



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ April 2, 2015 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Remsen, Iowa and the Remsen Municipal Utilities (Utilities) for the period July 1, 2013 through June 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City and the Utilities review their control procedures to obtain the maximum internal control possible. The City should also establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly. The City should consult legal counsel to determine the proper use of urban renewal low-to-moderate income set aside and local option sales tax collections.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1421-0700-BL0F.pdf>.

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**CITY OF REMSEN AND
REMSAN MUNICIPAL UTILITIES**

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014**

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**City of Remsen and
Remsen Municipal Utilities**

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
<u>City:</u>		
Jeff Cluck	Mayor	Jan 2016
Tom Haverkamp	Council Member	Jan 2014
Tom Letsche	Council Member	Jan 2014
Dave Sonnichsen	Council Member	Jan 2014
Mindy Klein	Council Member	Jan 2016
Dick Sievers	Council Member	Jan 2016
Paige List	City Clerk	Jan 2014
Barry Thompson	Attorney	Indefinite
<u>Utilities:</u>		
Dean Douvia	Board of Trustees	Jan 2014
Kim Keleher	Board of Trustees	Jan 2016
Craig Bartolozzi	Board of Trustees	Jan 2018
Craig Rieter	Superintendent	Indefinite
Rachel Keffeler	Clerk	Indefinite
<u>(After January 2014)</u>		
<u>City:</u>		
Jeff Cluck	Mayor	Jan 2016
Mindy Klein	Council Member	Jan 2016
Dick Sievers	Council Member	Jan 2016
Jeremy Bunkers	Council Member	Jan 2018
Kim Phillips	Council Member	Jan 2018
Dave Sonnichsen	Council Member	Jan 2018
Paige List	City Clerk	Jan 2016
Barry Thompson	Attorney	Indefinite
<u>Utilities:</u>		
Kim Keleher	Board of Trustees	Jan 2016
Craig Bartolozzi	Board of Trustees	Jan 2018
Dean Douvia	Board of Trustees	Jan 2020
Craig Rieter	Superintendent	Indefinite
Rachel Keffeler	Clerk	Indefinite

**City of Remsen and
Remsen Municipal Utilities**



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Mary Mosiman, CPA
Auditor of State

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor, Members of the City Council
and Members of the Utilities Board of Trustees:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Remsen and the Remsen Municipal Utilities (Utilities) for the period July 1, 2013 through June 30, 2014. The City of Remsen's and the Utilities' management, which agreed to the performance of the procedures performed, are responsible for the City's and the Utilities' records, respectively.

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 and Utilities Board meeting minutes for compliance with Chapters 21, 372.13(6), 380 and 388 of the Code of Iowa.
2. We reviewed the City's and the Utilities' 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's and the Utilities' 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 and the Utilities Board.
5. We reviewed the City's and the Utilities' 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 2014 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 and the Utilities. 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. The City's recommendations are followed by the Utilities' recommendations.

We were not engaged to and did not conduct an audit of the City of Remsen or the Utilities, the objective of which is the expression of opinions on the City's and the Utilities' financial statements. Accordingly, we do not express opinions on the City's or the Utilities' financial statements. Had we performed additional procedures, or had we performed an audit of the City of Remsen or the Utilities, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees, citizens and customers of the City of Remsen, the Remsen Municipal Utilities and other parties to whom the City of Remsen and the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Remsen and the Utilities 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 15, 2015

Detailed Recommendations

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

City:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Long-term debt – handling, reconciling and recording.
- (6) Investments – handling, reconciling and recording.

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) Bank Reconciliations – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year. For the two months reviewed, there was no independent review of the monthly bank reconciliations.

Recommendation – The City should establish procedures to ensure an independent person reviews the reconciliations and the review is documented by the signature or initials of the reviewer and the date of the review.

- (C) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required.

- (D) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety and health and social services 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.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (E) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Majeres Foodtown	Pop, candy, apple cider and napkins	\$ 36
Majeres Foodtown	Food – Fire department	42
Ruth’s Café	Food – Fire Department	59
Flowers N Things	Flowers for funeral – Fire Department	63
Mrs. B’s	Food – EMT Department	56

According to the opinion, it is possible for such 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 disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (F) Disbursements - Supporting documentation for 4 of 30 disbursements tested was not available. Also, there was no evidence of City Council approval for 7 of 30 disbursements tested.

Recommendation - All disbursements should be supported by invoices or other supporting documentation and should be approved by the City Council.

- (G) Investment Policy - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (H) Unrecorded Investments – Seven certificates of deposit totaling \$121,924 were identified which are not recorded in the City’s accounting records.

