



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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NEWS RELEASE

FOR RELEASE

November 27, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Atkins, Iowa for the period July 1, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed at the request of petitioners pursuant to Chapter 11.6(3) of the Code of Iowa. The petition submitted requested an audit or examination. In accordance with Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns.

Sand reported nineteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 8 through 12 of this report. The findings address issues such as the lack of segregation of duties, the lack of utility reconciliations, a lack of procedures to ensure that use of local option sales tax (LOST) receipts are in accordance with the LOST ballot, unresolved variances between bank balances and general ledger balances, deficit fund balances, disbursements exceeding budgeted amounts and errors in the tax increment financing (TIF) certification. Sand provided the City with recommendations to address each of the findings.

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.

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

City of Atkins



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September 18, 2019

Officials of the City of Atkins
Atkins, 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 Atkins, Iowa, for the year ended June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6(3) 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 Atkins 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 that reads "Rob Sand".

Rob Sand
Auditor of State

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City of Atkins

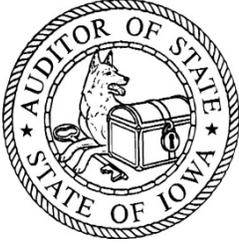
Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Becker	Mayor	Jan 2018
Kevin Korsmo	Mayor Pro Tem	Jan 2018
Diane Herman	Council Member	Jan 2018
Nathan Shepard	Council Member	Nov 2017
Rodney Harther	Council Member	Jan 2020
Tim Harbach	Council Member	Jan 2020
Amber Bell	City Clerk/Treasurer	Indefinite
DaShawn Wilson	Deputy City Clerk	Indefinite
Don Hoskins	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bruce Visser	Mayor	Jan 2020
Tim Harbach	Mayor Pro Tem	Jan 2020
Rodney Haerther	Council Member	Jan 2020
Heather Rinderknecht	Council Member	Jan 2022
Robert Spading	Council Member	Jan 2022
Joey Svejda	Council Member	Jan 2022
Amber Bell	City Clerk/Treasurer	Indefinite
DaShawn Wilson	Deputy City Clerk	Indefinite
Don Hoskins	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 received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of Atkins in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Atkins 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 Atkins' 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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained and understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed 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 scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

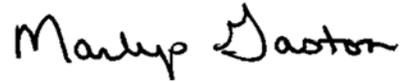
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 observed 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 traced selected receipts for accurate accounting and consistency with the recommended COA.
13. The City has no voter approved levies.
14. We traced selected disbursements, including wastewater treatment plant project disbursements to 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine if transfers are proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.
18. We observed the City's local options sales tax (LOST) ballot to determine if LOST receipts were used in accordance with the approved ballot.
19. We traced the Enterprise, Sewer Fund sewer debt fee to proper authorization and accurate accounting.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 findings and 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 Atkins 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.

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

Marlys K. Gaston, CPA
Deputy Auditor of State

September 18, 2019

Detailed Findings and Recommendations

City of Atkins

Detailed Findings and 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) Cash – handling, reconciling, recording and custody of the change fund.
 - (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
 - (3) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
 - (4) Debt – recordkeeping, compliance and debt payment processing.
 - (5) Accounting system – performing all general accounting functions and having custody of assets.
 - (6) Computer system – performing all general accounting functions and controlling all data input and output.
 - (7) Financial reporting – preparing and reconciling.
 - (8) City Clerk’s Report – Although prepared monthly, there is no independent review of the City Clerk’s Report.

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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Utility billings, collections and delinquent accounts should be reconciled monthly. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (C) Bank Reconciliations – Although monthly bank reconciliations were prepared throughout the year, unresolved variances totaling \$806 and \$8,514 existed at March 31, 2018 and at June 30, 2018, respectively. For both months the bank balance was higher than the general ledger balance. In addition, there is no evidence of an independent review of the bank reconciliations.

Recommendation – The City should establish procedures to ensure bank reconciliation variances are investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Atkins

Detailed Findings and Recommendations

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

- (D) Payroll – Although timesheets were maintained for all employees, there is no independent review of timesheets. Also, for all timesheets tested, there was no evidence of proper approval of hours worked or taken as leave time.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (E) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires 70% of the receipts be used for the Community Center, City Hall, Library and community improvements, 20% to purchase equipment for the Atkins Fire Department and Atkins Recreation Department, and 10% for property tax relief. The City has not properly tracked LOST disbursements to ensure compliance with the LOST ballot. In addition, one local option sales tax receipt totaling \$184 was incorrectly recorded to the General Fund rather than the Special Revenue, Local Options Sales Tax Fund.

Recommendation – The City should establish procedures to ensure LOST receipts are used in accordance with the LOST ballot and are properly recorded.

- (F) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes because the software does not require the user to change log-ins/passwords periodically.
- Requiring backups be performed daily and stored off site.

Also, the City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

- (G) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public safety, public works, general government, debt service and business type activities functions. In addition, disbursements in the business type activities function exceeded the amount budgeted prior to the March 2018 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.

