, and promote fiscal responsibility.

(E) Financial Condition – At June 30, 2024, the City had deficit balances of \$84,779, \$283,275 and \$70,917 in the Special Revenue, Employee Benefit and Enterprise, Water Utility and Sewer Utility Funds, respectively.

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

Response: Deficit Balances as of June 30, 2024: Special Revenue, Employee Benefit Fund: -\$84,779

- This deficit resulted from an accounting setup issue that prevented proper fund distribution.

- The issue has since been resolved, and there is no longer a negative balance in this fund.

Enterprise Funds:

- Water Utility Fund: -\$283,275

- Sewer Utility Fund: -\$70,917

- Both funds experienced deficits due to emergency expenditures that required immediate resolution.

- These deficits have since been mitigated through General Obligation (GO) bond revenue transfers.

(F) Disbursements – One credit card transaction observed included sales tax totaling \$11. As a government entity, the City maintains tax-exempt status. As a result, the City should not incur sales tax.

Recommendation – The City should establish procedures to ensure all payments are reviewed to prevent the payment of sales tax.

Response: The City of Buffalo maintains a strict policy prohibiting the payment of sales tax. Department heads are regularly reminded of this policy to ensure compliance, and City Hall staff,

along with those responsible for reviewing claims, conduct thorough reviews to prevent any inadvertent sales tax payments. Moving forward, we will enhance our review processes to ensure strict adherence to this policy and maintain fiscal responsibility.

(G) Credit Card – The City has credit cards for use by City employees for City business. The credit cards earn reward points on purchases made; however, the City does not have a policy addressing how these rewards are to be used.

Recommendation – The City should consult legal counsel to determine the use of a credit card with a rewards program. If the card continues to be used, the City should develop a written policy addressing rewards programs in order to establish appropriate guidelines.

Response: The City of Buffalo maintains several cards with associated reward programs, which have been accumulating over time. We are currently in the process of developing a structured program to effectively utilize these rewards, ensuring they contribute to the city's financial efficiency and benefit municipal operations.

(H) 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.” The resolution approving monthly local option sales tax transfers to be made throughout the year did not include the dollar amount to be transferred. In addition, the transfer from the Enterprise, Water Utility Fund to the Enterprise, Electric Utility Fund exceeded the resolution by \$16,000.

Recommendation – Resolutions approving fund transfers should include the information required by Section 545-2 of the City Finance Committee Rules and be for the correct amounts.

Response: The City of Buffalo previously approved an ongoing resolution to facilitate the monthly transfer of local option sales tax funds, ensuring an accurate balance of funds. However, upon review, it was determined that this practice did not fully comply with the resolution requirements, which specify that transfer amounts must be clearly defined rather than transferred.

To address this, the city has implemented a procedure requiring the passage of a resolution each month to authorize fund transfers. This ensures up-to-date financial reporting while aligning with state resolution requirements. Additionally, although previous fund allocations were correctly applied, the reporting process did not reflect these transfers in accordance with formal resolution guidelines. To prevent such discrepancies, the city has now established an internal transfer resolution backup system, which undergoes internal approval to verify accuracy before implementation.

(I) Journal Entries – One journal entry observed was not reviewed timely by an independent person.

Recommendation – The City should ensure journal entries are being review timely by an independent person and are supported. The review should be documented by the signature or initials of the reviewer and the date of the review.

Response: During the previous audit, it was identified that journal entries required approval from additional staff. In response, the City of Buffalo implemented a review process in which the Finance Ordinance Committee oversees journal entries to enhance oversight and accountability.

During this audit, it was later clarified that journal entries should be formally reviewed before they are completed—a requirement that was not explicitly outlined in our last audit review. Since then, we have strengthened our internal processes to ensure journal entries undergo proper approval prior to execution. This enhanced internal review is designed to provide greater transparency and compliance with best practices.

J) Receipts – Sales and use tax refund amount of \$637 was miscoded as a property tax receipt.

Recommendation – The City should ensure all receipts are accurate, supported and are coded to the correct receipt code.

Response: The City Hall staff has implemented a revised process to ensure the accurate coding and entry of receipts into the system. This updated approach enhances review procedures, allowing for greater consistency and accuracy in financial reporting. Through improved oversight, we aim to strengthen compliance and maintain transparency in all transactions.

(K) Solid Waste Rates – City Officials were unable to provide the City ordinance which established the solid waste rates for a second trash cart.

Recommendation – Utility rates should be established by ordinance of the City Council as required by Chapter 384.84 of the Code of Iowa. In addition, the city should maintain documentation of the approved utility rates.

Response: The City of Buffalo has identified that additional trash carts were added at the vendor-specified rate; however, an ordinance approving this rate adjustment was not formally passed. To address this oversight, the city is in the process of correcting the issue, with the final reading of the ordinance scheduled for the June meeting.

(L) Community Development Event Gift Cards – On August 14, 2023 the Council approved a motion for the purchase of \$250 in gift cards from businesses to use as prizes for raffle events. According to discussions with the City Clerk and Mayor, the City did not have a policy addressing procedures over gift cards including a method to track the purchase and monitor the distribution of these gift cards.

Recommendation – The City should establish a gift card policy which includes procedures to require an accounting of all gift card purchases and distributions, including signatures of recipients, acknowledging receipt of the gift cards.

Response: After careful review and discussions with the Auditor's Office and City Hall, it has been determined that the required documentation for this funding will not be forthcoming. Based on this

assessment, it is advised by City Hall staff that this type of funding should not be permitted in the future to ensure compliance and fiscal responsibility.

In closing the City of Buffalo is grateful for the opportunity to undergo a thorough financial review conducted by the State Auditors. Their stringent evaluation ensures accountability and transparency in managing public funds, reinforcing our commitment to responsible financial oversight.

We welcome recommendations for new policies or adjustments that can further strengthen our financial practices and improve the city's fiscal management. Our priority remains serving the residents of Buffalo with integrity, ensuring that tax dollars are handled efficiently and responsibly.

We appreciate the collaboration and insight provided throughout this process and look forward to implementing improvements that support the long-term financial health of our community.