



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

State Capitol Building
Des Moines, Iowa 50319-0004

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

August 2, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Keystone, Iowa, 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 review its control procedures to obtain the maximum internal control possible and establish procedures to reconcile utility billings, collections and delinquent accounts. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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/>.

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CITY OF KEYSTONE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

City of Keystone



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Rob Sand
Auditor of State

July 3, 2019

Officials of the City of Keystone
Keystone, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Keystone, Iowa, 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 Keystone throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Keystone

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael J. Seeck	Mayor	Jan 2018
Mark W. Andresen	Council Member	Jan 2018
Kathy L. Janss	Council Member	Jan 2018
Tim Kruse	Council Member	Jan 2018
Michael Kaiser	Council Member	Jan 2020
Richard Loy, Jr.	Council Member	Jan 2020
Angie Hagen	City Clerk	Indefinite
Jennifer Zahradnik	City Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael J. Seeck	Mayor	Jan 2020
Michael Kaiser	Council Member	Jan 2020
Richard Loy, Jr.	Council Member	Jan 2020
Cindy Behrens	Council Member	Jan 2022
Kathy Janss	Council Member	Jan 2022
Tim Kruse	Council Member	Jan 2022
Angie Hagen	City Clerk	Indefinite
Jennifer Zahradnik	City Attorney	Indefinite

City of Keystone



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

To the Honorable Mayor and Members of the City Council:

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 Keystone for the period July 1, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Keystone'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 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. 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 Keystone 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

July 3, 2019

Detailed Recommendations

City of Keystone

Detailed Recommendations

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

(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 City:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – investing, recording and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording.

For the Keystone Schroeder Public Library, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Library should review their 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) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, an independent review of the bank reconciliations was not performed. Also, the September City Clerk’s financial report to the City Council did not agree to the reconciled bank balance by \$1,500 due to an outstanding check not included on the City Clerk’s financial report.

Recommendation – An independent person should review the City’s bank reconciliations and document the review by signing and dating the monthly reconciliations. Also, the City Clerk’s financial report to the City Council should agree to the reconciled bank balance for all accounts.

City of Keystone

Detailed Recommendations

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

- (C) 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. Minutes for one meeting tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days of the meeting.

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

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. 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.

- (E) Payroll – The following were noted:

- (1) While City Library employees complete timesheets, there is no evidence of supervisory review and approval.
- (2) The City does not have a written policy for how vacation, sick leave and compensatory time are to be accrued and accounted for. Also, compensatory time is not formally tracked.
- (3) Approval of wages and hourly rates for City employees is not documented in the City Council meeting minutes.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and reviewed, approved and signed by the employee's immediate supervisor prior to submission. A formal written policy should be established to provide for the proper accrual of and accounting for vacation, sick leave and compensatory time. Actual approved wages and hourly rates should be documented in the City Council meeting minutes.

- (F) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions. 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.

- (G) Revenue Bonds – The following were noted:

- (1) The water and sewer revenue bond resolutions require water and sewer user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and the interest on the bonds falling due in the same year. During the year ended June 30, 2018, the City was not in compliance with the net receipts requirement of the water and sewer revenue bond resolution.

City of Keystone

Detailed Recommendations

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

- (2) The City's water revenue bond resolution requires a sinking account be established and payments are to be made into the sinking account in equal monthly installments on the first day of each month. The City has not established or made the required transfers to a water sinking account.
- (3) The City's water and sewer revenue bond resolution requires the bond principal and interest be redeemed solely from earnings of the water enterprise. Principal and interest on the City's water and sewer revenue bonds were paid from the Debt Service Fund.

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. The City should establish a water revenue bond sinking account and make the required transfers to the account for the purpose of making the bond principal and interest payment when due. Principal and interest due for the water and sewer revenue bond should be paid from the Enterprise, Water and Sewer Funds, respectively.

- (H) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report (AFR) contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures..." While ending fund balances reported on the fiscal year 2018 AFR agreed with the City's general ledger receipts and disbursements did not agree to City records.

Recommendation – The City should ensure the amounts reported on the AFR are supported by the City's general ledger.

- (I) Fund Transfer – The City Council authorized a transfer of \$9,710 from the General Fund operating account to the General Fund IPAIT Fire Fund, however, the transfer was never posted to the City's general ledger. Also, a \$5,700 correction was made to the May 2018 City Clerk's Report between the General Fund, the Special Revenue, Road Use Tax Fund and the Enterprise, Water and Sewer Funds. However, the correction was not supported.

Recommendation – The City should transfer \$9,710 from the General Fund operating account to the General Fund IPAIT Fire Account as authorized by the City Council. The City should ensure all corrections are properly supported.

- (J) Financial Report – The City Clerk's financial reports provided to the City Council each month did not include comparisons of actual disbursements to the certified budget by function. Also, the City Clerk report in total agrees to the general ledger, however individual fund balances do not agree with the general ledger.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendment to the certified budget, the City Clerk's monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, fund balances on the City Clerk's report should agree with individual fund balances on the general ledger.

- (K) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property."

City of Keystone

Detailed Recommendations

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

The City Library maintains bank accounts for activity separate from the City Clerk's accounting records. While this Department is part of the City, the transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account's receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Library Department separate accounts should be integrated with the City's accounting records in the City Clerk's office. The financial activity should be included in the City Clerk's accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of each account's receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (L) Tax Increment Financing (TIF) Indebtedness Certification – Chapter 403.19 of the Code of Iowa provides a municipality shall 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 and, as such, the County Auditor shall provide available incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. 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 the interest on the certified indebtedness.

The City's TIF Fund cash balance and remaining certified TIF obligation at June 30, 2018 is \$157,021 and \$150,920, respectively, a \$6,101 balance in excess of outstanding debt. The City certified \$17,760 for fiscal year 2019 and \$18,460 for fiscal year 2020 with no new debt issuances, thereby causing a projected excess TIF balance at the end of fiscal year 2020 of \$42,321.

Recommendation – The City should decertify the \$18,460 certified for collection in fiscal year 2020 and should stop certifying additional debt payments. The remaining TIF obligations should be paid utilizing available TIF Fund cash balance. The City should also seek legal counsel to determine the disposition of the TIF Fund balance remaining after all current TIF obligations are paid, including whether the TIF receipts in excess of TIF indebtedness should be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

City of Keystone

Detailed Recommendations

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

- (M) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (N) General Obligation Debt – Chapter 384.4 of the Code of Iowa states in part, “Money’s pledged or available to service general obligation bonds and received from sources other than property taxes, must be deposited in the debt service fund.” During the year ended June 30, 2018, general obligation bonds certified as Tax Increment Financing (TIF) debt was paid from the Special Revenue, TIF Fund.

Recommendation – In the future, the City should transfer from the Special Revenue, TIF Fund to the Debt Service Fund to pay the general obligation bond debt.

- (O) Financial Position – At June 30, 2018, the City had a deficit balance of \$57,094 in the Enterprise, Water Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

City of Keystone

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy Auditor of State
Ernest H. Ruben, Jr., CPA, Director
Sidot K. Shipley, Staff Auditor
Ethan Snedigar, Assistant Auditor