



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

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

March 7, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Keota, 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 thirteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts, errors in the annual financial report and a deficit balance in the Enterprise, Sewer Fund.

Twelve of the thirteen findings discussed above are repeated from the prior year report. 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 [Audit Reports – Auditor of State](#).

#

CITY OF KEOTA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Keota



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

February 28, 2023

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 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 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,

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	5-7
Detailed Recommendations:	<u>Finding</u>
Fiduciary Oversight	A 9
Segregation of Duties	B 9
Bank Reconciliations	C 10
Payroll	D 10
Reconciliation of Utility Billings, Collections and Delinquent Accounts	E 10
Monthly City Clerk's Report	F 10
Interfund Transfers	G 11
Certified Budget	H 11
General Obligation Debt	I 11
Annual Financial Report	J 11
Disbursements	K 11
Financial Condition	L 12
Business Transactions	M 12
Staff	13

City of Keota

Officials

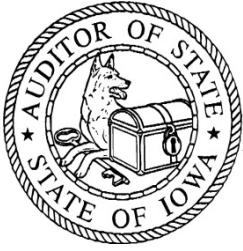
(Before January 2020)

<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	(Resigned Dec 2019)
Curt Burroughs (Appointed Dec 2019)	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

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Anthony Cansler	Mayor	Jan 2022
Keith Conrad	Mayor Pro-Tem/Council Member	Jan 2022
Rod Hill	Council Member	Jan 2022
Mike Bender	Council Member	Jan 2022
Matt Greiner	Council Member	Jan 2024
Curt Burroughs	Council Member	(Resigned Aug 2020)
Heath McDonald (Appointed Aug 2020)	Council Member	Jan 2024
Tomisha Hammes	City Clerk/Treasurer	Indefinite
Scott Flynn	Attorney	Indefinite

City of Keota



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

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 Keota 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 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 City of Keota's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, 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 may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

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 2020 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. The City had no TIF.
11. We traced selected receipts for accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. 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.
14. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. 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 engaged by the City of Keota's management to perform this agreed-upon procedures engagement and conducted our engagement 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. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Keota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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.



Michelle B. Meyer, CPA
Director

February 28, 2023

Detailed Findings and Recommendations

City of Keota

Detailed Findings and Recommendations

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

- (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) 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) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) 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.

City of Keota

Detailed Findings and Recommendations

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

- (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 30, 2020, the total fund balance per the general ledger was \$2,300 lower 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 \$9,137 in checks written in fiscal year 2021 and a total of \$12,403 in checks which had already cleared in fiscal year 2020. The City has been working with their software company to resolve the variance.

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 be reconciled to total fund balances per the general ledger and variances 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) Payroll – The following conditions related to payroll were noted:

- (1) For two of five employee timesheets observed, there was no evidence of supervisory review.
- (2) For one of five employee payrolls observed, there was no evidence a timesheet had been submitted.

Recommendation – Timesheets should be prepared and signed by all employees. 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.

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

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.

- (F) Monthly City Clerk’s Report – The monthly City Clerk’s Report includes bank balances but does not include beginning and ending fund balances and does not report transfers separate from receipts and disbursements. At June 30, 2020, the City Clerk’s Report total bank cash balance did not agree to the general ledger balance.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes a summary of receipts, disbursements, transfers, and beginning and ending balances by fund. The City should establish procedures to ensure monthly reports agree to the City’s accounting system and the ending fund balance agrees with the general ledger.

City of Keota

Detailed Findings and Recommendations

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

- (G) Interfund Transfers – \$257,547 of interfund transfers approved in the budget were not recorded.

Recommendation – The City should establish procedures to ensure all approved transfers are recorded.

- (H) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amount budgeted in the community and economic development function prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the community and economic development, culture and recreation, and business type activities functions. 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) 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.

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

- (1) The beginning balance reported in the fiscal year 2020 Annual Financial Report (AFR) was overstated by \$1,523,836 while the ending balance was overstated by \$1,699,454 compared to the City’s general ledger.
- (2) The receipts and disbursements reported in the AFR were understated by \$154,392 and \$343,955 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 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.

- (K) Disbursements – For one of thirty transactions observed, a total of \$11 in sales tax was improperly paid.

Recommendation – Procedures should be established to ensure the City does not pay sales tax.

City of Keota

Detailed Findings and Recommendations

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

- (L) Financial Condition – At June 30, 2020, the City had a deficit balance of \$613,963 in the Enterprise, Sewer Fund. The deficit is primarily due to the City’s wastewater treatment plant project disbursements being recorded in the Enterprise, Sewer Fund while the related reimbursements were incorrectly recorded in the General Fund.

Recommendation – The City should investigate alternatives including corrective transfers to eliminate this deficit and to return the fund to a sound financial position. The City should review all wastewater treatment plant project disbursements incurred in previous fiscal years and the related reimbursements to determine which reimbursements were incorrectly recorded in the General Fund. These receipts should be transferred from the General Fund to the Enterprise, Sewer Fund.

- (M) Business Transactions – Business transactions between the City and City officials or employees were detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Andy Conrad, Brother of Keith Conrad, Mayor Pro-Tem/Councilman	IT projects	\$ 8,962

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions exceeded \$6,000 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:

Michelle B. Meyer, CPA, Director
Tammy A. Hollingsworth, CIA, Manager
Molly N. Kalkwarf, Staff Auditor
Edward G. Mollohan, Assistant Auditor