



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

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NEWS RELEASE

FOR RELEASE

December 9, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Wall Lake, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twelve findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of complete bank and utility reconciliations, disbursements exceeding budgeted amounts, errors in TIF reporting, and transfers not supported and approved by resolution. Sand provided the City with recommendations to address each of the findings.

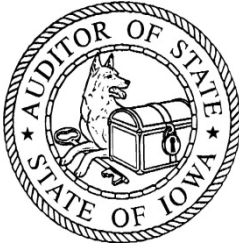
Eight of the twelve findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in 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/audit-reports>.

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CITY OF WALL LAKE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Wall Lake



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November 24, 2020

Officials of the City of Wall Lake
Wall Lake, 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 Wall Lake, Iowa, for the period July 1, 2018 through June 30, 2019. 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 Wall Lake 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

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City of Wall Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Druivenga	Mayor	Jan 2022
Gary Faber	Council Member	Jan 2020
Rob Germann	Council Member	Jan 2020
Francis Riedell	Council Member	Jan 2020
Ron Lahr	Council Member	Jan 2022
Albert Schwanz	Council Member	Jan 2022
Chris Rodman	City Clerk/Treasurer	Indefinite
Warren Bush	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 procedures to selected accounting records and related information of the City of Wall Lake for the period July 1, 2018 through June 30, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Wall Lake'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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an 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.

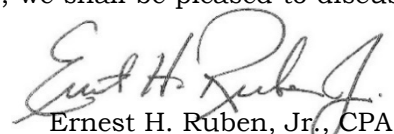
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 had no voter approved levies.
14. We traced 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

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 Wall Lake 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.


Ernest H. Ruben, Jr., CPA
Director

November 24, 2020

Detailed Findings and Recommendations

City of Wall Lake

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (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 – 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) Receipts – opening mail, collecting, recording, depositing and reconciling.
- (3) Journal entries – preparing and recording.
- (4) Financial reporting – preparing and reconciling.
- (5) Investments – handling and recording.

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) Financial Reporting – Although a monthly bank reconciliation was prepared, the reconciliation did not include all bank and investment accounts held by the City and did not reconcile. As a result, we attempted to prepare a reconciliation for all City accounts and investments. At June 30, 2019, the total cash balance per the City’s financial records was \$25,279 higher than the bank balance, with the variance being primarily in the operating account. The operating account variance at November 30, 2017 totaled \$840. Also, the bank reconciliations were not reviewed by an independent person.

City of Wall Lake

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

While performing the bank reconciliation, we noted the following:

- Although the City reports on the cash basis of accounting, certain disbursements were recorded using the accrual basis of accounting and resulted in liability accounts with deficit balances totaling \$76,967 at June 30, 2019. This caused the cash balance to disagree with the fund balance in certain funds.
- The City's Balance Sheet report does not separately identify bank or investment accounts for the Enterprise, Water, Sewer, Natural Gas or Solid Waste Funds and the equity section does not have fund balance associated with the LOST account.

As a result of the identified variance, the City contacted their accounting software provider to help make corrections to establish the necessary bank and fund balance accounts and bring amounts into agreement with bank balances. However, after the adjustments, the total revised cash balance per the City's financial records at June 30, 2019 was \$40,668 higher than the bank balance and the necessary accounts noted above had not been established. In addition, the City's balance sheet assets totaled \$1,399,095, liabilities totaled a deficit of \$11,419 and fund balance totaled \$1,463,770, resulting in a balance sheet variance totaling \$53,256. We were unable to determine the reason for this.

In addition, certain financial reports were provided to the City Council monthly, however, the reports did not include comparisons of actual disbursements to budgeted disbursements by function and did not include beginning and ending balances by fund.

Recommendation – The City should establish procedures to ensure receipts and disbursements are properly recorded and reported using the cash basis of accounting and ensure all bank and investment account balances are reconciled to the general ledger monthly. Variances should be reviewed and resolved timely. Also, the monthly bank reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

The City should continue to review activity in the City Clerk's report and Income Statement and determine the corrections necessary to separately identify bank and investment accounts to be in agreement with bank balances. Additionally, the City Clerk should provide the City Council with a comparison of actual disbursements to budgeted disbursements by function each month and a report of the beginning and ending balances by fund.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. As a result, we prepared a reconciliation for one month and the receivable balance calculated did not reconcile to the receivable in the utility billing software. A variance of \$544 was not resolved. The receivable balance calculated was higher than the City's balance.

