



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

May 31, 2019

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Donahue, Iowa for the period April 1, 2017 through March 31, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain the maximum internal control possible, including an independent reconciliation of utility billings, collections and delinquent accounts to ensure utility billings are properly calculated and the correct rates are billed. In addition, the City should ensure proper monthly book to bank reconciliations are prepared and are independently reviewed. Monthly financial reports should include a comparison of total disbursements for all funds to the certified budget by function. Also, 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 on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**CITY OF DONAHUE**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**APRIL 1, 2017 THROUGH MARCH 31, 2018**

**City of Donahue**



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May 20, 2019

Officials of the City of Donahue  
Donahue, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Donahue for the year ended June 30, 2018. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Donahue throughout the audit. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand  
Auditor of State

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**City of Donahue**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Ken Schoenthaler	Mayor	Jan 2016	Jan 2020
Adam Ganzer	Council Member	Jan 2016	Jan 2020
Brittney Noel	Council Member	Nov 2017	Jan 2020
Timothy Arp	Council Member	Jan 2018	Jan 2022
Andy Cronkleton	Council Member	Jan 2018	Jan 2022
Rachelle Troje-Hayslett	Council Member	Jan 2018	Jan 2022
Rebecca Schoenthaler	Treasurer		Indefinite
Christie Arp	City Clerk		Indefinite

**City of Donahue**



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6 to provide oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Donahue for the period April 1, 2017 through March 31, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Donahue'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.



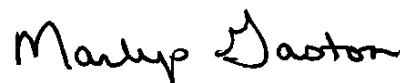
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed 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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. 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 Donahue 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.



MARLYS K. GASTON, CPA  
Deputy Auditor of State

May 20, 2019

## **Detailed Recommendations**

City of Donahue

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:
- (1) Cash - handling, reconciling and recording.
  - (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
  - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
  - (5) Debt – recordkeeping, compliance and debt payment processing.
  - (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
  - (7) Payroll – recordkeeping, preparing, signing and distributing.
  - (8) Computer system – performing all general accounting functions and controlling all data input and output.
  - (9) 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, to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Bank and investment balances were not reconciled to book balances monthly. At June 30, 2017 and March 31, 2018, the City’s general ledger was \$3,345 less than the bank and investment balance.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly. Variances should be reviewed and resolved timely.

City of Donahue

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

- (C) Monthly City Clerk's Report – The City Clerk's monthly financial reports to the City Council did not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – To allow for amendments to the certified budget before disbursements exceed the budget, the City Clerk's monthly financial reports to the City Council should include a comparison of total disbursements for all funds to the certified budget by function.

- (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 document the review by signing or initialing and dating the reconciliations.

- (E) Utility Rates – We reviewed utility billings for the month of March 2018. No supporting documentation existed to support the utility rates charged. The only support provided by the City was an ordinance from 2008 stating water rates to be in effect at that time, which did not match the rates charged during the month reviewed. No other City ordinances were available to support the current water or sewer rates being applied.

Recommendation – The City should ensure all utility rates are established by ordinance as required by Chapter 384.84 of the Code of Iowa. An independent person should periodically review and test utility billings to ensure they are properly calculated and the correct rates are billed.

- (F) Chart of Accounts – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (G) Annual Financial Report (AFR) – The fiscal year 2017 AFR total ending fund balance did not agree with the City's financial records. The total fund balance of \$378,131 reported in the fiscal year 2017 AFR was \$284 less than the monthly City Clerk's report balance of \$378,415 and \$3,630 less than the City's adjusted bank balance of \$381,761.

In addition, the City's outstanding balance of \$84,352 for a bank loan was not reported in the AFR.

Recommendation – The City should ensure the monthly City Clerk's reports and the Annual financial Report reconcile to the general ledger and bank balances. The City should also ensure the financial activity, including outstanding debt, is properly reported.

City of Donahue

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

- (H) Deficit Fund Balance – The fiscal year 2017 Annual Financial Report (AFR) reported a negative ending fund balance of \$351,974 for the proprietary funds.

Recommendation – The City should determine the reasons for the deficit balance and take immediate steps to reduce and eliminate the deficit to return the proprietary funds to a sound financial condition.

- (I) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, the resolution naming official depositories adopted by the City Council indicates the deposit limit by individual institution for the checking and savings accounts is not to exceed \$100,000. For the period tested, the bank account balance exceeded \$100,000 for all 12 months. Also, the resolution does not name all depositories the City used during the period under review.

Recommendation – The City should adopt a written investment policy which complies with Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve a new depository resolution which includes all approved depositories and establishes maximum deposit amounts sufficient to cover anticipated balances as required by Chapter 12C.2 of the Code of Iowa.

- (J) Investment Records – 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.

- (K) Revenue Bonds – 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 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 the water revenue bond resolution.

Recommendation – The City should ensure water user rates are established at a level which produces net receipts of 110% of the annual principal and interest payments on the bonds.

- (L) 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 and include total disbursements from each fund. Four of four monthly minutes reviewed were not published within fifteen days. Also, four of four monthly minutes publications reviewed did not include total disbursements from each fund. In addition, meeting minutes and several resolutions were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, including total disbursements by fund. In addition, all minutes and resolutions should be signed to authenticate the actions taken, as required.

City of Donahue

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

- (M) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the public safety 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.

- (N) Payroll Approval – The City Clerk reviews all employees’ work hours reported for reasonableness. However, the City Clerk’s hours are not reviewed by an independent person.

Recommendation – Procedures should be established to ensure independent review of the City Clerk’s hours worked.

- (O) Donahue Sportsmens Club, Inc. Donation – In August 2017, the City made a donation of \$1,000 to Donahue Sportsmens Club, Inc., a private non-profit organization.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, “... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly.”

Recommendation – We are not aware of any statutory authority for the City to provide public funds to a separate non-profit corporation. The City should seek reimbursement of the \$1,000 paid to this corporation.

- (P) 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 retain electronic images of the back of each cancelled check for bank accounts.

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.

- (Q) 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 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 and interest on the certified indebtedness.

City of Donahue

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

The City certified the principal portion of its general obligation sewer improvement bond, series 2010C, to the County Auditor as a tax increment financing (TIF) obligation, but did not certify the entire interest portion of this obligation. In addition, principal and interest on the City's general obligation sewer improvement bond were paid from the Enterprise, Sewer Fund resulting in an accumulated balance in the TIF Fund of \$146,364 as of June 30, 2017. 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 certify the general obligation bond interest expected to be repaid with TIF collections to the County Auditor as a TIF obligation. In addition, the City should reimburse the Enterprise, Sewer Fund for payments made on the general obligation bonds (i.e., TIF obligation). Future payments on these bonds should be made from the Special Revenue, TIF Fund by transferring the appropriate amount from the TIF Fund to the Debt Service Fund, as required.

City of Donahue

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy  
Suzanne R. Dahlstrom, CPA, Manager  
Anthony J.T. Mallie, CPA, Staff Auditor  
Elin M. Landgren, Assistant Auditor