



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

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Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ June 28, 2016

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Keota, Iowa for the period July 1, 2014 through June 30, 2015. 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. The City should also establish procedures to ensure bank reconciliations are performed monthly and are independently reviewed and the Annual Financial Report is accurate. In addition, the City should comply with the budget amendment requirements of Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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 <https://auditor.iowa.gov/reports/1521-0506-BLOF>.

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CITY OF KEOTA

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

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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City of Keota

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Anthony Cansler	Mayor	Jan 2016
Matt Greiner	Council Member	Jan 2016
Scott Westendorf	Council Member	Jan 2016
Keith Conrad	Council Member	Jan 2018
Kathy Davis	Council Member	Jan 2018
Rod Hill	Council Member	Jan 2018
Nicole Osweiler	City Clerk/Treasurer	Indefinite
Scott Flynn	Attorney	Indefinite

City of Keota



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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 Keota for the period July 1, 2014 through June 30, 2015. The City of Keota'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 2015 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 receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Keota, 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 Keota and other parties to whom the City of Keota 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 Keota 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

February 11, 2016

Detailed Recommendations

City of Keota

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (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, having custody of assets and controlling all data input and output.
 - (2) Cash – handling, reconciling and recording.
 - (3) Investments – investing, recordkeeping, custody of investments and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, journalizing and posting.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
 - (6) Long-term 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 – recordkeeping, preparing, signing and distributing.
 - (10) 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) 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. The City’s monthly bank reconciliations include the City’s checking accounts, but exclude the savings and investment accounts. Also, there is no independent review of the bank reconciliations.

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to the bank and investment accounts monthly. An independent person should review the reconciliations and document the review by signing or initialing and dating the reconciliations.

- (C) Payroll – Timesheets did not include evidence of supervisory review. In addition, the hourly rate for two of five employees tested was not approved by the City Council and hourly rates for three of five employees tested were approved based on a percentage increase with the actual approved rate not being documented in the City Council meeting minutes. Also, two employees received bonuses during the year. While approval of the bonuses was documented in the City Council meeting minutes, the amount of each bonus was not recorded in the minutes.

City of Keota

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. The approval should be documented by the signature or initials of the supervisor and the date of approval. In addition, hourly rates and bonuses for all employees should be approved by the City Council and properly documented in the City Council meeting minutes.

(D) Computer System – The City does not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Requiring backups be performed and stored at an off-site location.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City's control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

(E) Annual Financial Report – The beginning and ending balances reported in the fiscal year 2015 Annual Financial Report (AFR) do not agree with the City's general ledger.

Recommendation – The City should ensure the beginning and ending balances in the Annual Financial Report agree to the City's general ledger.

(F) Monthly City Clerk's Report – A monthly City Clerk's report, including a summary of receipts, disbursements, transfers and balances by fund and a comparison of actual disbursements to the certified budget by function, is not prepared.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes a summary of receipts, disbursements, transfers and balances by fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk's reports should include comparisons to the certified budget by function. The City Council should review and approve the City Clerk's report monthly.

(G) Transfers – Supporting documentation was not maintained for interfund transfers and transfers were not approved by the City Council. In addition, total transfers in did not equal total transfers out.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers. In addition, all interfund transfers should be approved by the City Council, either in the City Council meeting minutes or the budget, as applicable. The City should establish procedures to ensure transfers in equal transfers out.

(H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the general government function prior to the budget amendment. Disbursements at year-end exceeded the amounts budgeted in the public safety and business type activities 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."

City of Keota

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

In addition, the fiscal year 2015 budget certified to the County Auditor did not include the required long-term debt schedule. The City failed to include the general obligation bank loan and three state revolving fund revenue loans.

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. The budget certified should include the required listing of debt.

- (I) City Council Meeting Minutes – The publications of City Council meeting minutes did not include a list of claims allowed as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should publish all claims as required.

- (J) General Obligation Debt – Principal and interest on the City’s general obligation sanitary sewer bonds were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

- (K) Deficit Fund Balance – At June 30, 2015, the Special Revenue, Employee Benefits Fund had a deficit balance of \$23,066.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

City of Keota

Staff

This agreed-upon procedures engagement was performed by:

Deborah J. Moser, CPA, Manager
Dorothy O. Stover, Senior Auditor II
Lucas P. Mullen, Assistant Auditor


Marlys K. Gaston, CPA
Director