



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

September 25, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Keota, 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 maximum internal control possible. The City should also establish procedures to ensure bank reconciliations and utility reconciliations are performed monthly and the Annual Financial Report is accurate. In addition, the City should 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 on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF KEOTA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

City of Keota



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Rob Sand
Auditor of State

September 18, 2019

Officials of the City of Keota
Keota, 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 Keota, 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 Keota 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".

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	4-5
Detailed Recommendations:	<u>Finding</u>
Fiduciary Oversight	A 7
Segregation of Duties	B 7
Bank Reconciliations	C 7-8
Petty Cash Fund	D 8
Payroll	E 8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	F 8
Monthly City Clerk's Report	G 9
Transfers	H 9
Certified Budget	I 9
General Obligation Debt	J 9
Minutes	K 10
Annual Financial Report	L 10
Business Transactions	M 10
Staff	11

City of Keota

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Anthony Cansler	Mayor	Jan 2018
Keith Conrad	Council Member	Jan 2018
Rod Hill	Council Member	Jan 2018
Kathy Davis	Council Member	Jan 2018
Matt Greiner	Council Member	Jan 2020
Scott Westendorf	Council Member	Jan 2020
Nicole Oxweiler	City Clerk/Treasurer	Indefinite
Scott Flynn	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Anthony Cansler	Mayor	Jan 2020
Matt Greiner	Council Member	Jan 2020
Scott Westendorf	Council Member	Jan 2020
Keith Conrad	Mayor Pro-Tem/Council Member	Jan 2022
Rod Hill	Council Member	Jan 2022
Mike Bender	Council Member	Jan 2022
Tomisha Hammes	City Clerk/Treasurer	Indefinite
Scott Flynn	Attorney	Indefinite



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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 Keota 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 Keota'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.

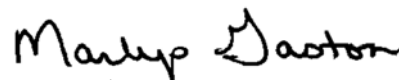
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Keota 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 18, 2019

Detailed Recommendations

City of Keota

Detailed Recommendations

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

- (A) Fiduciary Oversight – The City Council has a fiduciary responsibility to provide oversight of the City’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring and reviewing pertinent information and documentation prior to making decisions affecting the city. Appropriate policies and procedures should be adopted implemented and monitored to ensure compliance.

- (B) 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. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City 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, having custody of assets and controlling all data input and output.
- (2) Cash – handling, reconciling, and recording.
- (3) Investments – investing, recordkeeping, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, recording and posting.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable 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 – recordkeeping, preparing and distributing.

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.

- (C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The City has 26 bank and investment accounts, of which only one is reconciled monthly. At June 2018, the total fund balance per the general ledger was \$8,673 higher than the bank balance. Additionally, a listing of outstanding checks was maintained however, when compared to the accounting system’s records it did not agree. The outstanding checks per the system included a total of \$11,040 checks written in fiscal year 2019 and a total of \$9,499 checks which had already cleared in fiscal year 2018. The City has been working with their software company to resolve the variance.

City of Keota

Detailed Recommendations

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

Recommendation – To provide better control over financial transactions and overall accountability, monthly bank reconciliations should include all checking and investment accounts. These bank and investment account balances should reconcile to total fund balances per the general ledger and variance should be resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. The City should consider reducing the number of bank accounts maintained to simplify the reconciling process.

- (D) Petty Cash Fund – The petty cash fund was not maintained on an imprest basis and was not maintained at the authorized amount. The petty cash fund was combined with daily receipts which were not accounted for separately. Also, the City did not include the petty cash fund in the bank reconciliation for eight months in fiscal year 2018.

Recommendation – The petty cash fund should be maintained on an imprest basis to provide additional control over the petty cash fund. An imprest system is one in which petty cash is maintained at a fixed, authorized, amount and all distributions from the petty cash fund are supported/documented with a vendor receipt. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. Daily collections should be accounted for separately to facilitate the depositing of these collections intact. In addition, the petty cash fund should be included in the City's accounting records and bank reconciliation.

