



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 5, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Riceville, Iowa, for the period April 1, 2018 through March 31, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eighteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of monthly utility reconciliations, the lack of independent review of the monthly bank reconciliations, disbursements exceeding budgeted amounts, business transactions that may represent conflicts of interest and deficit balances.

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.

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/audit-reports>.

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CITY OF RICEVILLE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1 ,2018 THROUGH MARCH 31, 2019

City of Riceville



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October 7, 2019

Officials of the City of Riceville
Riceville, 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 Riceville, Iowa, for the period April 1, 2018 to March 31, 2019. 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 Riceville 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 that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Riceville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Dean Eastman	Mayor	Jan 2016	Jan 2020
Harold Jensen	Council Member	Jan 2016	Jan 2020
Jordan Oulman	Council Member	Jan 2016	Jan 2020
Terry Byrnes	Council Member	Jan 2018	Jan 2022
Joseph Keeling	Council Member	Jan 2018	Jan 2022
Dennis Leard	Council Member	Jan 2018	Jan 2022
Crystal Reddel	City Clerk		Indefinite
Tami Runde	City Treasurer		Indefinite



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Rob Sand
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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 procedures to selected accounting records and related information of the City of Riceville for the period April 1, 2018 through March 31, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Riceville'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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed 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 scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

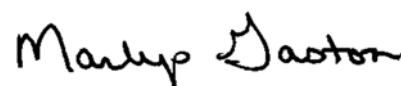
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 observed 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 traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City has no voter approved levies.
14. We traced 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers are proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and to determine whether payroll is proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 findings and 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 Riceville 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

October 7, 2019

Detailed Findings and Recommendations

City of Riceville

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

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

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

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

(C) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt

(D) Country Club Debit Card – The Country Club Account has a debit card available for use by the Golf Course Board on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the City Country Club. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

City of Riceville

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (E) City Council Meeting Minutes – For all City Council meeting minutes observed, the minutes were not signed as required by Chapter 380.7 of the Code of Iowa

Recommendation – All City Council meeting minutes should be signed by the City Clerk and someone independent of the minutes preparation.

- (F) 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 review.

- (G) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, there was no evidence of review by an independent person.

Recommendation – The 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.

- (H) Official Depositories – A resolution naming official depositories and the maximum deposit amounts has not been adopted by the City as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a depository resolution which specifies the maximum amount that may be kept on deposit in each depository, as required.

- (I) Disbursements – Paid invoices and other supporting documentations were not properly canceled to prevent reuse and five of thirty-five disbursements observed improperly included sales tax. Additionally, five of thirty-five disbursements observed were not supported by an invoice or other supporting documentation.

Recommendation – All invoices and other supporting documentation should be canceled to prevent duplicate payments. Also, the City should maintain invoices and other supporting documentation for all disbursements and should ensure sales tax is not paid on City disbursements.

- (J) Payroll – Timesheets do not include evidence of supervisory review or approval.

Recommendation – All timesheets should be signed by the employee and should be reviewed and approved by the employee’s supervisor prior to processing payroll.

City of Riceville

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (K) Financial Condition – The General Fund and the Special Revenue, Road Use Tax (RUT) and Employee Benefit Funds had deficit balances of \$245,538, \$267,072 and \$19,752, respectively, at June 30, 2018. While the RUT Fund had a deficit balance, the Debt Service Fund had a surplus balance of \$415,934. In prior fiscal years, the City transferred funds from the RUT Fund to the Debt Service Fund to pay a City obligation issued for street purposes and also levied debt service property taxes to pay the same obligation.

Additionally, the City’s Local Option Sales Tax (LOST) ballot requires LOST receipts to be used 70% for street improvements and repairs. The City has not transferred receipts to the RUT Fund which would be an allowable use of LOST receipts.

Recommendation – The City should investigate alternatives to eliminate the deficits to return the funds to a sound financial condition. The City should review transfers from the RUT fund to the Debt Service Fund made in prior years. If a debt service tax was levied to pay the street obligations in the years a transfer was made to cover those same obligations, the City should make corrective transfers from the Debt Service Fund to the RUT Fund to reimburse the RUT Fund for the excessive transfers. Additionally, the City could transfer available LOST receipts to the RUT Fund for street improvements and repairs in accordance with LOST ballot provisions.

- (L) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the business type activities function. In addition, disbursements in the community and economic development function exceeded the amounts budgeted 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.

- (M) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” While the 2018 Annual Financial Report (AFR) accurately reported ending fund balances, the total receipts and disbursements were understated by \$56,469 and \$51,924, respectively when compared to the City’s financial records.

Recommendation – The City should establish procedures to ensure AFR receipts, disbursements and fund balances agree with the City’s records.

- (N) Change Fund – The City maintains a change fund for which no authorization could be located.

Recommendation – The City should establish, by resolution, an authorized amount for the change fund.

- (O) Annual Urban Renewal Report – For the year ended June 30, 2018, the City reported no tax increment financing (TIF) debt outstanding on the Annual Urban Renewal Report (AURR) Levy Authority Summary. However, TIF debt outstanding at that date totaled \$440,149.

City of Riceville

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

Recommendation – The City should ensure the amounts reported on the AURR Levy Authority Summary are accurate.

- (P) Tax Increment Financing – For the year ended June 30, 2018, the City correctly certified 75% of the available tax increment financing (TIF) valuation to be collected as TIF property tax receipts for three rebate agreements. According to the development agreements, all TIF property tax collected will be rebated to the developer if all developer requirements have been met. During the year ended June 30, 2018, \$12,637 was collected as TIF receipts and business tax credit but only \$4,847 was rebated to the developers.

Recommendation – The City should rebate the proper amount of TIF receipts collected to the developers as required by the agreements.

- (Q) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jordan Oulman, Council Member, co-owner of Pickar-Oulman Plumbing	Plumbing and heating services	\$ 51,219

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (R) Receipts – Prenumbered receipts were not issued for all collections and receipts were entered into the City’s accounting system only once per week, upon preparation of the deposit, instead of immediately.

Recommendation – Prenumbered receipts should be issued for all collections and recorded in the City’s accounting system immediately to provide control over the collection and recording of all funds.

City of Riceville

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Katherine L. Rupp, CPA, Manager
Alexia M. Grgurich, Staff Auditor
Coltin R. Collins, Staff Auditor