



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE _____ February 7, 2014 _____ Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Dike, Iowa for the period July 1, 2012 through June 30, 2013. The examination was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. The City should establish procedures to ensure bank and utility reconciliations are completed monthly and are independently reviewed and the annual financial report is generated accurately. The City should take immediate steps to reduce and eventually eliminate the June 30, 2013 deficit balances of \$690,890 and \$278,093 in the General Fund and the Special Revenue, Road Use Tax Fund, respectively.

A copy of the examination report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1321-0355-BLOF.pdf>.

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CITY OF DIKE
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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City of Dike

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|----------------|---------------------|
| Michael Soppe | Mayor | Jan 2014 |
| Nicholas Cleveland | Council Member | Jan 2014 |
| Chad Cutsforth | Council Member | Jan 2014 |
| Wayne Paige | Council Member | Jan 2014 |
| Luke Osterhaus | Council Member | Jan 2016 |
| Rob Weissenfluh | Council Member | Jan 2016 |
| Patti Freese | City Clerk | Indefinite |
| Ann Hilliard | Deputy Clerk | Indefinite |
| Gary N. Jones | Attorney | Indefinite |



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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Dike pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Dike for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed 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 reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed 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 reviewed 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 reviewed the City's fiscal year 2013 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed 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 reviewed and tested 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 reviewed 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 reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for 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 reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Dike, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Dike, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dike and other parties to whom the City of Dike may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dike during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 25, 2013

Detailed Recommendations

City of Dike

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Long-term debt – recording, reconciling and performing cash functions.
- (7) Investments – recording and custody of investment documents.

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 evidenced 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 two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

(C) Investments – An accounting record/register is not maintained for each investment. Additionally, the location of the investment documentation for one City investment was not known or readily available.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained. Also, all investment documents should be under the control of a responsible official.

City of Dike

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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, document their review and monitor delinquent accounts.

- (E) Payroll – Timesheets did not include evidence of supervisory review. Additionally, the wage of one of five employees tested was not approved by the City Council, as required.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, procedures should be established to ensure approved payroll rates are entered and reviewed by an independent person, with the approval being documented.

- (F) Financial Condition – At June 30, 2013, the City had deficit balances in the following funds:

| Fund | Amount |
|-------------------|-----------|
| General | \$690,890 |
| Special Revenue: | |
| Road Use Tax | 278,093 |
| Employee Benefits | 1,524 |
| Debt Service | 1,831 |

In addition, the City's Local Option Sales Tax (LOST) Fund had a balance of \$602,785 at June 30, 2013. Per the LOST ballot, these funds are to be used 60% for curb and gutter, streets and sidewalk improvements, 20% for property tax relief and 20% for community betterment.

Recommendation – The City should take immediate steps to reduce and eventually eliminate these deficits to return the funds to a sound financial condition. The City should also investigate whether some of the disbursements from the funds with deficit balances listed above meet the requirements of the LOST ballot. If so, the City could reimburse those funds from the Local Option Sales Tax Fund to begin to eliminate some of the deficit fund balances.

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...". The City's Annual Financial Report reported fund balances which did not agree with the City's records.

Recommendation – The errors in the Annual Financial Report should be corrected and the report should be re-filed.

City of Dike

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (H) Deposits – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – 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.

- (I) Transfer and Journal Entry Documentation – Supporting documentation was not maintained for interfund transfers and journal entries. Additionally, transfers and journal entries are not approved.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers and journal entries. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable. Journal entries should be approved by an independent person and evidence of the approval should be documented.

- (J) City Council 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 and include a summary of all receipts. The minutes for all meetings tested did not include a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and publish a summary of receipts in the City Council minutes, as required.

- (K) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the community and economic development 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.

- (L) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

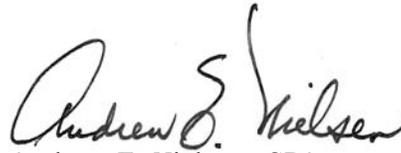
Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

City of Dike

Staff

This examination was performed by:

Brian R. Brustkern, CPA, Manager
Andi J. Kaufman, CPA, Staff Auditor
James P. Moriarty, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State