

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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

March 6, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Keota, Iowa for the period July 1, 2016 through June 30, 2017. 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 maximum internal control possible. The City should also establish procedures to ensure bank reconciliations and utility reconciliations are performed monthly 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/1721-0506-BLOF>.

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CITY OF KEOTA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017

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City of Keota

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Anthony Cansler	Mayor	Jan 2018
Keith Conrad	Council Member	Jan 2018
Rod Hill	Council Member	Jan 2018
Kathy Davis	Council Member	Jan 2018
Matt Greiner	Council Member	Jan 2020
Scott Westendorf	Council Member	Jan 2020
Nicole Oxweiler	City Clerk/Treasurer	Indefinite
Scott Flynn	Attorney	Indefinite

City of Keota



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Independent Accountant's Report on Applying Agreed-Up 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, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Keota's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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 2017 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.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

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

February 16, 2018

Detailed Recommendations

City of Keota

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

(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, recording 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 recording.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – recordkeeping, preparing 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 has 25 bank and investment accounts, of which only one is reconciled monthly. At June 2017, the total fund balance per the general ledger was \$20,261 higher than the bank balance. The variance is primarily due to the fund balance including two previously cashed certificates of deposit (CD), one cashed in May 2012 and one cashed in July 2014, for \$12,874 and \$7,890, respectively. The CD’s were cashed to purchase a skid loader and a lawn mower.

Recommendation – To provide better control over financial transactions and overall accountability, monthly bank reconciliations should include all checking and investment accounts. These bank and investment account balances should reconcile to total fund balances per the general ledger and variance should be resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. The City should consider reducing the number of bank accounts maintained to simplify the reconciling process.

City of Keota

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (C) Separately Maintained Records – The Police Department maintains a forfeiture checking account which is not reflected in the City’s accounting system and has not been included in the City’s annual budget or monthly financial reports.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that “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 reported to the City Council on a monthly basis.

- (D) Payroll – The hourly rates for two of five employees tested were approved by the City Council as a percentage increase and the approved pay rate was not documented in the minutes record.

Recommendation – Hourly rates for all employees should be approved by the City Council and the approved rate should be properly documented in the City Council meeting minutes.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – A delinquent account listing is not prepared monthly. In addition, although the City attempts to reconcile utility billings, collections and delinquent accounts monthly, the reconciliations are not complete as they do not include beginning or ending balances which tie to a delinquent listing.

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 City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (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.

City of Keota

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (H) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the general governmental 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.

- (I) 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, “Money’s pledged or available to service general obligation bonds, and received from sources other than property taxes, 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.

- (J) Deficit Fund Balance – At June 30, 2017, the Special Revenue, Employee Benefits Fund had a deficit balance of \$40,205.

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

- (K) Annual Financial Report – The beginning balance reported in the fiscal year 2017 Annual Financial Report (AFR) was understated by \$70,456 while the ending balance was overstated by \$36,772 compared with the City general ledger. In addition, receipts and disbursements reported in the AFR were overstated by \$140,294 and \$47,911 respectively, compared with the City’s general Ledger.

Recommendation – The City should ensure the beginning and ending balances, receipts and disbursements in the AFR agree to the City’s general ledger.

City of Keota

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager
Cole J. Hanley, CPA, Staff Auditor
Elin M. Landgren, Assistant Auditor


Marlys K. Gaston, CPA
Director