



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

September 20, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Breda, Iowa for the period July 1, 2017 through June 30, 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. In addition, the City should establish procedures to ensure variances identified during the monthly utility reconciliations are resolved and ensure the Annual Urban Renewal Report and tax increment certifications are prepared accurately.

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/>.

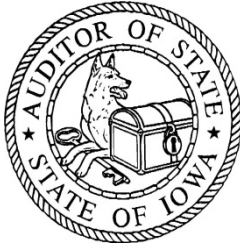
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CITY OF BREDa

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018**

City of Breda



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Rob Sand
Auditor of State

September 4, 2019

Officials of the City of Breda
Breda, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Breda, Iowa, for the year ended June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Breda throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large, looped "R" and a cursive "Sand".

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Revenue Bonds	B 8
Tax Increment Financing	C 9
Annual Urban Renewal Report	D 9
Financial Condition	E 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	F 9
Questionable Disbursements	G 10
Business Transactions	H 10
Staff	11

City of Breda

Officials

(Before January 2018)

<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
Dan Wiskus	Fire Chief	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Schwabe	Mayor	Jan 2020
Dan Snyder	Council Member	Jan 2020
Brian Steinkamp	Council Member	Jan 2020
Robert Boeckman	Council Member	Jan 2022
Samantha Pietig	Council Member	Jan 2022
Christopher Uhlenkamp	Council Member	Jan 2022
Nancy Janssen	City Clerk/Treasurer	Indefinite
Chris Polking	Attorney	Indefinite
Dan Wiskus	Fire Chief	Indefinite

City of Breda



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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 Breda for the period July 1, 2017 through June 30, 2018, 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 2018 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.

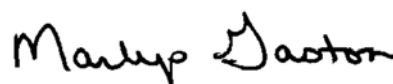
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed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


Marlys K. Gaston, CPA
Deputy Auditor of State

September 4, 2019

Detailed Recommendations

City of Breda

Detailed Recommendations

For the period July 1, 2017 through June 30, 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) 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) 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.

Recommendation – The City should make monthly transfers to the water and sewer sinking accounts, as required, and record principal and interest payments in the proper sinking account.

City of Breda

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (C) 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. We noted the following regarding the City's tax increment financing (TIF) obligations, certification to the County Auditor and the Special Revenue, Urban Renewal Tax Increment Financing Fund (TIF Fund) disbursements:

As a result of the developer not clearly meeting certain conditions of the City's certified rebate agreement, the City is accumulating TIF receipts collected pursuant to this rebate agreement and is not remitting payments to the developer. The amount held and not remitted at June 30, 2018 totals approximately \$150,000.

Recommendation – The City should determine whether the \$150,000 of TIF collections accumulated pursuant to the rebate agreement are to be paid to the developer. TIF receipts which will not be remitted, if any, because the developer did not meet the terms of the rebate agreement should be returned to the County Treasurer to be allocated to the respective taxing bodies in accordance with Chapter 24.21 of the Code of Iowa and the outstanding balance on the rebate agreement should be decertified.

- (D) Annual Urban Renewal Report – The TIF debt outstanding on the Annual Urban Renewal Report (AURR) Levy Authority Summary for fiscal year ended June 30, 2018 was understated by \$45,159 due to under reporting of interest for the 2013 general obligation urban renewal loan. For the TIF debt outstanding, the City only included interest of the subsequent fiscal year instead of all remaining interest as of July 1.

Recommendation – The City should ensure the AURR is prepared accurately and agrees with the City's financial records. The City should verify the amounts on the AURR with all amortization schedules for any disbursements made for TIF.

- (E) Financial Condition – At June 30, 2018, the City had a deficit balance of \$37,928 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.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although the City had procedures in place to reconcile utility billings, collections and delinquent accounts throughout the year, the reconciliations included unresolved variances when compared to supporting documentation.

Recommendation – Procedures should be established to ensure the accuracy of utility reconciliations for each billing period resolve variances, if any, should be resolved timely.

City of Breda

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (G) 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
Trophies Plus, Inc.	Retirement plaque for Fire Chief	\$ 200

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, a maximum dollar amount and proper approval. For example, the Iowa Department of Administrative Services policy procedure 220.351 limits retirement recognition awards for a single state employee to a maximum of \$75.

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

Name, Title and Business Connection	Transaction Description	Amount
Mike Schwabe, Council Member, majority owner of Toyne, Inc.	Equipment maintenance for City fire truck	\$ 4,874

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:

Marlys K. Gaston, CPA, Deputy Auditor of State
Suzanne R. Dahlstrom, CPA, Manager
Jason J. Miller, Staff Auditor
Crystal J. Boender, Staff Auditor