- (H) Annual Financial Report – The total beginning fund balances reported in the fiscal year 2018 Annual Financial Report (AFR) were \$10,792 less than the prior year AFR ending balances and the fiscal year 2018 AFR ending total fund balances were \$19,269 less than the City’s financial records. Public works function disbursements reported in the fiscal year 2018 AFR were \$30,000 more than the general ledger. In addition, the budget column in the AFR did not reflect the final approved budget from the March 2018 amendment.

City of Atkins

Detailed Findings and Recommendations

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

Recommendation – The City should ensure the AFR beginning balances agree with the prior year AFR ending balances. The City should also ensure disbursements and ending fund balances reported on the AFR agree with the City’s financial records. In addition, the budget column in the AFR should report the final amended budget.

- (I) Journal Entries – Journal entries are not approved by an independent person. In addition, support for journal entries could not be located.

Recommendation – Journal entries should be approved by an independent person and evidence of the approval should be documented. Supporting documentation should be maintained for all journal entries.

- (J) Initial Receipts Listing – An initial listing of collections was not prepared.

Recommendation – An initial listing of collections should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented.

- (K) Petty Cash – Petty cash funds on hand at City Hall and the Library were not maintained on an imprest basis. 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. Vendor receipts support the periodic replenishment of the petty cash back to the authorized amount.

Recommendation – The City Council should approve a fixed, authorized amount to be maintained in each petty cash fund. The petty cash fund should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

- (L) Disbursements – Two of thirty disbursements tested were not approved by the City Council.

Recommendation – The City should ensure all claims are approved by the City Council.

- (M) 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 a list of claims allowed, total disbursements from each fund and a summary of all receipts. For eight of thirty-two meetings tested, minutes were not published within fifteen days. Also, from July through September 2017, the publication of minutes did not include total disbursements from each fund or a summary of all receipts. Although the minutes tested included a list of claims allowed, construction project pay requests were not included on the published claims listings and the pay request amounts were not included in the City Council minutes.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes, including a list of claims allowed, total disbursements for each fund and a summary of all receipts, within fifteen days of the meeting, as required. Also, project pay requests should be listed on the claims allowed for approval by the City Council and should be published as required.

City of Atkins

Detailed Findings and Recommendations

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

- (N) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may 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. 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 December 2014 the City certified \$171,733 of project costs as an internal loan from the General Fund for the Cardinal Avenue extension project. The interfund loan was established by resolution on November 17, 2014. The City was unable to provide evidence the interfund loan was repaid to the General Fund.

Recommendation – The City should ensure the interfund loan established as TIF debt is repaid to the General Fund from the Special Revenue, TIF Fund.

- (O) Deficit Balance – The Enterprise, Water and Sewer Funds had deficit balances of \$148,483 and \$206,367, respectively, at June 30, 2018.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

- (P) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was submitted to the Iowa Department of Management by December 1. However, the following exceptions were noted:

- No TIF disbursements were reported in the Annual Urban Renewal Report (AURR) while \$480,166 of TIF disbursements were reported in the Annual Financial Report (AFR).
- While the AURR was submitted December 1, 2017, it was not approved by the City Council before December 1, 2017.
- TIF debt outstanding on the AURR was understated by \$3,269,599.

Recommendation – The City should ensure the Annual Urban Renewal Report is prepared accurately and disbursements and TIF debt outstanding agrees with the City's financial records. The AURR should be reviewed and approved by the City Council on or before December 1.

- (Q) Utility Billings – Chapter 388.6 of the Code of Iowa states, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies...”. The City allows a lower recycling fee for senior citizens.

Recommendation – The City should charge all utility customers for service in accordance with Chapter 388.6 of the Code of Iowa and the City's utility ordinances.

City of Atkins

Detailed Findings and Recommendations

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

- (R) Waste Management Tags – Receipts from the sale of waste management tags were not properly recorded in the City’s accounting system. In addition, the monthly beginning and ending inventory were not properly reconciled with purchases and sales of waste management tags.

Recommendation – Receipts from the sale of waste management tags should be recorded in the City’s accounting system and the monthly beginning and ending inventory should be reconciled with purchases and sales of waste management tags.

- (S) Sewer Revenue Bonds and Notes – In accordance with the sewer revenue bond resolution, bond principal and interest are payable solely from sewer revenues. During fiscal year ended June 30, 2018, the City paid the sewer revenue bond principal and interest from the Debt Service Fund and reimbursed the Debt Service Fund with a transfer from the Enterprise, Sewer Fund.

In addition, the City’s sewer revenue note resolution requires the City to establish a reserve account in an amount equal to the lesser of the maximum amount of the principal and interest coming due, ten percent of the stated principal amount or 125% of the average annual principal and interest coming due. The City has not established a reserve account as required.

Recommendation – The City should establish the reserve account in appropriate amounts as required by the sewer revenue note resolution. Also, future payments on the sewer revenue bonds should be made from the Enterprise, Sewer Fund, as required.

- (T) Petition for Examination – Except as noted above, all items in the petition for examination have been resolved.

City of Atkins

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Deborah J. Moser, CPA, Manager
Ashley J. Moser, Senior Auditor
Edward J. Schroder, Assistant Auditor