



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

May 24, 2017

Contact: Marlys Gaston
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, 2015 through June 30, 2016. 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/1621-0355-BLOF>.

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CITY OF DIKE

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

**FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016**

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City of Dike

Officials

(Before January 2016)

<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
Robert Haugebak	Council Member	Jan 2018
Patti Freese	City Clerk/Treasurer	(Terminated Sep 2015)
Lindsay Nielsen (Appointed Nov 2015)	City Clerk/Treasurer	Indefinite
Ann Hilliard	Deputy Clerk	Indefinite
Gary N. Jones	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Soppe	Mayor	Jan 2018
Nicholas Cleveland	Council Member	Jan 2018
Chad Cutsforth	Council Member	Jan 2018
Robert Haugebak	Council Member	Jan 2018
Samuel Kollasch	Council Member	Jan 2020
Luke Osterhaus	Council Member	Jan 2020
Lindsay Nielsen	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, 2015 through June 30, 2016. 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 2016 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

February 2, 2017

Detailed Recommendations

City of Dike

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

(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, recording, 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, 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.

(B) 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 and outstanding check listings were not retained. Also, bank statements for one City account were not received by the City. The statements were subsequently obtained by the City for review.

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 and the City should ensure they are receiving bank statements for all City accounts.

(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, 2015 through June 30, 2016

- (E) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works, health and social services and culture and recreation 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, three Federal quarterly payroll withholding reports were 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, 2016, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
General	\$ 250,222
Special Revenue:	
Road Use Tax	292,796
Employee Benefits	95,601
Tax Increment Financing - Fox Ridge	21,350
2014 Ambulance	232,556
Enterprise:	
Sales Tax	37,023

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 February 16, 2016.

In addition, the following exceptions were noted:

The City’s cash balance for the Special Revenue, Tax Increment Financing (TIF) Fund reported on the Levy Authority Summary did not agree with the total LMI Savings account, Tax Increment Financing account and TIF-Fox Ridge account per the City’s general ledger. The cash balance per the Levy Authority Summary is overstated by \$18,433.

The City did not report TIF debt outstanding on the Levy Authority Summary.

City of Dike

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

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

- (I) Disbursements – One transaction tested included late fees and penalties totaling \$493.

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 documented 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.

- (L) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published and include total disbursements from each fund and a summary of receipts. Minutes publications for four meetings tested did not include disbursements from each fund or a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements from each fund and a summary of receipts.

- (M) Payment of General Obligation Note – Interest totaling \$2,868 on the City’s general obligation refunding capital loan note was paid from the Enterprise, Electric Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax must be deposited in the Debt Service Fund.”

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

- (N) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the front or back of each cancelled check for one bank account.

City of Dike

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (O) Change/Petty Cash Fund – The City Hall and City Library each maintain change/petty cash funds for which no authorization could be located. In addition, the City's change/petty cash funds were not included in the City's accounting records and resulting fund balances.

Recommendation – The change/petty cash funds should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the funds. 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 funds and accounts, including the change/petty cash funds, should be included in the City's accounting records and resulting fund balances.

- (P) Credit Cards – The City has bank credit cards and a retail charge card for use by employees while on City business. The City has not adopted a formal policy to regulate the use and control of the City's credit cards and to establish procedures for the proper accounting of credit card purchases.

Recommendation – The City should adopt a formal written policy regulating the use of the City's credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to support purchases.

- (Q) Monthly City Clerk's Report – The Monthly City Clerk's Reports presented to the City Council for approval do not include beginning and ending fund balances, transfers, or all receipts for each fund. The reports also do not include a comparison of actual disbursements to budget by function.

Recommendation – The beginning and ending fund balances, all activity, including transfers, and budget to actual information should be included in the Monthly City Clerk's reports presented to the City Council for approval.

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

Recommendation – Procedures should be established to reconcile ambulance billings, collections and delinquent accounts for each billing period. A listing of delinquent accounts should be maintained and reviewed monthly. 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 Council.

City of Dike

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (S) Rental Agreements and Receipts – The City park shelter and the Dike Memorial Building are available for rent for a fee, including a refundable deposit. Rental agreements are not completed for the park shelter and are not always completed for the Memorial Building. Prenumbered receipts are not issued for rent or deposit payments and the deposit receipts (cash and checks) are held by the City until after the rental and are then returned to the customer if determined appropriate.

Recommendation – Rental agreements should be completed for all rentals. In addition, pre-numbered receipts should be issued for all rent and deposit payments. 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.

- (T) Disbursement Supporting Documentation and Approval – Invoices and other supporting documentation were not always available to support disbursements.

In addition, not all disbursements were approved by the City Council prior to disbursement. The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

Also, the City should adopt a written policy to allow payment of certain bills prior to the City Council approval. All disbursements should be approved by the City Council prior to disbursement, with the exception of those specifically allowed by the policy. Disbursements paid prior to City Council approval should be presented to the City Council at the next City Council meeting for review and approval.

- (U) Cell Phone Reimbursement – The Mayor receives periodic reimbursements for use of his personal cell phone. The City receives no supporting documentation for the reimbursement claims. The reimbursements are not processed through payroll and accordingly, the proper tax withholdings are not applied, if applicable. In addition, the public purpose of the reimbursements was not clearly documented.

Recommendation – The City should determine and document the public purpose served by reimbursing the Mayor for personal cell phone use. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation and inclusion of cell phone reimbursements in taxable income, if applicable.

- (V) Financial Reporting – We identified material amounts of disbursements and transfers which were not recorded in the City’s general ledger. The disbursements were those amounts paid from the TIF LMI bank account.

In addition, beginning and ending balances in the City’s 2016 Annual Financial Report (AFR) did not agree with the City general ledger. Also, debt payments from the Enterprise Fund, Electric Fund were reported as operating expenses on the AFR and not as debt service.

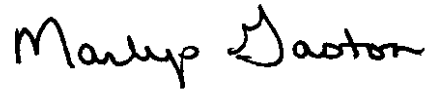
Recommendation – The City should implement procedures to ensure all disbursements, transfers, balances and debt are properly recorded in the City’s AFR and general ledger.

City of Dike

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Ian N. Judson, Assistant Auditor

A handwritten signature in black ink that reads "Marlys Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director