



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

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 Breda, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported six findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 and 10 of this report. The findings address issues such as a lack of segregation of duties, incorrect amounts reported on the annual urban renewal report, utility rates set by resolution rather than by ordinance and a questionable disbursement. Sand provided the City with recommendations to address each of the findings.

Two of the six 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>.

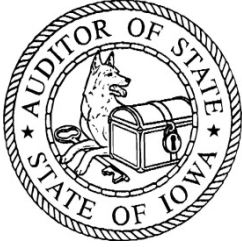
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CITY OF BRED A

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

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

City of Breda



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Des Moines, Iowa 50319-0006

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December 4, 2020

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 period July 1, 2019 through June 30, 2020. 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 that reads "Rob Sand".

Rob Sand
Auditor of State

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City of Breda

Officials

(Before January 2020)

<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 A. Janssen	City Clerk/Treasurer	Indefinite
Chris Polking	Attorney	Indefinite
Dan Wiskus	Fire Chief	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Snyder	Mayor	Jan 2022
Robert Boeckman	Council Member	Jan 2022
Samantha Pietig	Council Member	Jan 2022
Christopher Uhlenkamp	Council Member	Jan 2022
Justin Agan	Council Member	Jan 2024
Kayla Tiefenthaler	Council Member	Jan 2024
Nancy A. Janssen	City Clerk	Indefinite
George Blazek	City Attorney	Indefinite
Dan Wiskus	Fire Chief	Indefinite

City of Breda



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Rob Sand
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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 Breda for the period July 1, 2019 through June 30, 2020, 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 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 2019 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.

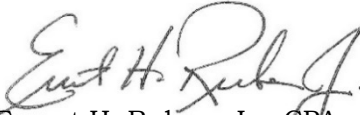
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected 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 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 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.



Ernest H. Ruben, Jr., CPA
Director

December 4, 2020

Detailed Findings and Recommendations

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(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) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) 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) Annual Urban Renewal Report – Receipts, disbursements and ending fund cash balance on the Annual Urban Renewal Report (AURR) Levy Authority summary does not agree with City records. In addition, TIF debt outstanding reported on the AURR Levy Authority summary was understated by \$66,700.

Recommendation – The City should ensure the amounts reported on the AURR Levy Authority summary agree with City records.

(C) Utility Rates – Chapter 384.84(1) of the Code of Iowa requires utility rates be established by City ordinance. The City’s water, sewer, electric and garbage rate ordinances state future rates will be revisited and set by resolution, which is not in compliance with the Code of Iowa.

Recommendation – The City should establish water, sewer, electric and garbage rates by ordinance, as required.

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (D) Payment of General Obligation Notes – In 2013, the City certified principal and interest totaling \$459,891 of General Obligation notes to the County Auditor as a tax increment financing (TIF) obligation. During the fiscal year ended June 30, 2020 the City paid \$18,923 of principal and interest from the Special Revenue, TIF Fund and \$7,336 of principal and interest from the General Fund. Chapter 384.4 of the Code of Iowa requires general obligation debt to be paid from the Debt Service Fund.

Recommendation – The City should transfer from the Special Revenue, TIF Fund and the General Fund to the Debt Service Fund for future funding contributions. Payments on the notes should be made from the Debt Service Fund, as required.

- (E) Disbursements – One credit card payment traced included sales tax totaling \$65.

Recommendation – The City should ensure purchases do not include sales tax.

- (F) Questionable Disbursement – The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, in part, “...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.” Chapter 15A of the Code of Iowa states, “Economic development is a public purpose for which the state, a city, or a county may provide grants, loans, guarantees, tax incentives, and other financial assistance to or for the benefit of private persons.” Chapter 15A also defines economic development as “...private or joint public and private investment involving the creation of new jobs and income or the retention of existing jobs and income that would otherwise be lost.” Further, the City must document the public purpose served before dispensing or using the funds.

The City approved a \$5,000 donation to the Breda Day Care, Inc., a Chapter 504 non-profit corporation. According to the November 9, 2015 City Council meeting minutes the purpose of the annual donation is to support the employees of the small businesses in Breda that utilize the Day Care. The City has not clearly documented the public purpose or how the disbursement meets the definition of economic development as required by Chapter 15A of the Code of Iowa.

Recommendation – The City should clearly document the public purpose and how the disbursement meets the definition of economic development as required by Chapter 15A of the Code of Iowa. The City should consult legal counsel to determine the appropriateness of this disbursement and whether any or all funds should be returned to the City.

City of Breda

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Brian R. Brustkern, CPA, Director
Suzanne R. Dahlstrom, CPA, Manager
Craig S. Miller, Staff Auditor
Carina I. Rios, Assistant Auditor