



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

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NEWS RELEASE

FOR RELEASE

July 31, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Keota, 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 fourteen 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 bank and utility reconciliations, disbursements exceeding budgeted amounts, errors in the annual financial report and a deficit balance in the Enterprise, Sewer Fund.

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

City of Keota



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April 29, 2020

Officials of the City of Keota
Keota, 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 Keota, 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 Keota 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 Keota

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Anthony Cansler	Mayor	Jan 2020
Matt Greiner	Council Member	Jan 2020
Scott Westendorf	Council Member	Jan 2020
Keith Conrad	Mayor Pro-Tem/Council Member	Jan 2022
Rod Hill	Council Member	Jan 2022
Mike Bender	Council Member	Jan 2022
Tomisha Hammes	City Clerk/Treasurer	Indefinite
Scott Flynn	Attorney	Indefinite



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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 Keota 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 Keota'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.

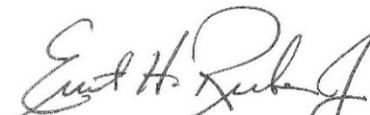
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts for accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. 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.
14. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. 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 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 Keota 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

April 29, 2020

Detailed Findings and Recommendations

City of Keota

Detailed Findings and Recommendations

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

- (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 Financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting System – Performing all general accounting functions, including journal entries, having custody of assets and controlling all data input and output.
- (2) Cash – handling, reconciling, and recording.
- (3) Investments – investing, recordkeeping, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, recording and posting.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (6) Long-term debt – recordkeeping, compliance and debt payment processing.
- (7) Journal entries – preparing and recording.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – 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.

City of Keota

Detailed Findings and Recommendations

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

- (C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The City has 26 bank and investment accounts, of which only one is reconciled monthly. At June 30, 2019, the total fund balance per the general ledger was \$20,530 lower than the bank balance. Additionally, a listing of outstanding checks was maintained however it varied significantly when compared to the accounting system’s records. The outstanding checks per the system included a total of \$152,844 in checks which had already cleared in fiscal year 2019, this included \$139,114 worth of duplicated check amounts from November 2018. The City has been working with their software company to resolve the variance.

Recommendation – To provide better control over financial transactions and overall accountability, monthly bank reconciliations should include all checking and investment accounts. These bank and investment account balances should be reconciled to total fund balances per the general ledger and variances should be resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. The City should consider reducing the number of bank accounts maintained to simplify the reconciling process.

- (D) Petty Cash Fund – The petty cash fund was not maintained on an imprest basis and was not maintained at the authorized amount. The petty cash fund was \$127 over the authorized amount. The petty cash fund was combined with daily receipts which were not accounted for separately. Also, the library change and petty cash funds were not authorized by the City Council.

Recommendation – The petty cash fund should be maintained on an imprest basis to provide additional control over the petty cash fund. An imprest system is one in which petty cash is maintained at a fixed, authorized amount and all distributions from the petty cash fund are supported/documented with a vendor receipt. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Daily collections should be accounted for separately to facilitate the depositing of these collections intact. In addition, the petty cash fund should be included in the City’s accounting records and bank reconciliation. Also, the Library change and petty cash funds should be authorized by the City Council.

- (E) Payroll – The following conditions related to payroll were noted:

- (1) For one of five employee timesheets observed, there was no evidence of supervisory review.
- (2) For one of five employee payrolls observed, there was no evidence a timesheet had been submitted.
- (3) For one of five employee salary and wage rates observed (a librarian), the wage rate received by the employee was larger than the wage rate approved by the City Council. The City Council approved rate was \$11 hourly, the employee was paid \$12.00 hourly.
- (4) For one of five employee payrolls observed, a resolution setting the employees starting wage could not be located.

City of Keota

Detailed Findings and Recommendations

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

Recommendation – Timesheets should be prepared and signed by all employees. Timesheets should be reviewed and approved by the appropriate supervisory personnel or City officials prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of review. The City should establish procedures to ensure salary and wage rates paid to employees agree with the salary and wage rates approved by the City Council. The City should contact legal consult for resolution including whether the City should seek reimbursement for current and past overpayments.

- (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 the review.

- (G) Monthly City Clerk’s Report – The monthly City Clerk’s Report includes bank balances but does not include beginning and ending fund balances and does not report transfers separate from receipts and disbursements. At June 30, 2019 the City Clerk’s Report total bank cash balance did not agree to the general ledger balance. In addition, there is no evidence of an independent review of the City’s Clerk’s Report.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a summary of receipts, disbursements, transfers, and balances by fund. The City should establish procedures to ensure monthly reports agree to the City’s accounting system and the ending fund balance agrees with the general ledger. The City Council should review and approve the City Clerk’s report monthly.

- (H) Transfers – Total transfers in did not equal total transfers out by a variance of \$10,676. In addition, \$156,307 of transfers approved in the budget were not made.

Recommendation – The City should establish procedures to ensure transfers in equal transfers out and all approved transfers are made.

- (I) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the business type activities prior to the budget amendment and exceeded the budget at year end. 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 Keota

Detailed Findings and Recommendations

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

- (J) General Obligation Debt – Principal and interest on the City’s general obligation sanitary sewer bonds were paid from the Enterprise, Sewer Fund. 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.”

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required.

- (K) Annual Financial Report – The following conditions related to the City’s AFR were noted:

- (1) The beginning balance reported in the fiscal year 2019 Annual Financial Report (AFR) was overstated by 936,570 while the ending balance was overstated by 1,551,532 compared to the City’s general ledger.
- (2) The receipts and disbursements reported in the AFR were understated by \$90,264 and \$706,403 respectively, compared with the City’s general ledger. The State Revolving Fund (SRF) fund activity was not included on the AFR which represents most of the variance.
- (3) The City’s long-term debt items were not listed out individually on the AFR. There was no support for how the combined long-term debt amount was calculated.

Recommendation – The City should ensure the beginning and ending balances, receipts and disbursements in the AFR agree to the City’s general ledger. The City should also individually list all long-term debt details on the AFR and ensure all the debt listed is properly supported.

- (L) Disbursements – For three of thirty transactions observed, a total of \$27 in sales tax was improperly paid.

Recommendation – Procedures should be established to ensure the City does not pay sales tax.

- (M) Journal Entry Documentation – For two of the three journal entries observed, there was no evidence of an independent review.

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

- (N) Financial Condition – At June 30, 2019, the City had a deficit balance of \$591,961 in the Enterprise, Sewer Fund. The deficit is primarily due to the City’s wastewater treatment plant project disbursements being recorded in the Enterprise, Sewer Fund while the related reimbursements were incorrectly recorded in the General Fund.

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

City of Keota

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Deborah J. Moser, CPA, Manager
Molly N. Kalkwarf, Staff Auditor
Brandon G. Sommers, Assistant Auditor