



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 31, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Riverdale, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported ten findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations, disbursements exceeding budgeted amounts, a deficit balance in the Special Revenue, Tax Increment Financing Fund, questionable disbursements, unallowable use of tax increment financing receipts and errors in the Annual Urban Renewal Report and the Annual Financial Report. Sand provided the City with recommendations to address each of the findings.

Six of the ten findings discussed above are repeated from the prior year. 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 RIVERDALE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Riverdale



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March 24, 2020

Officials of the City of Riverdale
Riverdale, 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 Riverdale, Iowa, for the year ended June 30, 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 Riverdale 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".

Rob Sand
Auditor of State

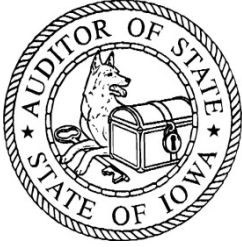
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City of Riverdale

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Bawden	Mayor	Jan 2020
Kelly Krell (Appointed May 2018)	Council Member	Nov 2019
Cheryl Channon	Council Member	Jan 2020
Doug Littrel	Council Member	Jan 2020
Paul D'Camp	Council Member	Jan 2022
Anthony Heddlesten	Council Member	Jan 2022
Tim Long	Administrator	Indefinite
Ron Fullerlove	City Clerk/Treasurer	Indefinite
Mary Frances Blevins	Assistant City Clerk	Indefinite
Michael Walker	Attorney	Indefinite



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Rob Sand
Auditor of State

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 Riverdale for the period July 1, 2018 through June 30, 2019 including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Riverdale'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 2019 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 for accurate accounting and consistency with the recommended COA.
13. The City had 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 were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and to determine whether payroll was 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 Riverdale 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.



Ernest H. Ruben, Jr., CPA
Director

March 24, 2020

Detailed Findings and Recommendations

City of Riverdale

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 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 – handling, reconciling and recording.
- (2) Investments – investing, recordkeeping and custody.
- (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) Journal entries – preparing and recording.
- (8) Long-term debt – maintaining records, recording and reconciling.
- (9) 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.

(B) Journal Entries – Journal entries were not reviewed and approved by an independent person.

Recommendation – Journal entries should be reviewed and approved by an independent person and the approval should be documented by the signature or initials of the reviewer and the date of the review.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing for each billing period was not maintained.

Recommendation – A listing of delinquent accounts should be prepared for each billing period. 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 of the reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

City of Riverdale

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (D) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the community and economic development function prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the debt service and business type activities 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 as required by Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (E) Deficit Balance – The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$139,232 at June 30, 2019.

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

- (F) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Floyd Bruns	Reimbursement for soda and pain relief pills for Firefighters training	\$ 89
The Smoke-Eater Publication	Twenty-five subscriptions for members of the Riverdale Firefighters Association	200
Laser Cut Images	Service plaques and tags for firefighter’s appreciation	180

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these types of disbursements prior to authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation. Disbursements should not be approved if public purpose is not served.

City of Riverdale

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (G) 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. Chapters 403.19(10) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Urban Renewal Tax Increment (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 or to provide allowable low to moderate income (LMI) assistance.

The City has certified a total of \$43,827 to the County Auditor as TIF debt. However, through June 30, 2019, the City has paid a total of \$150,912 from the Special Revenue, Tax Increment Financing Fund primarily for engineering costs and legal fees, or \$107,085 more than was certified. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should consult TIF legal counsel to determine the disposition of this matter. In the future, if the City makes disbursement for a qualified TIF obligation, the City should pay these costs from an allowable fund, such as the General Fund, and may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

- (H) Annual Urban Renewal Report – The City understated the amounts reported as TIF debt outstanding and TIF disbursements on the Annual Urban Renewal Report Levy Authority Summary by \$28,354 and \$81,413, respectively. In addition, the City overstated the ending cash balance by \$80,736.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City’s records.

- (I) 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 total receipts and disbursements were reported correctly, certain receipt and disbursement classifications did not agree to the City’s records. Also, the City’s general obligation debt service payments were incorrectly reported under the general column instead of under the debt service column. In addition, the amount included in the fiscal year 2019 AFR budget column for the community and economic development function did not agree to the final amended budget.

Recommendation – The City should ensure the amounts reported in future Annual Financial Reports are accurate.

- (J) Independent Review of Bank Reconciliations – Although monthly bank reconciliations were prepared, one of two bank reconciliations observed was not reviewed and approved by an independent person.

Recommendation – An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

City of Riverdale

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Suzanne R. Dahlstrom, CPA, Manager
Taran E. McCusker, Staff Auditor
Nathan A. DeWit, Assistant Auditor