

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

October 16, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Wall Lake, 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. The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. The City should also comply with the budget amendment requirements of 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 WALL LAKE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

City of Wall Lake



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Rob Sand
Auditor of State

September 20, 2019

Officials of the City of Wall Lake
Wall Lake, 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 Wall Lake, 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 Wall Lake throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Wall Lake

Officials

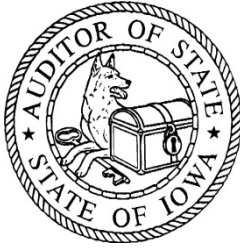
(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Druivenga	Mayor	Jan 2018
Ron Lahr	Council Member	Jan 2018
Albert Schwanz	Council Member	Jan 2018
Gary Faber	Council Member	Jan 2020
Rob Germann	Council Member	Jan 2020
Francis Riedell	Council Member	Jan 2020
Chris Rodman	City Clerk/Treasurer	Indefinite
Warren Bush	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Druivenga	Mayor	Jan 2022
Gary Faber	Council Member	Jan 2020
Rob Germann	Council Member	Jan 2020
Francis Riedell	Council Member	Jan 2020
Ron Lahr	Council Member	Jan 2022
Albert Schwanz	Council Member	Jan 2022
Chris Rodman	City Clerk/Treasurer	Indefinite
Warren Bush	Attorney	Indefinite

City of Wall Lake



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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 Wall Lake 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 Wall Lake'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 Wall Lake 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

September 20, 2019

Detailed Recommendations

City of Wall Lake

Detailed Recommendations

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

- (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 and 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 – 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) Receipts – opening mail, collecting, recording, depositing and reconciling.
- (3) Journal entries – preparing and recording.
- (4) Financial reporting – preparing and reconciling.

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) Financial Reporting – Although a monthly bank reconciliation was prepared, the reconciliation did not include all bank and investment accounts held by the City. As a result, we prepared a reconciliation for all City accounts and investments. At June 30, 2018, the total fund balance per the City’s financial records was \$13,890 higher than the bank balance. In certain cases, outstanding checks on the bank reconciliation cannot always be traced to a cleared check as the checks listed on the bank reconciliation do not match checks clearing the bank for vendor, amount and check number. However, discrepancies in outstanding check information between the bank reconciliation and those checks clearing the bank were resolved by June 30, 2018. Also, the bank reconciliations were not reviewed by an independent person.

In addition, the following were identified during our testing:

- Although the City has recorded all balances, certain bank account names and balances do not agree with reported City Clerk fund balances.
- Certain financial reports are provided to the Council monthly, however, the reports did not include comparisons of actual disbursements to budgeted disbursements by function.

City of Wall Lake

Detailed Recommendations

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

- Although the City reports on the cash basis of accounting, certain disbursements were recorded using the accrual basis of accounting. The liability accounts had a balance of (\$59,880) at June 30, 2018.
- The City's Balance Sheet is out of balance by \$1,441,066. In addition, there are no bank or investment accounts associated with the Enterprise, Water, Sewer, Natural Gas or Solid Waste Funds.

Recommendation – The City should establish procedures to ensure receipts and disbursements are properly recorded and reported using the cash basis of accounting and ensure all bank and investment account balances are reconciled to the general ledger monthly. Variances should be reviewed and resolved timely. Only checks written and not cleared should be included on the bank reconciliation as outstanding checks. Any variances between outstanding checks per the bank reconciliation and the checks clearing in the bank statements should be investigated and resolved. Also, the monthly bank reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

The City should review activity in the City Clerk's report and Income Statement and determine the corrections necessary to bring account names and amounts into agreement with bank balances. Additionally, the City Clerk should provide the City Council with a comparison of actual disbursements to budgeted disbursements by function each month.

- (D) Annual Financial Report – The fiscal year 2017 beginning fund balances in the Annual Financial Report (AFR) did not agree by \$3,012 to the prior year AFR ending fund balances.

Recommendation – The City should establish procedures to ensure the AFR beginning fund balances agree to the prior year AFR ending fund balances.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. As a result, we prepared a reconciliation for one month and the receivable balance calculated did not reconcile to the receivable in the utility billing software. A variance of \$2,777 was not resolved. The receivable balance calculated was higher than the City's balance.

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.

- (F) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the public works 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.

City of Wall Lake

Detailed Recommendations

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

- (G) Deficit Fund Balance – At June 30, 2018, the General Fund had a deficit balance of \$94,473, and the Special Revenue, Road Use Fund had a deficit balance of \$960. The fund balances were determined using a report dated July 19, 2018 from the City’s accounting software. We noted that a transfer of \$110,000 was made to the General Fund subsequent to this date which returned the General Fund to a positive balance.

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

- (H) Payroll – Wage increases were based upon a dollar increase per hour and the actual approved wages were not documented in the City Council minutes.

Recommendation – Procedures should be established to ensure all pay increases are adequately documented in the City Council minutes by recording the new, approved rate or salary, not just the dollar increase.

- (I) Receipt to Deposit – The total deposits for August 2017 per the bank statements did not reconcile to the City’s total receipts per the monthly cash in bank transaction listing. The deposits were \$6,102 more than the receipts listed in the system software.

Recommendation – The City should ensure that total deposits per the bank statements for the City’s bank accounts reconcile to the total receipts per the City’s cash in bank transaction listing.

- (J) Tax Increment Financing – 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. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. 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. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

The City certified tax increment financing (TIF) indebtedness to the County Auditor for urban renewal project expenses paid from other funds. While the City intended these payments to represent advances (i.e., loans) from the respective funds which paid the costs for the related TIF projects, certain loans were not formally approved by the City Council, and accordingly, do not represent TIF debt which may be certified to the County Auditor. Also, the repayment of certain loans in fiscal year 2018 was made (i.e., transferred) to the General Fund rather than to the funds which originally paid the TIF project costs.

Additionally, the City has no outstanding tax increment financing debt reported on the June 30, 2017 Annual Urban Renewal Report. However, the cash balance in the Special Revenue, Urban Renewal Tax Increment Fund is \$35,220. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining TIF fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

City of Wall Lake

Detailed Recommendations

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

Recommendation – The City should ensure payment of TIF project expenses from other funds are formally approved by the City Council as interfund advances (i.e., loans) before being certified to the County Auditor. In addition, corrective transfers should be made from the General Fund to reimburse the funds which originally paid the TIF project costs. The City should consult legal counsel to determine the disposition of the excess TIF receipts, 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 Wall Lake

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Ernest H. Ruben, Jr., CPA, Director
Lesley R. Geary, Manager
Andrew J. Salwolke, Staff Auditor
Matthew Nnanna, Assistant Auditor