



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

July 3, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Breda, 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 for each billing period. 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 and comply with water and sewer revenue bond resolution requirements.

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/1722-0115-BLOF>.

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CITY OF BRED A

**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 Breda

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Schwabe	Mayor	Jan 2018
Bruce Boes	Council Member	Jan 2018
Chad McDermott	Council Member	Jan 2018
Martin Snyder	Council Member	Jan 2018
Dan Snyder	Council Member	Jan 2020
Brian Steinkamp	Council Member	Jan 2020
Nancy Janssen	City Clerk/Treasurer	Indefinite
Chris Polking	Attorney	Indefinite

City of Breda



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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 Breda 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 Breda'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 Breda 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

Detailed Recommendations

City of Breda

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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
 - (2) Cash – handling, reconciling and recording.
 - (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, recording and reconciling.
 - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (6) Long-term debt – recordkeeping, compliance and debt payment processing.
 - (7) Journal entries – preparing and recording.
 - (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (9) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
 - (10) Computer system – performing all general accounting functions and controlling all data input and output.
 - (11) 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 – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year. However, one of two bank reconciliations tested were not independently reviewed.

Recommendation – The City should establish procedures to ensure bank reconciliations are reviewed by an independent person who documents the review by signing or initialing and dating the monthly reconciliations.

City of Breda

Detailed Recommendations

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

- (C) 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.

- (D) Financial Condition – At June 30, 2017, the City had a deficit balance of \$58,948 in the Enterprise Water Fund.

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

- (E) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the business type activities function. 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) Journal Entries – Two of three journal entries tested were not reviewed and approved by an independent person.

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

- (G) Revenue Bonds – The City’s sewer and water revenue bond resolutions require the City to establish sewer and water sinking accounts and make sufficient monthly transfers to these accounts from the Enterprise, Sewer and Water Funds for the purpose of making the required principal and interest payments when due. While the City has established the water and sewer sinking accounts, the City has not made sufficient monthly transfers to the accounts. In addition, the sewer and water revenue bond resolutions require sewer and 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 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 receipt requirement of either the sewer or water revenue bond resolutions.

Recommendation – The City should make monthly transfers to the water and sewer sinking accounts, as required and record interest payments in the proper sinking account. In addition, the City should ensure sewer and water user rates are established at a level which produces net receipts of 110% of the annual principal and interest payments on the bonds.

City of Breda

Detailed Recommendations

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

- (H) 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 fiscal year 2016, the City paid principal and interest on its 2013 general obligation bonds from the Special Revenue, Tax Increment Financing Fund. However, based on review of the County Auditor’s “Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation” prepared in November 2015 and November 2016, it appears the 2013 general obligation bond principal of \$16,082 and interest of \$6,913 have not been certified to the County Auditor as a TIF obligation.

Recommendation – The City should review past County Auditor’s “Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliations” for consistency with City records to determine whether the 2013 general obligation bond has been previously certified as a TIF obligation. If not previously certified, the City should certify past principal and interest on its 2013 general obligation bonds paid from TIF collections.

- (I) 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:

Paid to	Purpose	Amount
Arbor Day Foundation	Membership dues	\$ 25

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.

City of Breda

Detailed Recommendations

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

- (J) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Schwabe, Mayor, majority owner of Toyne, Inc.	Equipment maintenance for City fire truck	\$ 6,509

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

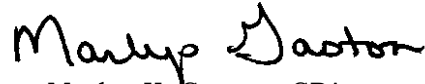
Recommendation – The City should consult legal counsel to determine the disposition of this matter.

City of Breda

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Jason J. Miller, Assistant Auditor
Heather M. Poula, Assistant Auditor

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

Marlys K. Gaston, CPA
Director