



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

State Capitol Building  
Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ July 9, 2015 \_\_\_\_\_

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Breda, Iowa for the period December 1, 2013 through November 30, 2014. The agreed-upon procedures engagement 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. Also, the City should establish procedures to ensure bank and utility reconciliations are performed monthly and the Annual Financial Report is prepared accurately.

A copy of the agreed-upon procedures 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/1422-0115-EP0P.pdf>.

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**CITY OF BRED A**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
DECEMBER 1, 2013 THROUGH NOVEMBER 30, 2014**

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## City of Breda

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
James Ulveling	Mayor	(Resigned May 2013)
Bruce Boes (Appointed May 2013)	Mayor	Nov 2013
Bruce Boes	Council Member	(Resigned May 2013)
Ann Bierman (Appointed May 2013)	Council Member	Nov 2013
Nick Buelt	Council Member	(Resigned Jan 2013)
Brian Steinkamp (Appointed Feb 2013)	Council Member	Nov 2013
Chad McDermott	Council Member	Jan 2014
Michael Schwabe	Council Member	Jan 2014
Dan Snyder	Council Member	Jan 2016
Diane Lucas	City Clerk/Treasurer	Indefinite
Chris Polking	Attorney	Indefinite
<b>(After January 2014)</b>		
Mike Schwabe	Mayor	Jan 2016
Dan Snyder	Council Member	Jan 2016
Brian Steinkamp	Council Member	Jan 2016
Bruce Boes	Council Member	Jan 2018
Chad McDermott	Council Member	Jan 2018
Martin Snyder	Council Member	Jan 2018
Diane Lucas	City Clerk/Treasurer	Indefinite
Chris Polking	Attorney	Indefinite

**City of Breda**



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## Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Breda for the period December 1, 2013 through November 30, 2014. The City of Breda's management, which agreed to the performance of the procedures performed, is responsible 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 sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

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 2014 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.

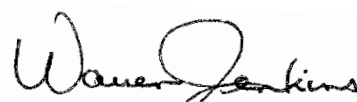
Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the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

We were not engaged to and did not conduct an audit of the City of Breda, 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 Breda, 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 Breda and other parties to whom the City of Breda 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 Breda 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.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 22, 2015



## **Detailed Recommendations**

City of Breda

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

(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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Journal entries – preparing and journalizing.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (10) Computer system – performing all general accounting functions and controlling all data input and output.
- (11) Financial reporting – preparing and reconciling.

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) Monthly City Clerk's Report – The Monthly City Clerk's Report presented to the City Council for approval does not include beginning and ending fund balances for each fund.

Recommendation – The beginning and ending fund balances should be included in the monthly reports presented to the City Council for approval.

(C) Bank Reconciliations – The fund balances in the City's general ledger were not reconciled to bank and investment balances throughout the year.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger fund balances monthly and any variances are reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

City of Breda

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. While a delinquent account listing is maintained, the total delinquent amount does not appear to be accurate. The listing includes accounts the City says are no longer delinquent or collectible and also includes an account for a day care. As an economic incentive to the day care, the City annually forgives the day care’s utilities. However, approval could not be located in the City Council meeting minutes.

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 of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review. Also, all customers should pay for services used. If the City determines certain utility accounts should be forgiven, the City should document the public purpose served by this practice in the City Council meeting minutes.

- (E) 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. One of four monthly minutes reviewed was not published within fifteen days.

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

- (F) Financial Condition – At June 30, 2014, the City had deficit balances of \$17,166, \$34,310 and \$47,633 in the General Fund, the Special Revenue, Tax Increment Financing Fund and the Capital Projects Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

- (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’s receipts and disbursements agreed to the City’s records. However, because of software errors, ending fund balances did not agree with the City’s records.

Recommendation – The City should ensure future Annual Financial Report ending balances agree with the City’s records.

- (H) Payroll – Timesheets did not include evidence of supervisory review. Additionally, in lieu of providing a group health insurance policy, each employee received a \$3,000 wage increase on January 1, 2014. Approval of this increase was not documented in the City Council meeting minutes. In addition, other wage increases were approved based upon a percentage and the actual approved wages were not documented in the City Council meeting minutes.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, procedures should be established to ensure all pay increases and the actual wages to be paid to employees are adequately documented in the City Council meeting minutes.

City of Breda

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

- (I) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the health and social services 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.

- (J) Payment of General Obligation Notes – Principal and interest on certain general obligation notes was paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax must be deposited in the debt service fund.”

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payments on the notes should be made from the Debt Service Fund as required.

- (K) Annual Urban Renewal Report (AURR) – The AURR report was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1. The report was certified on December 9, 2014.

In addition, the outstanding debt and ending cash balance on the Levy Authority Summary do not agree with City records.

Recommendation – The City should approve and file the AURR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City’s records.

City of Breda

Staff

This agreed-upon procedures engagement was performed by:

Ernest H. Ruben Jr., CPA, Manager  
Lucas D. Bernhard, Staff Auditor  
Emma L. McGrane, 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