



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

**NEWS RELEASE**

FOR RELEASE

March 19, 2018

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Urbana, 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 the maximum internal control possible. The City should also comply with Chapter 384.18 of the Code of Iowa by ensuring the budget is amended before disbursements are allowed to exceed the budget and review the outstanding debt and cash balances reported in the Annual Urban Renewal Report to ensure the report agrees with the City's records.

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/1721-0042-BLOF>.

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**CITY OF URBANA**

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

**FOR THE PERIOD  
JULY 1, 2016 THROUGH JUNE 30, 2017**

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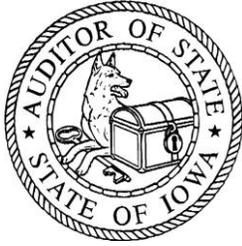
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**City of Urbana**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
E. Duane Eldred	Mayor	Jan 2018
Mike Kramer	Council Member	Jan 2018
Jacki Michael	Council Member	Jan 2018
Jamie Duart	Council Member	Jan 2020
Mike Smith	Council Member	Jan 2020
Richard Wendel	Council Member	Jan 2020
Traci Wilson	City Clerk/Treasurer	Indefinite
Brian Fagan	Attorney	Indefinite

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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 Urbana 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 Urbana'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 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. 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.
8. 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.

9. 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.
10. 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.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. 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.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. 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 Urbana 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 12, 2018

## **Detailed Recommendations**

City of Urbana

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, and having custody of assets.
- (2) Cash - handling, reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Utilities – billing, collecting, depositing, posting, and entering rates into the system.
- (5) Debt – recordkeeping, compliance and debt payment processing.
- (6) Journal entries – preparing and recording.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, recordkeeping, preparing and distributing.

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 and journal entries 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 reconciled throughout the year. However, the reconciliations were not reviewed by an independent person.

Recommendation – 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.

(C) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the capital projects function prior to the budget amendment. 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 Urbana

Detailed Recommendations

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

- (D) Annual Financial Report – The City understated public safety function disbursements and overstated general government function disbursements by \$3,781 on the fiscal year 2016 Annual Financial Report (AFR).

Recommendation – The City should ensure receipts and disbursements included in the AFR are supported by the City’s records.

- (E) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (F) Tax Increment Financing – Based on a review of the County Auditor’s “Urban Renewal Area TIF Indebtedness/Increment Tax Reconciliation” in December 2016, the City certified a \$1,225,000 advance (interfund loan) from the Enterprise, Sanitary Sewer Revenue Fund (Sewer Fund) as TIF debt. Pursuant to the interfund loan agreement, repayments to the Sewer Fund are contingent upon annual appropriation by the City Council. Until appropriated, these payments do not represent debt and, accordingly, should not have been certified as debt.

Recommendation – The City should decertify the unappropriated balance of the interfund loan using Form 3.

- (G) Annual Urban Renewal Report – The City overstated the amount of TIF debt outstanding on the Levy Authority Summary for the sewer revenue bond. The City plans to use TIF to pay a portion of the sewer revenue bond, however, the City certified the entire amount of principal and interest due as TIF debt. Only the amount representing TIF debt should be reported on the Levy Authority Summary.

In addition, the beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the December 1, 2016 Levy Authority Summary did not agree with the City’s fiscal year 2016 Annual Financial Report. The ending cash balance reported on the Levy Authority Summary was \$312,113 but the balance reported on the Annual Financial Report was \$324,339.

Recommendation – The City should decertify the portion of the sewer revenue bond to be paid from sewer revenues. In addition, the City should ensure the TIF Debt Outstanding and the cash balances reported on the Levy Authority Summary agree with the City’s records, including the Annual Financial Report.

- (H) Revenue Bonds – The provisions of the sewer revenue bond resolution require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they come due. For the year ended June 30, 2017, the City’s general ledger for the Enterprise, Sewer Fund reported net operating receipts of \$266,810, \$16,195 less than the net receipt requirement of \$283,005.

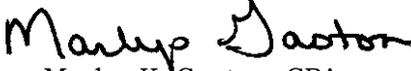
Recommendation – The City should consult legal counsel and review the City’s utility rates to ensure the rates are adequate to produce the required net operating receipts.

City of Urbana

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager  
Justin D. Jones, Assistant Auditor  
McKenzie M. Anderson, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director