



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ June 4, 2014 \_\_\_\_\_ Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Remsen, Iowa and the Remsen Municipal Utilities (Utilities) 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 and Utilities review their control procedures to obtain the maximum internal control possible. The City should also establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly. The City should consult legal counsel to determine the proper use of urban renewal low to moderate income set aside and local option sales tax collections.

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/1321-0700-BL0F.pdf>.

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**CITY OF REMSEN AND  
REMSen MUNICIPAL UTILITIES**

**INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT**

**FOR THE PERIOD  
JULY 1, 2012 THROUGH JUNE 30, 2013**

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**City of Remsen and  
Remsen Municipal Utilities**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b><u>City:</u></b>		
Jeff Cluck	Mayor	Jan 2016
Tom Haverkamp	Council Member	Jan 2014
Tom Letsche	Council Member	Jan 2014
Dave Sonnichsen	Council Member	Jan 2014
Mindy Klein	Council Member	Jan 2016
Dick Sievers	Council Member	Jan 2016
Paige List	City Clerk	Jan 2014
Barry Thompson	Attorney	Indefinite
<b><u>Utilities:</u></b>		
Dean Douvia	Utilities Board of Trustees	Jan 2014
Kim Keleher	Utilities Board of Trustees	Jan 2016
Craig Bartolozzi	Utilities Board of Trustees	Jan 2018
Craig Rieter	Utilities Superintendent	Indefinite
Rachel Keffeler	Utilities Clerk	Indefinite



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Independent Accountant's Examination Report

To the Honorable Mayor, Members of the City Council  
and Members of the Utilities Board of Trustees:

We have performed an examination of the City of Remsen, including the Remsen Municipal Utilities (Utilities), 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 Remsen and the Utilities 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 and Utilities Board meeting minutes for compliance with Chapters 21, 372.13(6), 380 and 388 of the Code of Iowa.
2. We reviewed the City's and the Utilities' 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's and the Utilities' 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 and the Utilities Board.
5. We reviewed the City's and the Utilities' 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 and the Utilities. 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. The City's recommendations are included first followed by the Utilities' recommendations.

We were not engaged to and did not conduct an audit of the City of Remsen or the Utilities, the objective of which is the expression of opinions on the City and the Utilities' financial statements. Accordingly, we do not express opinions on the City's or the Utilities' financial statements. Had we performed additional procedures, or had we performed an audit of the City of Remsen and the Utilities, 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 Remsen, the Remsen Municipal Utilities and other parties to whom the City of Remsen and the Utilities 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 Remsen and the Utilities 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

November 21, 2013

## **Detailed Recommendations**

City of Remsen and  
Remsen Municipal Utilities

Detailed Recommendations

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

**City:**

(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) Long-Term Debt – handling, reconciling and recording.
- (5) Investments – handling, reconciling 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) 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. Minutes for one meeting tested were not published within fifteen days.

Recommendation - The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required.

(C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile and the variance was not investigated and resolved. Also, there was no independent review of the monthly bank reconciliations.

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. The City should also establish procedures to ensure the bank reconciliation is independently reviewed in a timely manner, with the review being documented by the signature or initials of the reviewer and the date of the review.

City of Remsen and  
Remsen Municipal Utilities

Detailed Recommendations

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

- (D) Debt Covenants – The City is not in compliance with the sewer revenue debt covenants. Specifically, net revenues were not 110 % of principal and interest due and a separate sinking fund was not established.

Recommendation – The City should review the sewer revenue debt covenants and establish procedures to ensure the covenants are met.

- (E) Bank Loan – During fiscal year 2013, a department head took out a loan from a local bank to fund purchases for the department. This loan was not approved by the City Council and was not run through the City’s financial system.

Recommendation – The City should review policies and procedures and contact local banks to ensure loans are not made in the City’s name without prior City Council approval.

- (F) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, culture and recreation and capital projects 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.

- (G) Payroll – The timesheets of certain City employees were not approved by their supervisor. Another City employee did not complete a timesheet.

Recommendation – The City should review its policies and procedures to ensure timesheets are completed by all employees and approved by their supervisor.

- (H) Questionable Disbursement – A disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented was noted. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Flowers ‘N Things	Flowers sent to an employee’s Father’s funeral service	\$ 28

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

City of Remsen and  
Remsen Municipal Utilities

Detailed Recommendations

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

- (I) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tom Haverkamp, City Council Member, owner of Town & Country Construction	Fire Department steel roof repair	\$ 11,800
Dave Sonnichsen, City Council Member, owner of Sonnichson, LLC	Sidewalk repair	1,821
Mike Ruden, Wastewater Superintendent, owner of Rudy's Repair	Supplies and repairs	738

The transactions with Town & Country Construction, which were formally bid, do not appear to represent a conflict of interest in accordance with Chapter 362.5(2)(d) of the Code of Iowa.

