



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 1, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Dike, 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 establish procedures to ensure bank reconciliations are completed monthly and are independently reviewed. In addition, the City should comply with Chapter 384.18 of the Code of Iowa by amending its budget 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/1721-0355-BLOF>.

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CITY OF DIKE

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

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

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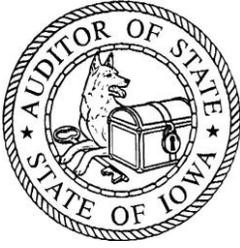
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City of Dike

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Soppe	Mayor	Jan 2018
Nicholas Cleveland	Council Member	Jan 2018
Chad Cutsforth	Council Member	Jan 2018
Robert Haugebak	Council Member	Jan 2018
Samuel Kollasch	Council Member	Jan 2020
Luke Osterhaus	Council Member	Jan 2020
Lindsay Nielsen	City Clerk/Treasurer	Indefinite
Ann Hilliard	Deputy Clerk	Indefinite
Gary N. Jones	Attorney	Indefinite

City of Dike



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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 Dike 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 Dike'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 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 Dike 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

Detailed Recommendations

City of Dike

Detailed Recommendations

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

- (A) Fiduciary Oversight – The City Council has a fiduciary responsibility to provide oversight of the City’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring the reviewing pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

- (B) 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) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting and maintaining detailed accounts receivable and write-off records.
- (6) Investments – recording and custody of investment documents.
- (7) Long-term debt – recording, reconciling and debt payment processing.

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.

- (C) 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. Outstanding check listings were not prepared and checks which have cleared the bank have not been cleared in the accounting system.

We prepared a bank reconciliation at June 30, 2017 which showed the bank balance of \$1,855,946 was \$578,126 higher than the City’s general ledger balance of \$1,277,820. The variance was caused, in part, by the City not recording \$507,139 of State revolving loan proceeds in the City’s general ledger.

Also, the City did not receive bank statements for one City account. The statements were subsequently obtained by the City for review.

City of Dike

Detailed Recommendations

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

Recommendation – The City should establish procedures to ensure all bank account and investment balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and bank statements and document the review by signing or initialing and dating the monthly reconciliations and bank statements. In addition, a listing of outstanding checks should be prepared to facilitate month end balancing. The City should ensure bank statements are received for all City accounts.

- (D) Financial Reporting – The amounts reported in the City’s 2017 Annual Financial Report (AFR) did not agree with the City general ledger. The total ending balance reported in the AFR was \$2,856,031 which did not agree with the City’s book balance of \$1,277,820 or the bank balance of \$1,855,946.

Also, the debt payments from the Enterprise, Electric Fund were reported as operating expenses on the AFR rather than debt service.

In addition, State revolving fund loan proceeds and disbursements from the City’s Low to Moderate Income (LMI) bank account were not recorded in the City’s general ledger.

Recommendation – The City should implement procedures to ensure amounts reported in the City’s AFR are accurate and agree to the City’s records and bank balances. All receipts and disbursements should be properly recorded in the City’s general ledger.

- (E) Monthly City Clerk’s Reports – The City Council does not receive a monthly report showing a comparison of actual disbursements to the certified budget by function.

Recommendation – The monthly financial reports given to the City Council should include a comparison of actual disbursements to the certified budget by function.

- (F) Financial Condition – At June 30, 2017, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
General	\$ 149,113
Special Revenue:	
Road Use Tax	244,908
Employee Benefits	102,335
Capital Projects:	
Tax Increment Financing - Fox Ridge	23,651
2014 Ambulance	265,097
Debt Service	1,652
Enterprise:	
Water	18,829
Sewer	43,520
Sales Tax	35,645

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

City of Dike

Detailed Recommendations

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

- (G) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 60% for curb, gutter, streets and sidewalks, 20% for community betterment and 20% for property tax relief. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

- (H) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, debt service and business type activities functions. In addition, disbursements exceeded the amount budgeted in the health and social services 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.

- (I) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published and include total disbursements from each fund and a summary of receipts. Minutes publications for four meetings tested did not include disbursements from each fund or a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements from each fund and a summary of receipts.

- (J) Credit Cards – The City has bank credit cards and a retail charge card for use by employees while on City business. The City has not adopted a formal policy to regulate the use and control of the City’s credit cards and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City’s credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to support purchases.

- (K) Reconciliation of Ambulance Billings, Collections and Delinquent Accounts – Ambulance billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not maintained and reviewed monthly. In addition, ambulance billing rates have not been approved by the City Council.

Recommendation – Procedures should be established to reconcile ambulance billings, collections and delinquent accounts for each billing period. A listing of delinquent accounts should be maintained and reviewed monthly. 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. Also, ambulance rates should be approved by the City Council.

City of Dike

Detailed Recommendations

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

- (L) Disbursement Approval – Disbursements made from the LMI bank account were not approved by the City Council.

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

- (M) Investments – An accounting record/register is not maintained for each investment.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

- (N) Sewer Sinking – The City's 2016 sewer revenue capital loan note resolution requires a sinking account be established and transfers be made into the sinking account from the Enterprise, Sewer Fund in equal monthly installments. Although the City has established a sewer sinking account, no transfers were made to the sewer sinking account during the year.

Recommendation – The City should make the required monthly transfers to the sewer sinking account.

- (O) Payroll – One of six timesheets reviewed did not include evidence of supervisory review.

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

- (P) Annual Urban Renewal Report – The City's cash balance for the Special Revenue, Tax Increment Financing (TIF) Fund reported on the Levy Authority Summary did not agree with the City's general ledger balance for the Special Revenue, Tax Increment Financing and LMI Funds. The amount reported per the Levy Authority Summary was understated by \$679,431. In addition, the City did not report TIF debt outstanding on the Levy Authority Summary, as required.

Recommendation – The City should ensure the TIF Fund cash balance and TIF debt outstanding reported on the Levy Authority Summary agree with the City's records.

- (Q) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

- (R) Journal Entry Documentation – Supporting documentation was not maintained for journal entries. In addition, journal entries are not approved by an independent person.

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

City of Dike

Detailed Recommendations

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

- (S) Change/Petty Cash Fund – The City Hall and City Library each maintain change/petty cash funds for which no authorization could be located. In addition, the City's change/petty cash funds were not included in the City's accounting records and resulting fund balances.

Recommendation – The change/petty cash funds should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the funds. 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 funds and accounts, including the change/petty cash funds, should be included in the City's accounting records and resulting fund balances.

- (T) Rental Agreements and Receipts – The City park shelter and the Dike Memorial Building are available for rent for a fee, including a refundable deposit. Rental agreements are not completed for the park shelter and are not always completed for the Memorial Building. Prenumbered receipts are not issued for rent or deposit payments and the deposit receipts (cash and checks) are held by the City until after the rental and are then returned to the customer, if determined appropriate.

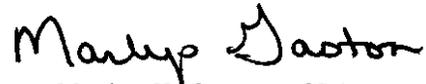
Recommendation – Rental agreements should be completed for all rentals. In addition, pre-numbered receipts should be issued for all rent and deposit payments. Cash and checks received for rental deposits should be deposited into the City's bank account and refunded using a City check after the rental date, if deemed appropriate.

City of Dike

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Ian N. Judson, Staff Auditor
Madeline W. Petellin, Assistant Auditor


Marlys K. Gaston, CPA
Director