

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

May 26, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Dike, Iowa for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported thirteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank to book and ambulance billing reconciliation procedures, deficit balances, disbursements exceeding budgeted amounts and the lack of procedures to track the use of local option sales tax (LOST) receipts and unspent LOST balances. Sand provided the City with recommendations to address each of the findings.

Eleven of the 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/>.

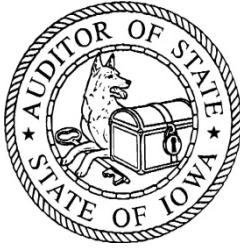
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CITY OF DIKE

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

City of Dike



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May 5, 2021

Officials of the City of Dike
Dike, 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 Dike, Iowa, for the period July 1, 2019 through June 30, 2020. 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 Dike 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 Dike

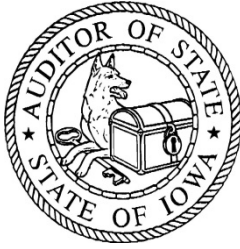
Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Soppe	Mayor	Jan 2020
Samuel Kollasch	Council Member	Jan 2020
Luke Osterhaus	Council Member	Jan 2020
Chris Bakken	Council Member	Jan 2022
Nick Cleveland	Council Member	Jan 2022
Chad Cutsforth	Council Member	Jan 2022
Lindsay Nielsen	City Clerk/Treasurer	Indefinite
Ann Hilliard	Deputy Clerk	Indefinite
Gary N. Jones	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Soppe	Mayor	Jan 2022
Chris Bakken	Council Member	Jan 2022
Nick Cleveland	Council Member	Jan 2022
Chad Cutsforth	Council Member	Jan 2022
Hugh Bargman	Council Member	Jan 2024
Luke Osterhaus	Council Member	Jan 2024
Lindsay Nielsen	City Clerk/Treasurer	Indefinite
Ann Hilliard	Deputy Clerk	Indefinite
Gary N. Jones	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 Dike for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Dike'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 2020 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.

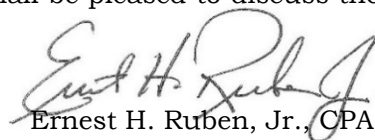
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 to 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 determined whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined 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 Dike 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

May 5, 2021

Detailed Findings and Recommendations

City of Dike

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (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. As noted in items (C) and (E) below, not performing accurate bank reconciliations and allowing funds to remain in a deficit position for multiple years indicates the City Council has not been exercising sufficient oversight of the City’s operations and financial transaction.

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 the review of pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance. Corrective action should be implemented to address deficiencies noted in this report.

- (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, depositing, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting and maintaining detailed accounts receivable and write-off records.
- (6) Investments – recording and custody of investment documents.
- (7) Long-term debt – recording, reconciling and debt payment processing.

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 Dike

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (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. A report detailing bank reconciling items, including deposits in transit and outstanding checks, was prepared but it was not accurate. We attempted to reconcile the general ledger with the bank balance at June 30, 2020. At June 30, 2020, the calculated bank balance with estimated outstanding checks and deposits in transit is \$1,911,694, which is a variance of \$268,546 from the City’s recorded book balance of \$2,180,240 and a variance of \$94,539 from the auditor’s calculated book balance of \$2,006,233.

The City has not prepared accurate bank reconciliations, including deposits in transit and a listing of outstanding checks for many years.

Recommendation – The City should investigate the variance and correct the City’s general ledger to accurately report the City’s cash and fund balances.

The City should establish procedures to ensure all bank account and investment balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and bank statements and document the review by signing or initialing and dating the monthly reconciliations and bank statements. In addition, an accurate listing of bank reconciling items, including deposits in transit and outstanding checks, should be prepared to facilitate month end balancing and receipts and disbursements should be properly recorded.

- (D) Financial Reporting – The amounts reported in the City’s fiscal year 2020 Annual Financial Report (AFR) did not agree with the City’s general ledger. The total beginning balance reported in the AFR was \$385,688, which did not agree with the 2019 AFR ending balance of \$1,750,465. The total ending balance reported in the AFR was \$235,410, which did not agree with the City’s recorded book balance before adjustment of \$2,180,240 or the bank balance unadjusted for outstanding checks of \$1,855,417.