Recommendation – The City should develop procedures to ensure all investments, including certificates of deposit, are properly reflected in the accounting records.

- (I) Timesheets – Two employees tested did not complete timesheets.

Recommendation – The City should require timesheets to be completed by all employees and approved by their supervisors.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (J) Separately Maintained Records – The Fire Department and Emergency Medical Technicians maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (K) Journal Entries – Journal entries are not reviewed and approved by an independent individual.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (L) Local Option Sales Tax (LOST) – The City receives LOST funds each year which are to be used in accordance with the LOST ballot. The ballot requires these funds to be used 100% for infrastructure and the City’s portion of the County Jail and Law Enforcement Center payments. During the year, the City disbursed a large amount of LOST funds for equipment, repair, supplies and services. These uses of LOST do not appear to be in compliance with the ballot.

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

- (M) Debt Covenants – The City is not in compliance with the sewer revenue debt covenants. Specifically, net revenues were not 110% of principal and interest due.

Recommendation – The City should review the sewer revenue debt covenants and establish procedures to ensure the covenants are met.

- (N) Tax Increment Financing (TIF) – 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. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

During the current year, the City certified disbursements from the Special Revenue, Road Use Tax and Local Option Sales Tax Funds as well as various utility funds related to four projects as TIF indebtedness. Because the City Council had not approved these disbursements as interfund loans, they do not qualify as indebtedness which can be certified as TIF debt.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

Recommendation – The City Council should adopt a resolution to approve the disbursements related to these four projects as an interfund loan between the Special Revenue, TIF Fund and other funds.

- (O) Annual Urban Renewal Report – The City’s ending cash balance of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary did not agree with the City’s general ledger and the amount restricted for low-to-moderate (LMI) assistance was not included. Also, the City did not approve and submit the report to the Department of Management by December 1 as required by Chapter 403.19 of the Code of Iowa.

Recommendation – The City should ensure the cash balance and the amount restricted for LMI assistance reported on the Levy Authority Summary agree with the City’s records. The City should submit the Annual Urban Renewal Report to the Department of Management before December 1 as required by the Code of Iowa.

- (P) Remsen Heritage Museum Donation – The City has set aside low-to-moderate income (LMI) funds from an urban renewal area in accordance with Chapter 403.22 of the Code of Iowa. Chapter 403.22(2) defines how these LMI funds are to be used. The City donated \$3,000 to the Remsen Heritage Museum, a private non-profit organization, during the year. This use of LMI funds does not appear to be in compliance with Chapter 403.22(2) of the Code of Iowa.

Also, the Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit organization. Article III, Section 31 states, in part, “and no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation or claim, be allowed by two thirds of the members elected to each branch of the General Assembly.”

We previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

“...I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates a public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds’, subject to the deposit and investment standards contained in the Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate a joint public and private influence over the use of the gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking.”

A 28E agreement, as described in the advice letter, does not exist. We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over the LMI funds to a separate non-profit organization.

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

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

Utilities:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the Utilities:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Long-term debt – handling, reconciling and recording.
- (6) Investments – handling, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including Board members. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – The cash and investment balances in the Utility’s general ledger were reconciled to bank and investment account balances throughout the year. For the two months reviewed, there was no independent review of the monthly bank reconciliations.

Recommendation – The Utilities should establish procedures to ensure an independent person reviews the reconciliations and documents the review by signing or initialing and dating the monthly reconciliations.

(C) Journal Entries – Journal entries are not reviewed and approved by an independent individual.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

(D) Financial Condition – At June 30, 2014, the Utilities had a deficit balance of \$21,080 in the Enterprise, Water Fund.

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

City of Remsen and
Remsen Municipal Utilities

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – While utility billings, collections and delinquent accounts were reconciled monthly, the beginning balance did not always agree to the prior month’s reconciliation ending balance. There is no evidence of independent review of the reconciliation.

Recommendation – As a part of the reconciliation process, the Utilities should ensure the beginning balance agrees to the ending balance from the prior month’s reconciliation. The Utilities Board or other independent person designated by the Utilities Board should review the reconciliations and sign or initial and date them to document the review.

- (F) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Chamber of Commerce	Golf tournament registration fee for four individuals	\$ 180
Golden Pheasant	Food for holiday party	415

According to the opinion, it is possible for such 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 Utilities Board should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the Utilities Board should establish written policies and procedures, including the requirements for proper documentation.

City of Remsen and
Remsen Municipal Utilities

Staff

This agreed-upon procedures engagement was performed by:

Brian R. Brustkern, CPA, Manager
Brandon A. Soda, CPA, Staff Auditor
Luke D. Bernhard, Staff Auditor
Stephen J. Hoffman, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, looped initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State