



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ September 28, 2016

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Dexter, Iowa for the period January 1, 2015 through December 31, 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 establish procedures to ensure bank reconciliations are performed for separately maintained accounts and all bank account reconciliations are reviewed by an independent person. The City should also establish procedures to ensure utility reconciliations are performed monthly. Mosiman also recommended the City consult legal counsel regarding unsupported tax increment financing (TIF) debt certifications and unallowable project costs paid from the TIF Fund and to determine the disposition of the Debt Service Fund deficit balance.

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/1522-0233-EPOP>.

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CITY OF DEXTER

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

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City of Dexter

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gerald Smith	Mayor	Jan 2016
Ken Ruden	Council Member	Jan 2016
Greg Wahman	Council Member	Jan 2016
Angie Beane (Appointed Sep 2015)	Council Member	Nov 2015
Greg Carrick	Council Member	(Deceased Dec 2015)
Ray Clayton	Council Member	(Resigned Aug 2015)
T.J. Morehouse (Appointed Feb 2016)	Council Member	Nov 2017
Mel Stodden	Council Member	Jan 2018
Julie Jensen	City Clerk	Indefinite
Breanna Young	Attorney	Indefinite

(After January 2016)

Chris Huff	Mayor	Jan 2020
Angie Beane	Council Member	Jan 2018
T.J. Morehouse	Council Member	Nov 2017
Mel Stodden	Council Member	Jan 2018
Brad Jensen	Council Member	Jan 2020
Dave Minturn	Council Member	Jan 2020
Julie Jensen	City Clerk	(Resigned May 2016)
Caroline Bond (Appointed May 2016)	City Clerk	Indefinite
Breanna Young	Attorney	Indefinite

City of Dexter



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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 Dexter for the period January 1, 2015 through December 31, 2015. The City of Dexter'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 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 voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. 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.
15. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
16. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
17. 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 Dexter, 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 Dexter and other parties to whom the City of Dexter 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 Dexter 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

March 21, 2016

Detailed Recommendations

City of Dexter

Schedule of Findings

For the period January 1, 2015 through December 31, 2015

(A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one individual has control over the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Investments – record keeping, investing, custody of investments and reconciling earnings.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
- (6) Payroll – preparation, recording and distributing.
- (7) Long-term debt – recordkeeping, compliance and payment processing.
- (8) Journal entries – preparing and journalizing.
- (9) Financial reporting – preparing and reconciling.
- (10) Computer system – performing all general accounting functions and controlling all data input and output.

For the Community House Board (separately maintained account), one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, recording, depositing and reconciling.

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

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared and maintained. A reconciliation is designed to ensure the proper recording of utility receipts and the propriety of adjustments, write-offs and delinquent account balances.

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 and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

City of Dexter

Schedule of Findings

For the period January 1, 2015 through December 31, 2015

- (C) Bank Reconciliations – Bank reconciliations are not reviewed by an independent person.
Recommendation – The bank reconciliations should be reviewed by an independent person. The independent review should be documented by the signature or initials of the reviewer and the date of the review.
- (D) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.
Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all receipts.
- (E) Treasurer’s Financial Reports – In March 2001, the City was named trustee for a Hoy Trust Museum certificate of deposit (CD) and properly recorded the CD in the City’s financial records. However, in October 2014, the City resigned as trustee and the Iowa District Court appointed the Dexter Community Foundation (Foundation) as trustee. In October 2014, the City turned the CD over to the Foundation. However, as of December 31, 2015, the CD, valued at \$59,080, is still recorded in the City’s general ledger and Treasurer’s monthly financial reports.
Recommendation – Since the City is no longer trustee for the Hoy Trust Museum CD, the CD should be removed from the City’s financial records and reports.
- (F) Credit Cards/Charge Account – The City has credit cards and a Casey’s charge account for use by employees and firefighters while on City business, including the purchase of fuel for City vehicles. The City has not adopted a formal policy to regulate the use of credit cards or charge accounts and has not established procedures for the proper accounting of fuel charges. Supporting documentation was not available to support one \$50 credit card charge tested. Additionally, mileage logs are not maintained for each City vehicle and completed each time a vehicle is fueled. Late fees and penalties totaling \$8 were paid during the year.
Recommendation – The City should adopt a formal written policy regulating the use of City credit cards and the Casey’s charge account. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and the charge account and for what purposes, as well as the types of supporting documentation required to substantiate charges. Policies should require mileage logs be maintained for all City vehicles. The logs should be reviewed periodically and reconciled to purchases. Procedures should be established to ensure timely payment of credit card/charge account bills to avoid late fees and penalties.
- (G) Computer System – The following weaknesses in the City’s computer system were noted:
The City does not have written policies for:
- (1) Requiring the use of a user name or password.
 - (2) Requiring the maintenance of password privacy and confidentiality.
 - (3) Requiring passwords be changed at least every 60 to 90 days.
 - (4) Requiring password history be maintained to prevent employees from reusing the same password.
 - (5) Personal use of equipment and software.
 - (6) Usage of the internet.