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.

City of Wall Lake

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (E) Disbursements – Credit card transactions totaling \$1,504 for travel related expenses were approved by the City Council, however, were not supported. The City’s credit card policy requires employees and officers to remit receipts to ensure all transactions are properly supported.

Also, one disbursement observed was recorded to an incorrect function.

Recommendation – The City should ensure all credit card purchases are properly supported, as required. Disbursements should be correctly recorded.

- (F) Depository Resolution – Although the City has a resolution naming official depositories, during the year ended June 30, 2019, the City exceeded the maximum deposit amount and there are City bank accounts not listed on the depository resolution.

Recommendation – The City, by resolution, should adopt a new depository resolution to include all City bank accounts and to ensure approved amounts are sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (G) Minutes Publications – All published meeting minutes observed did not include a summary of receipts and total disbursements for each fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should ensure minutes publications include a summary of receipts and total disbursements for each fund, as required.

- (H) Certified Budget – At June 30, 2019, disbursements exceeded the amount budgeted in the debt service function. Additionally, during the year ended June 30, 2019 disbursements in the community and economic development and public works functions exceeded the amounts budgeted 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.

- (I) Payroll – The Employee Handbook requires overtime to be paid at the rate of one and one-half times the employee’s regular hourly rate for all hours in excess of forty in any one week. For one of five employees reviewed, hours paid did not agree with the time sheet by .25 hours. In addition, the employee was paid at the regular rate for hours worked in excess of forty, rather than at the overtime rate. As a result of the errors, the employee was under paid by \$16.

Recommendation – Procedures should be established to ensure hours paid agree with employee timesheets and overtime is paid according to the Employee Handbook.

City of Wall Lake

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

(J) Deficit Fund Balance – At June 30, 2019, the Debt Service Fund had a deficit balance of \$3,710.

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

(K) 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 TIF obligations, certifications to the County Auditor and reporting in the Annual Urban Renewal Report (AURR).

- The City has no outstanding tax increment financing debt reported on the June 30, 2018 AURR. However, the cash balance in the Special Revenue, Urban Renewal Tax Increment Fund was \$15,672. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining TIF fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.
- In November 2018, the City certified TIF debt which had previously been certified to the County Auditor. This resulted in over-certification of approximately \$60,000 to the County Auditor.
- Amounts reported on the AURR for outstanding TIF obligations at July 1, 2017 were understated by \$5,860.
- In prior years, the City certified tax increment financing (TIF) indebtedness to the County Auditor for urban renewal project expenses paid from other funds. While the City intended these payments to represent advances (i.e., loans) from the respective funds which paid the costs for the related TIF projects, certain loans were not formally approved by the City Council, and accordingly, do not represent TIF debt which may be certified to the County Auditor.

Recommendation – The City should consult legal counsel to determine the disposition of the excess TIF receipts in the Special Revenue, Urban Renewal Tax Increment Fund, including whether the TIF receipts in excess of TIF indebtedness should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa.

The City should review TIF debt certifications to determine the amount over-certified to the County Auditor. The amounts should be decertified to the County Auditor to correct the errors. Also, The City should ensure payment of TIF project expenses from other funds are formally approved by the City Council as interfund advances (i.e., loans) before being certified to the County Auditor.

The City should ensure amounts reported on the AURR agree with City records.

City of Wall Lake

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (L) Transfers – Effective April 17, 2019, Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the affected funds and the dollar amount to be transferred. Transfers from the Special Revenue, TIF fund, to the Enterprise, Electric, Water and Gas funds were approved in the meeting minutes but were not approved by resolution as required. Additionally, certain transfers were not properly supported.

Recommendation – The City should retain proper support for all transfers and transfers should be approved by resolution, as required.

City of Wall Lake

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Lesley R. Geary, CPA, Manager
Nicholas J. Gassman, Staff Auditor
Craig S. Miller, Staff Auditor