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STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

April 2, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Wall Lake, Iowa for the period July 1, 2016 through June 30, 2017. 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 comply with the budget amendment requirements of Chapter 384.18 of the Code of Iowa 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/1721-0769-BLOF>.

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CITY OF WALL LAKE
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017

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City of Wall Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Druivenga	Mayor	Jan 2018
Ron Lahr	Council Member	Jan 2018
Albert Schwanz	Council Member	Jan 2018
Gary Faber	Council Member	Jan 2020
Rob Germann	Council Member	Jan 2020
Francis Riedell	Council Member	Jan 2020
Chris Rodman	City Clerk/Treasurer	Indefinite
Warren Bush	Attorney	Indefinite

City of Wall Lake



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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 Wall Lake for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Wall Lake'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 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.

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 Wall Lake 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

March 16, 2018

Detailed Recommendations

City of Wall Lake

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

(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, recording, depositing and reconciling.
- (3) Journal entries – preparing and recording.
- (4) Financial reporting – preparing and reconciling.

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 – Monthly bank reconciliations were prepared. However, because the “reconciliation summary” report from the computerized system is not printed, the reconciliation balance will not agree with the City Clerk’s report. Also, the reconciliations were not reviewed by an independent person.

Also, while in total, the City has recorded all balances, certain bank account names and balances do not agree with reported City Clerk fund balances. Additionally, certain certificate of deposit and investment account balances did not agree in total with City records by \$324.

Recommendation – To improve financial accountability and control, the monthly bank reconciliations should include the printed “reconciliation summary” showing the current balances agree with the City Clerk’s balance. Also, the monthly reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Also, the City should review activity in the City Clerk’s report and determine if correcting transfers should be made to the City Clerk’s report or adjustment should be made to bank account balances. The City should also consider reducing the number of bank accounts to facilitate reconciling bank balances to book balances and utilize the City’s software for fund accounting. Additionally, certificate of deposit and savings account activity should be recorded as received or disbursed.

(C) Financial Reporting – The fiscal year 2016 beginning fund balances in the Annual Financial Report (AFR) did not agree by \$45,924 to the prior year AFR ending fund balances.

Recommendation – The City should establish procedures to ensure the AFR beginning fund balances agree to the prior year AFR ending fund balances.

City of Wall Lake

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (D) 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.

- (E) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works 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.

- (F) Deposits and Investments – The City has adopted a written investment policy. However, the policy refers to an outdated Chapter of the Code of Iowa.

Recommendation – The City should modify the written investment policy to reference Chapter 12B.10B of the Code of Iowa.

- (G) Deficit Fund Balance – At June 30, 2017, the Special Revenue, Road Use Fund had a deficit balance of \$11,497.

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

- (H) Utility Shut-off – The City does not have a utility shut-off policy to enforce collection of delinquent accounts.

Recommendation – The City should establish a utility shut-off policy to enforce collection of delinquent accounts.

- (I) Payroll – Wage increases were based upon a dollar increase per month and the actual approved wages were not documented in the City Council minutes.

Recommendation – Procedures should be established to ensure all pay increases are adequately documented in the City Council minutes by recording the new, approved rate or salary, not just the dollar increase.

- (J) Transfers – Transfers between funds were not always properly coded as “transfers” in the general ledger.

Recommendation – The City should ensure transfers are properly coded in the general ledger.

City of Wall Lake

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (K) Tax Increment Financing – 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.

The City has no outstanding tax increment financing debt reported on the June 30, 2016 Annual Urban Renewal Report. However, the cash balance in the Special Revenue, Urban Renewal Tax Increment Fund is \$43,657 and is in excess of the TIF debt outstanding. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining 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.

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

City of Wall Lake

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Andrew J. Salwolke, Assistant Auditor
Michaela M. Goergen, Assistant Auditor


Marlys K. Gaston, CPA
Director