



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 3, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Atkins, 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 and establish procedures to reconcile utility billings, collections and delinquent accounts. The City should also amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget and ensure all utility customers are properly billed for utility usage in accordance with Chapter 388.6 of the Code of Iowa and the City's utility rate ordinances.

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/1721-0032-BLOF>.

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CITY OF ATKINS

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 Atkins

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Becker	Mayor	Jan 2018
Kevin Korsmo	Mayor Pro Tem	Jan 2018
Diane Herman	Council Member	Jan 2018
Nathan Shepard	Council Member	Nov 2017
Rodney Haerther	Council Member	Jan 2020
Tim Harbach	Council Member	Jan 2020
Amber Bell	City Clerk/Treasurer	Indefinite
DaShawn Wilson	Deputy City Clerk	Indefinite
Don Hoskins	Attorney	Indefinite

City of Atkins



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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 Atkins 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 Atkins' 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 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. 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 Atkins 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

June 7, 2018

Detailed Recommendations

City of Atkins

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) Cash – handling, reconciling, recording and custody of the change fund.
 - (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
 - (3) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
 - (4) Debt – recordkeeping, compliance and debt payment processing.
 - (5) Accounting system – performing all general accounting functions and having custody of assets.
 - (6) Computer system – performing all general accounting functions and controlling all data input and output.
 - (7) Financial reporting – preparing and reconciling.
 - (8) Bank reconciliations – Although prepared monthly, there is no independent review of the bank reconciliations.
 - (9) City Clerk's Report – Although prepared monthly, there is no independent review of the City Clerk's Report.

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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Utility billings, collections and delinquent accounts should be reconciled monthly. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (C) Timely Deposits – One intergovernmental receipt was not deposited timely.

Recommendation – The City should establish procedures to ensure all receipts are deposited timely.

- (D) Payroll – Although timesheets were maintained for all employees, there is no independent review of timesheets. Four of five timesheets tested, there was no evidence of proper approval of hours worked or taken as leave time.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

City of Atkins

Detailed Recommendations

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

- (E) Health Insurance Stipend – The City Clerk and another City employee are paid \$267 and \$173, respectively, each bi-weekly pay period or \$6,942 and \$4,498, respectively, annually, in lieu of receiving health insurance benefits through the City’s health insurance plan. These payments were made through accounts payable rather than payroll. Accordingly, the proper State and Federal taxes were not withheld and the City did not report the payments on Internal Revenue Service (IRS) Form W-2.

Recommendation – The City should establish procedures to ensure payments to individuals in lieu of City provided health insurance are included in taxable income and are reported on the employee’s IRS Form W-2. The City should contact the Iowa Department of Revenue, the Iowa Public Employees Retirement System and the IRS to determine the disposition of current and past unreported compensation.

- (F) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes because the software does not require the user to change log-ins/passwords periodically.
- Requiring backups be performed daily and stored off site.

Also, the City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop written policies and procedures 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.

- (G) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development and debt service functions. In addition, disbursements in the community and economic development function exceeded the amount budgeted prior to the amendment in April 2017. 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.

- (H) Annual Financial Report – The beginning balances in the fiscal year 2017 Annual Financial Report (AFR) did not agree with the prior year AFR ending balances and transfers and ending fund balances do not agree with the City’s financial records.

Recommendation – The City should ensure the AFR beginning balances agree with the prior year AFR ending balances. The City should also ensure transfers ending fund balances reported on the AFR agree with the City’s financial records.

City of Atkins

Detailed Recommendations

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

- (I) Journal Entry Approval – Journal entries are not approved by an independent person. In addition, support could not be located for one journal entry tested.

Recommendation – Journal entries should be approved by an independent person and evidence of the approval should be documented. Supporting documentation should be maintained for all journal entries.

- (J) Financial Reporting – One local option sales tax receipt totaling \$4,068 was coded to an incorrect fund.

Recommendation – The City should establish procedures to ensure transactions are properly coded to the correct fund.

- (K) Initial Receipts Listing – An initial listing of collections was not prepared.

Recommendation – An initial listing of collections should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented.

- (L) Petty Cash – Petty cash funds on hand at City Hall and the Library were not maintained on an imprest basis.

Recommendation – Cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

- (M) Disbursements – Three of thirty disbursements tested were not approved by the City Council. In addition, one disbursement tested included an interest charge for a credit card payment.

Recommendation – The City should ensure all claims are approved by the City Council. In addition, the City should establish written policies and procedures to ensure timely payment of all bills to avoid interest charges.

- (N) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements from each fund and a summary of all receipts. Published meeting minutes did not include total disbursements from each fund or a summary of all receipts.

Recommendation – The City should ensure published meeting minutes include the total disbursements from each fund and a summary of all receipts.

City of Atkins

Detailed Recommendations

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

- (O) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality may certify 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. 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.

The City has incorrectly certified \$171,733 of project costs for the Cardinal Avenue extension project. These costs do not represent debt and because the City Council did not approve the Cardinal Avenue extension project paid from the General Fund as an interfund loan, the interfund loan does not qualify as indebtedness which can be certified as TIF debt.

Recommendation – The City should decertify the \$171,733 or adopt a resolution to approve the Cardinal Avenue extension project costs paid from the General Fund as an interfund loan payable from TIF receipts.

- (P) Deficit Balance – The Enterprise, Water and Sewer Funds had deficit balances of \$84,790 and \$236,091, respectively, at June 30, 2017.

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

- (Q) Annual Urban Renewal Report – We noted the following:

- Tax increment financing (TIF) receipts of \$376,702 reported in the Annual Urban Renewal Report (AURR) do not agree with the \$591,797 of TIF receipts reported in the Annual Financial Report (AFR).
- While the AURR was submitted November 28, 2016, it was not approved by the City Council before December 1, 2016.

Recommendation – The City should ensure the Annual Urban Renewal Report is prepared accurately and agrees with the City’s financial records. The AURR should be reviewed and approved by the City Council on or before December 1.

- (R) Utility Billings – Chapter 388.6 of the Code of Iowa states, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies...”. During fiscal year 2017, the following entities were not billed and did not pay for utility usage: Atkins Pleasant Hill Presbyterian Church, Central Presbyterian Church and American Legion/Atkins Legion Memorial Hall.

In addition, the City allows a lower recycling fee for senior citizens.

Recommendation – The City should not provide free or reduced utility service and should charge all utility customers for service in accordance with Chapter 388.6 of the Code of Iowa and the City’s utility ordinances.

City of Atkins

Detailed Recommendations

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

- (S) Waste Management Tags – For the majority of fiscal year 2017, receipts from the sale of waste management tags were placed in the City Clerk’s change fund drawer and were not deposited into the City’s bank account or recorded in the City’s accounting system. In addition, adequate documentation is not maintained over these transactions. Waste management tags are not prenumbered and there is no system to track tags sold and on hand or to reconcile collections from tag sales to deposit.

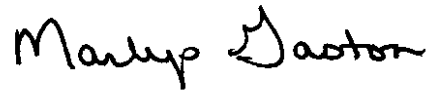
Recommendation – Receipts from the sale of waste management tags should be deposited intact and timely and should be recorded in the City’s accounting system. Waste management tags should be prenumbered and procedures should be established to require an independent reconciliation of the number of tags sold to collections and deposits and to remaining tags on hand.

City of Atkins

Staff

This engagement was performed by:

Deborah M. Moser, CPA, Manager
Ashley J. Moser, Senior Auditor
Nicholas J. Gassman, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director