In addition, total disbursements reported in the AFR are understated by \$11,845 when compared to the City’s records.

Recommendation – The City should implement procedures to ensure amounts reported in the City’s AFR are accurate and agree to the City’s records. An independent person should review the AFR for accuracy. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Dike

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (E) Financial Condition – At June 30, 2020, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
General	\$ 11,425
Special Revenue:	
Road Use Tax	194,260
Employee Benefits	97,052
Debt Service	805
Capital Projects:	
Tax Increment Financing - Fox Ridge	23,651
2014 Ambulance	264,997
Enterprise:	
Water	126,321
Sewer	131,267
Sales Tax	32,620

Recommendation – The City Council should monitor the status of these funds and immediately investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

- (F) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 60% for curb, gutter, streets and sidewalks, 20% for community betterment and 20% for property tax relief. The City has not properly tracked the use and unspent balance of LOST receipts to demonstrate compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

- (G) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the debt service, capital projects 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 in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (H) Reconciliation of Ambulance Billings, Collections, Delinquent Accounts and Ambulance Rates – Ambulance billings and collections were reconciled throughout the year; however, the reconciliations were not independently reviewed monthly and a delinquent account listing was not retained. In addition, ambulance billing rates have not been approved by the City Council.

City of Dike

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

Recommendation – Procedures should be established to review the reconciliations each month and the listing of delinquent accounts should be retained. 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. Also, ambulance rates should be approved by the City Council.

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

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

- (J) Park Shelter and Memorial Building Rental Deposits – Rental deposits for the park shelter and Memorial Building (cash and checks) are not deposited but rather are held by the City until after the rental is complete and are then returned to the customer, if determined appropriate.

Recommendation – Cash and checks received for rental deposits should be deposited into the City's bank account and refunded using a City check after the rental date, if deemed appropriate.

- (K) Transfers – Interfund transfers approved by the City Council to transfer funds from the Tax Increment Financing (TIF) fund to the TIF LMI Savings fund were not recorded in the general ledger.

Recommendation – The City should ensure all transfers approved by the City Council are properly recorded in the general ledger as directed by the City Council. Also, the City should review approved transfers in prior fiscal years to ensure they have been recorded in the general ledger.

- (L) Annual Urban Renewal Report – The City's total cash balance for the Special Revenue, Tax Increment Financing (TIF) Fund reported on the Levy Authority Summary is understated \$639,023 when compared with the combined low and moderate income (LMI) general ledger savings account, general ledger TIF account and the general ledger TIF-Fox Ridge account. In addition, the LMI cash balance reported on the Levy Authority Summary was understated \$42,801 when compared with the general ledger LMI savings account. We were unable to determine the reason for the variances.

In addition, the City reported \$1,280,188 total TIF debt outstanding at 6/30/19. However, the total TIF and LMI cash balance reported on the City Treasurer's Report was \$1,588,358 which is \$308,170 in excess of the TIF debt outstanding. The City did not issue additional TIF debt during fiscal year 2019. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the 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 Dike

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

Recommendation – The City should ensure the total Special Revenue, TIF Fund cash balances and the LMI cash balances reported on the Levy Authority Summary agree with the City’s records. 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.

- (M) Revenue Note – The sewer revenue note resolution requires sewer rates be established at a level which produces and maintains net operating receipts at a level not less than 110% of the principal and interest on the notes falling due in the same year. During the year ended June 30, 2020 net operating receipts of the Enterprise, Sewer Fund were \$105,654, which is less than 110% of the \$288,900 principal and interest due during the year.

In addition, although the City established a sinking account as required by the note resolution, required monthly transfers were not made to the sinking account. The deficit cash balance in the sinking account at June 30, 2020 was \$593,354.

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 investigate and correct the deficit sinking account balance and make the required monthly transfers to the sinking account.

- (N) LMI Disbursements – Disbursements during the year from the City’s LMI (low to moderate income) checking account totaling \$54,628 were not properly recorded in the City’s general ledger.

Recommendation – Disbursements from the City’s LMI checking account should be recorded in the City’s general ledger at the time of disbursement.

City of Dike

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Gwen D. Fangman, CPA, Manager
David A. Slocum, CPA, Staff Auditor
Jesse K. Villalobos, Assistant Auditor