City of Dexter

Schedule of Findings

For the period January 1, 2015 through December 31, 2015

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.

- (H) Payroll – Three of five time cards reviewed were not approved and initialed by the employee’s supervisor before the payroll was prepared. Vacation and sick leave records are not reviewed by an independent person. Also, approved hourly rates could not be located for four employees.

Recommendation – Time cards should be approved and initialed by a responsible official before payroll checks are prepared. Records for vacation and sick leave earned and used by each employee should be reviewed and approved by an independent person. Also, the City Council should approve hourly rates for all employees. The approval should be documented in the City Council meeting minutes.

- (I) Community House Board Bank Reconciliations – Monthly reconciliations of book and bank balances for the Community House Board were not prepared and a list of outstanding checks was not always prepared for each month and retained.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved timely. A listing of outstanding checks should be prepared each month and retained. An independent review of the reconciliation should be performed periodically. The independent review should be documented by the signature or initials of the reviewer and the date of the review.

- (J) Annual Financial Report - The Annual Financial Report (AFR) for the year ended June 30, 2015 did not include the separately maintained Community House Board account activities for the year as required by Chapter 384.22 of the Code of Iowa. In addition, restricted funds on hand totaling \$2,743 for support of the public library were not reported as restricted in the General Fund column on page 12 of the AFR. The AFR was not signed and dated by the preparer.

Recommendation - The AFR should include activity for all City accounts. In addition, the portion of the General Fund ending balance levied, collected and held for support of the public library should be reported as restricted. Also, the AFR should be signed and dated by the preparer to authenticate the record.

- (K) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works, culture and recreation and debt service functions prior to the budget amendment. At June 30, 2015, disbursements exceeded the amount budgeted in the business type activities function. 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.

City of Dexter

Schedule of Findings

For the period January 1, 2015 through December 31, 2015

- (L) City Council Meeting Minutes – Minutes publications do not include total disbursements by fund or a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, one of five City Council meeting minutes reviewed were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City Council should publish total disbursements by fund and a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa. All minutes should be signed to authenticate the actions taken, as required.

- (M) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, while the City has adopted a resolution naming official depositories, the maximum amount that may be kept on deposit has not been specified as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. Also, a resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

- (N) Revenue Notes – The following were noted:

- (1) The City's sewer revenue note resolution requires the books and accounts of the sewer utility to be audited annually. The City has not had an annual audit of the sewer utility since fiscal year 2013.
- (2) The City has established the sewer revenue note reserve account required by the sewer revenue note resolutions. However, no transfers were made to the account during fiscal year 2015 and the account balance was not sufficient to meet the reserve account requirements.
- (3) During fiscal year 2015, sewer revenue note principal and interest totaling \$57,177 was paid from the Enterprise, Sewer Sinking Fund. However, transfers from the Enterprise, Sewer Fund to the Enterprise, Sewer Sinking Fund to cover the debt payment totaled only \$52,413 during the year, resulting in a deficit Enterprise, Sewer Sinking Fund balance of \$4,764.

Recommendation - The City should comply with the sewer revenue note provisions and have an annual audit performed on the sewer system. The City should also make the necessary transfers to the sewer revenue note sinking and reserve account, as required.

