



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 20, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Remsen, Iowa and the Remsen Municipal Utilities (Utilities) 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 and the Utilities review their control procedures to obtain the maximum internal control possible. The City and Utilities should also establish procedures to ensure journal entries are reviewed and approved by an independent person and should review debt covenants and establish procedures to ensure the covenants are met.

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/1721-0700-BLOF>.

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**CITY OF REMSEN AND
REMSAN MUNICIPAL UTILITIES**

**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 Remsen and
Remsen Municipal Utilities**

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>City:</u>		
Joel Fisch	Mayor	Jan 2020
Jeremy Bunkers	Council Member	Jan 2018
Kim Phillips	Council Member	Jan 2018
Dave Sonnichsen	Council Member	Jan 2018
Mindy Klein	Council Member	Jan 2020
Dick Sievers	Council Member	Jan 2020
Paige List	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite
<u>Utilities:</u>		
Lee Galles	Board of Trustees	Jan 2018
Dean Douvia	Board of Trustees	Jan 2020
Kim Keleher	Board of Trustees	Jan 2022
Craig Rieter	Superintendent	Indefinite
Rachel Keffeler	Clerk	Indefinite

**City of Remsen and
Remsen Municipal Utilities**



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor, Members of the City Council
and Members of the Utilities Board of Trustees:

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 Remsen and the Remsen Municipal Utilities (Utilities) for the period July 1, 2016 through June 30, 2017, including procedures related to the City's and Utilities' compliance with certain Code of Iowa requirements identified below. The City of Remsen's and the Utilities' management, which agreed to the performance of the procedures performed, are responsible for the City's and the Utilities' compliance with these requirements and records, respectively.

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 and Utilities Board meeting minutes for compliance with Chapters 21, 372.13(6), 380 and 388 of the Code of Iowa.
2. We reviewed the City's and the Utilities' 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's and the Utilities' 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 and the Utilities Board.
5. We reviewed the City's and the Utilities' 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 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 and the Utilities. 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. The City's recommendations are followed by the Utilities' recommendations.

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 and the Utilities, 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 and the Utilities, including the City's and Utilities' 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 Remsen and the Remsen Municipal Utilities 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.

A handwritten signature in cursive script that reads "Mary Mosiman".

MARY MOSIMAN, CPA
Auditor of State

June 7, 2018

Detailed Recommendations

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

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

City:

- (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) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Long-term debt – handling, reconciling and recording.
- (6) Investments – handling, reconciling and recording.

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

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

- (C) Debt Covenants – The City is not in compliance with the sewer revenue debt covenants. Specifically, net revenues were not 110% of principal and interest coming due during the fiscal year.

Recommendation – The City should review the sewer revenue debt covenants and establish procedures to ensure the covenants are met.

- (D) Payroll – For 1 of 5 employees tested, an approved timesheet could not be located.

Recommendation – Approved timesheets should be maintained for all employees.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

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

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

- Password privacy and confidentiality.
- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring minimum password length and a password history to prevent reuse.
- Requiring the system to lock out a user after repeated failed log in attempts.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer system.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

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

Utilities:

- (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 Utilities:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Long-term debt – handling, reconciling and recording.
- (6) Investments – handling, reconciling and recording.

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

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

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

- (C) Debt Covenants – The Utilities is not in compliance with certain revenue debt covenants. Specifically:

- (1) Net revenues were not 110% of principal and interest coming due during the fiscal year.
- (2) A water sinking account has not been established as required by the water revenue capital loan notes debt covenant.

Recommendation – The Utilities should review the water revenue debt covenants and establish procedures to ensure the covenants are met.

- (D) Late Debt Payment – The Utilities was to pay \$4,335 of interest on December 1, 2016 and \$48,202 of principal and interest on June 1, 2017 as the first payments on the \$650,000 water revenue capital loan notes. However, neither of these payments were made until July 14, 2017.

Recommendation – The Utilities should establish procedures to ensure debt payments are made when required.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

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

- (E) Land Purchase Payments to City of Remsen – The Utilities pays the City of Remsen approximately \$31,000 each year to reimburse the City for the cost of land purchased as part of a 2009 water project. Neither the Utilities nor the City was able to locate a written agreement defining the terms of this reimbursement plan.

Recommendation – The Utilities should work with the City to develop a written agreement to set the terms of the reimbursement plan.

- (F) Computer System – The Utilities do not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- Requiring minimum password length and no password history to prevent reuse.
- Requiring the system to lock out a user after repeated failed log in attempts.

Recommendation – The Utilities should develop written policies addressing the above items in order to improve the Utilities control over its computer system.

City of Remsen and
Remsen Municipal Utilities

Staff

This agreed-upon procedures engagement was performed by:

Brian R. Brustkern, CPA, Manager
Emma L. McGrane, Senior Auditor
Alexia M. Blank, Assistant Auditor
Jason J. Miller, Assistant Auditor


Marlys K. Gaston, CPA
Director