



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

July 25, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Remsen, Iowa and the Remsen Municipal Utilities (Utilities) for the period July 1, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand 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 on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

###

**CITY OF REMSEN AND
REMSen MUNICIPAL UTILITIES**

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018**

City of Remsen and the Remsen Municipal Utilities



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

June 27, 2019

Officials of the City of Remsen and the Remsen Municipal Utilities
Remsen, Iowa

Dear Honorable Mayor and Members of the City Council/Board Members:

I am pleased to submit to you the agreed-upon procedures report for the City of Remsen, Iowa, and the Remsen Municipal Utilities for the year ended June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Remsen and the Remsen Municipal Utilities throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

		<u>Page</u>
Officials		3
Auditor of State’s Independent Report on Applying Agreed-Upon Procedures		5-7
Detailed Recommendations:	<u>Finding</u>	
<u>City:</u>		
Segregation of Duties	A	9
Journal Entries	B	9
Investments	C	9
Transfers	D	9
Certified Budget	E	10
Local Option Sales Tax	F	10
Tax Increment Financing	G	10
<u>Utilities:</u>		
Segregation of Duties	A	11
Journal Entries	B	11
Revenue Notes	C	11
Bank Reconciliations	D	11
Transfers	E	12
Reconciliation of Utility Billings	F	12
Land Purchase Payments to the City of Remsen	G	12
Staff		13

**City of Remsen and
Remsen Municipal Utilities**

**Officials
(Before January 2018)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
City:		
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
Utilities:		
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

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
City:		
Joel Fisch	Mayor	Jan 2020
Mindy Klein	Council Member	Jan 2020
Dick Sievers	Council Member	Jan 2020
Josh Hill	Council Member	Jan 2022
Ann Cole-Nelson	Council Member	Jan 2022
Dave Sonnichsen	Council Member	Jan 2022
Rachel Keffler	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite
Utilities:		
Dean Douvia	Board of Trustees	Jan 2020
Kim Keleher	Board of Trustees	Jan 2022
Lee Galles	Board of Trustees	Jan 2024
Chris Poeckes	Superintendent	Indefinite
Courtney Loutsch	Clerk	Indefinite

**City of Remsen and
Remsen Municipal Utilities**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Auditor of State's Independent Report on Applying Agreed-Upon Procedures

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

We performed the procedures below, which were established at Iowa Code Chapter 11.6 to provide oversight of 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, 2017 through June 30, 2018. 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' 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 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 2018 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.

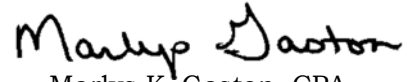
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions 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.



Marlys K. Gaston, CPA
Deputy Auditor of State

June 27, 2019

Detailed Recommendations

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

City:

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the Utilities:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – custody and detailed recordkeeping.
- (3) Long-term debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.

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) Investments – Investments were not recorded at current value because interest earned and added to the certificate of deposit balances was not recorded.

Recommendation – Interest on investments should be recorded timely.

(D) Transfers – Transfers are not approved by the City Council.

Recommendation – All transfers should be approved by the City Council.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (E) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budget in the community and economic development 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.

- (F) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts be used for infrastructure and/or economic development. For the year ended June 30, 2018, the City disbursed \$2,108 of LOST funds for software licenses and support. It is unclear how these disbursements qualify as infrastructure and/or economic development.

Recommendation – The City should consult legal counsel to determine whether these costs are allowable from LOST receipts. If determined to be unallowable, the City should reimburse the LOST Fund for these costs and implement procedures to ensure LOST receipts are used in accordance with the ballot.

- (G) Tax Increment Financing Fund Disbursements – Chapters 403.19(10)(b) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund.

During the year ended June 30, 2018, the City transferred a total of \$66,450 from the TIF Fund to the following funds: \$2,515 to the Road Use Tax Fund, \$44,000 to the Local Option Sales Tax Fund, and \$19,935 to the Electric Fund. It is unclear if these costs represent TIF obligations, and, accordingly, may not be an allowable use of tax increment financing receipts.

Recommendation – The City should reimburse the TIF Fund from an allowable fund for these costs. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the allowable fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

Utilities:

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Utilities' financial statements. Generally, one individual has control over each of the following areas for the Utilities:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – custody and detailed recordkeeping.
- (3) Long-term debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Utility 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) Revenue Notes – The Utilities is not in compliance with the water and sewer revenue debt covenants. Specifically, net revenues were not 110% of principal and interest coming due during the fiscal year.

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

(D) Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations were not reviewed by an independent person.

Recommendation – The Utility Board or other independent person should review the reconciliations each month. The reviews should be documented by the signature or initials of the reviewer and the date of review.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (E) Transfers – Transfers are not approved by the Utility Board.

Recommendation – All transfers should be approved by the Utility Board.

- (F) Reconciliation of Utility Billings – While utility billings, collections, and delinquent accounts were reconciled monthly, there is no evidence of independent review of the utility reconciliations.

Recommendation – The Utility Board or other independent person designated by the Utility Board should review the reconciliations and monitor delinquent accounts each month. Reviews of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

- (G) Land Purchase Payments to the 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, including the amount to be reimbursed over time, the repayments and balance remaining.

Recommendation – The Utilities should work with the City to reduce to writing the terms of the reimbursement plan, including the amount to be reimbursed over time, the repayments made and balance remaining.

City of Remsen and
Remsen Municipal Utilities

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy Auditor of State
Selina V. Johnson, CPA, Senior II
Alexia M. Grgurich, Staff Auditor
Jason J. Miller, Staff Auditor
Matthew K. Nnanna, Assistant Auditor