- (O) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available tax increment financing (TIF) incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

City of Dexter

Schedule of Findings

For the period January 1, 2015 through December 31, 2015

Chapter 403.19(2) of the Code of Iowa states, in part, "That portion of the taxes each year...shall be allocated to and when collected be paid into a special fund of the municipality to pay the principal of and interest on loans, moneys advanced to, or indebtedness, whether funded, refunded, assumed, or otherwise, including bonds issued under the authority of section 403.9, subsection 1, incurred by the municipality to finance or refinance, in whole or in part, an urban renewal project within the area." Chapter 403.19(10)(6) of the Code of Iowa prohibits borrowing from this "special fund".

Prior TIF debt certifications to the County Auditor included unsupported obligations totaling \$263,000 for various projects.

During the year ended June 30, 2015, project costs totaling \$105 were paid from the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund). These costs do not represent a TIF obligation and, accordingly, are not an allowable use of TIF receipts. It appears costs for other projects have been paid from the TIF Fund in the past with no corresponding debt obligation to certify.

During the year ended June 30, 2015, the City transferred \$2,782 from the TIF Fund to the Debt Service Fund to cover the principal and interest due on the general obligation notes issued in 2005. However, the transfer was short of covering the required payment by \$62,783 and the debt service levy was not sufficient to cover this shortage. See item (P) below.

Recommendation – The City should consult TIF counsel to determine the disposition of the unsupported TIF debt certifications, including the amount of TIF debt to be decertified, if any, and the unallowable project costs paid from the TIF Fund. The City should review current and prior transfers from the TIF Fund to the Debt Service Fund to ensure transfers were sufficient or consider other available resources to cover the costs.

- (P) Debt Service Levy – The long term debt schedule in the City's fiscal year 2015 budget reflects \$65,565 of principal and interest for general obligation capital loan notes to be "paid from funds other than current year property taxes." However, during fiscal year 2015, principal and interest totaling \$65,565 for the general obligation capital loan notes was paid from the Debt Service Fund. Transfers from the TIF Fund to the Debt Service Fund for reimbursement only amounted to \$2,782, \$62,783 short of the amount needed.

The long term debt schedule in the City's fiscal year 2015 budget also reflects a \$1,422 debt service levy for the South Dallas County Landfill settlement principal and interest. However, payment for this debt was made from the General Fund, not the Debt Service Fund.

The long term debt schedule in the City's fiscal 2017 budget reflects a \$13,781 debt service levy for the total amount of principal and interest due on its fire truck loan. However, the fire truck was sold in November 2015 and proceeds of \$1,836 were transferred to the Debt Service Fund to help reduce the outstanding principal on the loan. However, the fiscal year 2017 debt service levy was not reduced to reflect the additional resources available to service the debt.

City of Dexter

Schedule of Findings

For the period January 1, 2015 through December 31, 2015

At December 31, 2015, the Debt Service Fund had a deficit balance of \$259,560. It appears this deficit occurred over time by using the Debt Service Fund for principal and interest payments for which there was no corresponding debt service levy or appropriate transfers from other available resources.

Recommendation – The City should immediately consult bond counsel to determine the disposition of these matters.

- (Q) Annual Urban Renewal Report – The annual urban renewal report was not approved and certified to the Iowa Department of Management on or before December 1. The report was approved and filed on December 15, 2015.

In addition, the amount reported by the City as TIF debt outstanding on the Levy Authority Summary was overstated by \$93,983.

Recommendation – The City should approve and file the annual urban renewal report timely and should ensure the amounts reported on the Levy Authority Summary are accurate.

- (R) Separately Maintained Records – The Community House Board maintains a bank account for fundraiser and donation activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports.

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 annual budget and should be reported to the City Council on a monthly basis.

- (S) Financial Condition – The Capital Projects and Debt Service Funds had deficit balances of \$15,608 and \$259,560, respectively, at December 31, 2015.

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

- (T) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Community House Board does not receive images of the back of each cancelled check.

Recommendation – The Community House Board should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (U) Disbursements – Five disbursements tested from July 2015 were not properly approved. An approved bills listings for July 2015 was not prepared for City Council approval.

Recommendation – All disbursements should be approved by the City Council.

City of Dexter

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Jamie T. Reuter, Senior Auditor II
Erin J. Sietstra, Assistant Auditor


Marlys K. Gaston, CPA
Director