The transactions with Sonnichson, LLC and Rudy's Repair do not appear to represent a conflict of interest in accordance with Chapter 362.5(2)(k) of the Code of Iowa since the total transactions for each were less than \$2,500 during the fiscal year.

- (J) Remsen Heritage Museum Donation – The City has set aside low and moderate income (LMI) funds from an urban renewal area in accordance with Chapter 403.22 of the Code of Iowa. Chapter 403.22(2) defines how these LMI funds are to be used. The City donated \$3,000 to the Remsen Heritage Museum, a private non-profit organization, during the year. This use of the funds does not appear to be in compliance with Chapter 403.22(2) of the Code of Iowa.

Also, the Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit organization. Article III, Section 31 states, in part, “and 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.”

We previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

“...I do not believe that a city library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds’, subject to the

City of Remsen and  
Remsen Municipal Utilities

Detailed Recommendations

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

deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking.”

A 28E agreement, as described in the advice letter, does not exist. We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over the LMI funds to a separate non-profit organization.

Recommendation – The City should consult legal counsel to determine the proper disposition of this matter.

- (K) Annual Urban Renewal Report – Chapter 384.22(2) of the Code of Iowa requires the City to file an annual urban renewal report by December 1 following the end of such fiscal year. The City did not file its annual urban renewal report.

Recommendation – The City should file its annual urban renewal report by December 1 each year.

- (L) Local Option Sales Tax (LOST) – The City receives LOST funds each year which are to be used in accordance with the LOST ballot. The ballot requires these funds to be used 100% for infrastructure and/or economic development. During the year, the City disbursed a large amount of LOST funds for equipment, repair and supplies. These uses of LOST do not appear to be in compliance with the ballot.

Recommendation – The City should consult legal counsel to determine the proper disposition of this matter.

- (M) Separately Maintained Records – The City of Remsen Emergency Medical Technicians and Fire Department maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

Recommendation – 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.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (N) IRS Reporting – The City did not prepare all IRS form 1099s for outside services in excess of \$600.

Recommendation – The City should review vendor disbursements in excess of \$600 and prepare the necessary form 1099s in accordance with IRS filing requirements.

City of Remsen and  
Remsen Municipal Utilities

Detailed Recommendations

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

**Utilities:**

(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 Utilities:

- (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) Long-Term Debt – handling, reconciling and recording.
- (5) Investments – handling, reconciling and recording.
- (6) Utilities – billing, collecting, depositing and posting.

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

(B) Bank Reconciliations – The cash and investment balances in the Utilities general ledger were reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile and the variance was not investigated and resolved. Also, there was no independent review of the monthly bank reconciliations.

Recommendation – The Utilities 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. The Utilities should also establish procedures to ensure the bank reconciliation is independently reviewed in a timely manner, with the review being documented by the signature or initials of the reviewer and the date of the review.

(C) Debt Covenants – The Utilities is not in compliance with the water revenue debt covenants. Specifically, net revenues were not 110% of principal and interest due.

Recommendation – The Utilities should review the water revenue debt covenants and establish procedures to ensure the covenants are met.

City of Remsen and  
Remsen Municipal Utilities

Detailed Recommendations

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

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – The Utilities handles billings for its water, electricity and gas utilities, as well as the City’s sewer and garbage utilities. Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Also, the rates charged to the Utilities Clerk and one City Council Member for sewer services for the period May 15, 2013 to June 17, 2013 were one tier lower than they should have been. The Utilities Clerk’s billing for garbage services was also one tier lower than it should have been for the same period.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The Utilities Board, City Council or other independent person designated by the Utilities Board or City Council should review the reconciliations and monitor delinquent accounts. Procedures should be put in place to ensure all customers are billed at the correct rates each period.

- (E) Payroll – A Utilities’ employee’s timesheet was not approved by a supervisor.

Recommendation – The Utilities should review its policies and procedures to ensure all employees timesheets are approved by their supervisor.

- (F) Unclaimed Property – Per chapter 556.1(12) of the code of Iowa, unclaimed property must be reported to the Office of Treasurer of State annually before November 1. This report was not submitted to the Office of Treasurer of State until November 7.

Recommendation – The Utilities should consult legal counsel to determine the disposition of this matter.

City of Remsen and  
Remsen Municipal Utilities

Staff

This examination was performed by:

Brian R. Brustkern, CPA, Manager  
Stephen J. Hoffman, Staff Auditor  
Brandon A. Soda, Assistant Auditor

A handwritten signature in cursive script that reads "Andrew E. Nielsen". The signature is written in black ink and is positioned above the printed name and title.

Andrew E. Nielsen, CPA  
Deputy Auditor of State