

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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

April 2, 2018

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Keystone, 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 and establish procedures to reconcile utility billings, collections and delinquent accounts. In addition, the City should amend the budget in accordance with 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/1722-0036-BLOF>.

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**CITY OF KEYSTONE**

**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 Keystone**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael J. Seeck	Mayor	Jan 2018
Mark W. Andresen	Council Member	Jan 2018
Kathy L. Janss	Council Member	Jan 2018
Tim Kruse	Council Member	Jan 2018
Michael Kaiser	Council Member	Jan 2020
Richard Loy, Jr.	Council Member	Jan 2020
Angie Hagen	City Clerk	Indefinite
Jennifer Zahradnik	City Attorney	Indefinite

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Independent Accountant's Report on Applying Agreed-Up 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 Keystone 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 Keystone'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 2017 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 Keystone 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 19, 2018



## **Detailed Recommendations**

City of Keystone

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) Investments – investing, recording and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording.

For the Keystone Schroeder Public Library, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Library should review their 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 – While the City’s checking account balance in the general ledger was reconciled to the bank balance throughout the year, the investment balances in the City’s general ledger were not reconciled to investment account balances. Variances exist between bank investment amounts and the general ledger. Also, there is no independent review of the bank reconciliations.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation 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.

City of Keystone

Detailed Recommendations

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

- (C) City Council Meeting 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 four meetings tested were not published within fifteen days. In addition, Chapter 380.7 of the Code of Iowa requires all minutes of City Council meetings be properly signed. Minutes for three of four meetings tested were not properly signed.

Recommendation – The City should comply with Code of Iowa and publish City Council meeting minutes within fifteen days of the meeting. In addition, minutes of the City Council meetings should be signed, as required.

- (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) Payroll – The following were noted:

- (1) The City Clerk and the City Superintendent do not prepare and submit timesheets to support hours worked.
- (2) While City Library employees complete timesheets, there is no evidence of supervisory review and approval.
- (3) The City does not have a written policy for how vacation, sick leave and compensatory time are to be accrued and accounted for. Also, compensatory time is not formally tracked.
- (4) Approval of wages and hourly rates for City employees is not documented in the City Council meeting minutes.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and reviewed, approved and signed by the employee's immediate supervisor prior to submission. A formal written policy should be established to provide for the proper accrual of and accounting for vacation, sick leave and compensatory time. Actual approved wages and hourly rates should be documented in the City Council meeting minutes.

- (F) Disbursements – In some cases, checks were signed in advance by the individual responsible for co-signing checks.

Recommendation – Checks should only be signed and countersigned when the completed check and appropriate supporting documentation are available for review.

City of Keystone

Detailed Recommendations

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

- (G) Certified Budget – Disbursements during the year ended June 30, 2017 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.

- (H) Revenue Bonds – The following were noted:

- (1) The water revenue bond resolution requires water user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and the interest on the bonds falling due in the same year. During the year ended June 30, 2017, the City was not in compliance with the net receipts requirement of the water revenue bond resolution.
- (2) The City’s water revenue bond resolution requires a sinking account be established and payments are to be made into the sinking account in equal monthly installments on the first day of each month. The City has not established or made the required transfers to a water sinking account.
- (3) The City’s water revenue bond resolution requires the bond principal and interest be redeemed solely from earnings of the water enterprise. Principal and interest on the City’s water revenue bond was paid from the Debt Service Fund.

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 establish a water revenue bond sinking account and make the required transfers to the account for the purpose of making the bond principal and interest payment when due. Principal and interest due for the water revenue bond should be paid from the Enterprise, Water Fund.

- (I) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” Ending fund balances reported on the fiscal year 2017 AFR did not agree with the City’s general ledger. Also receipts and disbursements do not agree to City records.

Recommendation – The City should ensure the amounts reported on the AFR are supported by the City’s general ledger.

- (J) Financial Position – At June 30, 2017, the City had a deficit balance of \$121,339 in the Special Revenue, Road Use Tax Fund.

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

City of Keystone

Detailed Recommendations

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

- (K) Separately Maintained Records – The Library maintains 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.

- (L) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (M) Tax Increment Financing (TIF) Indebtedness Certification – 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 and, as such, the County Auditor shall provide available incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. 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 the interest on the certified indebtedness.

The City certified the principal and interest portion of its general obligation sewer improvement bond issued by the Iowa Finance Authority (IFA) State Revolving Fund to the County Auditor as a TIF obligation. Effective December 1, 2013 the IFA lowered the interest rate from 3.0% to 1.75%, however, the City has not decertified the difference between the previously certified interest and the new interest resulting in an over certification of \$8,984.

Also, the outstanding TIF debt reported on the Annual Urban Renewal Report (AURR) Levy Authority Summary appeared to be calculated using the correct interest rate on the general obligation sewer improvement bond, however, the amounts did not agree by \$717.

Recommendation – The City should decertify the difference in interest due to the reduced interest rate to the County Auditor. Also, the City should ensure the debt reported on the Levy Authority Summary is accurate.

City of Keystone

Detailed Recommendations

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

(N) Financial Reports – The City Clerk’s financial reports provided to the City Council each month did not include comparisons of actual disbursements to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendment to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function.

City of Keystone

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Sidot K. Shipley, Staff Auditor  
Cody L. Mathews, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director