

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

State Capitol Building
Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 12, 2016

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Dike, Iowa for the period July 1, 2014 through June 30, 2015. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. The City should also establish procedures to ensure bank reconciliations are completed monthly and are independently reviewed. In addition, the City should comply with Chapter 384.18 of the Code of Iowa by amending its budget before disbursements are allowed to exceed the budget.

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 <https://auditor.iowa.gov/reports/1521-0355-BLOF>.

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CITY OF DIKE

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

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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City of Dike

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|----------------------|---------------------|
| Michael Soppe | Mayor | Jan 2016 |
| Luke Osterhaus | Council Member | Jan 2016 |
| Rob Weissnefluh | Council Member | Jan 2016 |
| Nicholas Cleveland | Council Member | Jan 2018 |
| Chad Cutsforth | Council Member | Jan 2018 |
| Bob Haugebak | Council Member | Jan 2018 |
| Patti Freese | City Clerk/Treasurer | Indefinite |
| Ann Hilliard | Deputy Clerk | Indefinite |
| Gary N. Jones | Attorney | Indefinite |

City of Dike



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

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 Dike for the period July 1, 2014 through June 30, 2015. The City of Dike's management, which agreed to the performance of the procedures performed, is responsible 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 reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed 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 reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed 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 reviewed 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 reviewed the City's fiscal year 2015 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. 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.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Dike, 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 and citizens of the City of Dike and other parties to whom the City of Dike 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 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 7, 2016

Detailed Recommendations

City of Dike

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

(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) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Investments – recording and custody of investment documents.
- (7) Long-term debt – recording, reconciling and performing cash functions.

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 not reconciled to bank account and investment balances throughout the year. For the two months reviewed, bank and book balances were not reconciled. In addition, outstanding check listings were not retained.

Recommendation – 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 document the review by signing or initialing and dating the monthly reconciliations. In addition, listings of outstanding checks should be retained to support month end balancing.

(C) 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.

(D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were reconciled throughout the year. However, the reconciliations were not reviewed by an independent person for propriety.

Recommendation – 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.

City of Dike

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (E) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works and general government 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.

- (F) Payroll – Timesheets did not always include evidence of supervisory review. Also, the Library Board meeting minutes did not document approval of the hourly rate for Library employees. In addition, one Federal quarterly payroll withholding report was not submitted timely.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll. The hourly rate for Library employees should be documented in the Library Board meeting minutes. In addition, the City should establish procedures to ensure payroll withholding reports are submitted timely.

- (G) Financial Condition – At June 30, 2015, the City had deficit balances in the following funds:

| <u>Fund</u> | <u>Amount</u> |
|-------------------------------------|---------------|
| General | \$ 437,942 |
| Special Revenue: | |
| Road Use Tax | 291,615 |
| Employee Benefits | 57,088 |
| Tax Increment Financing - Fox Ridge | 16,176 |
| Capital Projects: | |
| SRF Plan & Design | 16,368 |
| Enterprise: | |
| Sales Tax | 38,547 |

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

- (H) Annual Urban Renewal Report – The Annual Urban Renewal Report was not approved and certified to the Iowa Department of Management on or before December 1. The report was approved and certified on January 14, 2015.

In addition, the following exceptions were noted:

The City’s receipts and disbursements of the Special Revenue, Tax Increment Financing (TIF) Fund reported on the Levy Authority Summary did not agree with the City’s general ledger. TIF receipts were overstated by \$114,091 and rebate disbursements were understated by \$5,344.

The City did not report TIF debt outstanding on the Levy Authority Summary, understating the amount outstanding by \$441,496.

City of Dike

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

Recommendation – The City should approve and file the Annual Urban Renewal Report timely and ensure the TIF Fund activity and TIF debt outstanding reported on the Levy Authority Summary agree with the City’s records.

- (I) Disbursements – Three transactions tested included late fees and penalties totaling \$121.

Recommendation – The City should establish policies and procedures to ensure all payments are timely to avoid late fees and penalties.

- (J) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

- (K) Transfer and Journal Entry Documentation – Supporting documentation was not maintained for transfers and journal entries. In addition, transfers and journal entries are not approved by an independent person.

Recommendation – Supporting documentation should be maintained which substantiates all transfers and journal entries. In addition, approval of all transfers should be evidenced in the City Council meeting minutes or budget, as applicable. Journal entries should be approved by an independent person and evidence of the approval should be documented.

City of Dike

Staff

This agreed-upon procedures engagement was performed by:

Michelle B. Meyer, CPA, Manager
Kelly L. Hilton, Senior Auditor II
Marcus B. Johnson, Assistant Auditor
Ryan M. Barrett, Assistant Auditor


Marlys K. Gaston, CPA
Director