- (E) Payroll – The following conditions related to payroll were noted:

- (1) For one of five timesheets tested, there was no evidence of supervisory review.
- (2) For one of five timesheets tested, the timesheet was not signed by the employee.
- (3) For, one of five employees' salary and wage rates tested (a librarian), the wage rate received by the employee was larger than the wage rate approved by the City Council. The City Council approved rate was \$7.35 hourly, the employee was paid \$8.00 hourly.

Recommendation – Timesheets should be prepared by all employees and signed by employee. Timesheets should be reviewed and approved by the appropriate supervisory personnel or City officials prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of review. The City should establish procedures to ensure salary and wage rates paid to employees agree with the salary and wage rates approved by the City Council. The City should contact legal consult for resolution including whether the City should seek reimbursement for current and past overpayments.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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.

City of Keota

Detailed Recommendations

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

- (G) Monthly City Clerk's Report – The monthly City Clerk's Report does not include beginning and ending fund balances and does not report transfers separate from receipts and disbursements. There was a \$36,081 variance between the revenues reported on the Clerk's Report and the Revenue Summary Report per the accounting system for June 2018. There was a \$35,785 variance between the disbursements on the Clerk's Report and the Expenditure Summary Report per the accounting system. Additionally, a comparison of actual disbursements to the certified budget by function was not provided to the City Council.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes a summary of receipts, disbursements, transfers, and balances by fund. The City should establish procedures to ensure receipts and disbursements included in the monthly reports agree to the City's accounting system. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk's reports should include comparisons to the certified budget by function. The City Council should review and approve the City Clerk's report monthly.

- (H) Transfers – Supporting documentation was not maintained for interfund transfers and \$4,700 of transfers were not approved by the City Council. Total transfers in did not equal total transfers out by a variance of \$25,709. In addition, \$261,271 of transfers approved in the budget were not made.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers. In addition, all interfund transfers should be approved by the City Council, either in the City Council meeting minutes or the budget, as applicable. The City should establish procedures to ensure transfers in equal transfers out and all approved transfers are made.

- (I) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the community and economic development function. In addition, disbursements exceeded the amounts budgeted in the general governmental, business type activities and community and economic development functions prior to a budget amendment. 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.

- (J) General Obligation Debt – Principal and interest on the City's general obligation sanitary sewer bonds were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, "Money's pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund."

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required.

City of Keota

Detailed Recommendations

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

- (K) Minutes – Chapter 327.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting, including total disbursements by fund and a summary of receipts. Two of the four monthly meeting minutes reviewed were not published within fifteen days. Additionally, two of the four published meetings reviewed did not include total disbursements from each fund or a summary of all receipts.

Recommendation – The City should ensure meeting minutes are published within 15 days of the meeting, including total disbursement from each fund and a summary of all receipts.

- (L) Annual Financial Report – The following conditions related to the City’s AFR were noted:

- (1) The beginning balance reported in the fiscal year 2018 Annual Financial Report (AFR) was overstated by \$659,564 while the ending balance was overstated by \$1,124,723 compared to the City’s general ledger.
- (2) The receipts and disbursements reported in the AFR were understated by \$2,554,744 and \$2,989,379 respectively, compared with the City’s general ledger. The State Revolving Fund (SRF) fund activity was not included on the AFR which represents most of the variance.
- (3) The road use tax receipts reported in the AFR were overstated by \$31,381 compared with the City’s general ledger.
- (4) The City’s long-term debt items were not listed out individually on the AFR. There was no support for how the combined long-term debt amount was calculated.

Recommendation – The City should ensure the beginning and ending balances, receipts and disbursements in the AFR agree to the City’s general ledger. The City should also individually list all long-term debt details on the AFR and ensure all the debt listed is properly supported.

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

Name, Title and Business Connection	Transaction Description	Amount
Andy Conrad, Brother of Keith Conrad, Mayor Pro-Tem/Councilman	IT projects	\$ 5,480

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 Keota

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy Auditor of State
Deborah J. Moser, CPA, Manager
Rachel E. Sigmon, CPA, Staff Auditor
Steve D. Rater, Assistant Auditor