



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

October 3, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Breda, Iowa, for the period July 1, 2021 through June 30, 2022. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eleven 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, disbursements exceeding budgeted amounts, unremitted TIF collections related to developer noncompliance with the rebate agreement and lack of documentation for public purpose of a donation. Sand provided the City with recommendations to address each of the findings.

Six of the eleven 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 website at [Audit Reports – Auditor of State](#).

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CITY OF BRED A

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

**FOR THE PERIOD
JULY 1, 2021 THROUGH JUNE 30, 2022**

City of Breda



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Rob Sand
Auditor of State

September 11, 2023

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, 2021 through June 30, 2022. 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Breda

Officials

(Before January 2022)

<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 Janssen	City Clerk	(Resigned Oct 2021)
Rhonda Martin (Appointed Nov 2021)	City Clerk	Indefinite
George Blazek	City Attorney	Indefinite

(After January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Snyder	Mayor	Jan 2024
Justin Agan	Council Member	Jan 2024
Kayla Tiefenthaler	Council Member	Jan 2024
Robert Boeckman	Council Member	Jan 2026
Samantha Pietig	Council Member	Jan 2026
Christopher Uhlenkamp	Council Member	Jan 2026
Rhonda Martin (Appointed Nov 2021)	City Clerk	Indefinite
George Blazek	City Attorney	Indefinite

City of Breda



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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, 2021 through June 30, 2022, 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 City of Breda'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 2021 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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Breda'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 Breda 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 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.


Michelle B. Meyer, CPA
Director

September 11, 2023

Detailed Findings and Recommendations

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

(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) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (8) Computer system – performing all general accounting functions and controlling all data input and output.
- (9) 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) 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.

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

In November 2009, the City entered into a rebate agreement for a period of ten years beginning in fiscal year 2011, with the maximum amount to be rebated not to exceed \$25,000 per year. As a result of the developer not clearly meeting certain conditions of the City's certified rebate agreement, the City has accumulated TIF receipts collected pursuant to this rebate agreement which have not been remitted to the developer. The City has consulted legal counsel who recommended the funds be held until the contract is terminated or expires. In accordance with the rebate agreement, the final payment to the developer was to be made on June 1, 2020. The amount held and not remitted at June 30, 2022 totals approximately \$169,000.

Recommendation - The City should consult legal counsel and determine whether the \$169,000 of TIF collections accumulated pursuant to the rebate agreement are to be paid to the developer now that the contract has expired. TIF receipts which will not be remitted, if any, because the developer did not meet the terms of the rebate agreement should be returned to the County Treasurer to be allocated to the respective taxing bodies in accordance with Chapter 24.21 of the Code of Iowa and the outstanding balance on the rebate agreement should be decertified.

- (C) Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amounts budgeted in the Culture and Recreation, Community and Economic Development and General Government 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.

- (D) Annual Urban Renewal Report – Beginning and ending fund cash balance on the Annual Urban Renewal Report (AURR) Levy Authority summary does not agree with City records. In addition, the debt outstanding is understated by \$26,951.

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

- (E) Questionable Disbursement – The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private nonprofit 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 nonprofit 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 Breda Day Care. The City has not clearly documented the public purpose (i.e., how the public benefits from the disbursement) or how the disbursement meets the definition of economic development as required by Chapter 15A of the Code of Iowa.

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

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. If the Breda Day Care provides a service to the City, the City may enter into a contract for services. The agreement should detail the services provided and the cost of those services, as well as provide transparency for the City that allows confirmation the funds were spent as agreed and a clawback provision in the event that they are not spent as agreed. If the donation to the Breda Day Care is not for economic development or the Breda Day Care is not providing a service to the City, the City should immediately cease making future such donations.

- (F) Utility Rates – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. The City established water and sewer utility rates by City resolution and not by ordinance, as required.

Recommendation – The City should ensure all utility rates are established by City ordinance and ensure all ordinances are retained, as required.

- (G) 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 of the reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (H) Bank Reconciliations – Bank reconciliations observed were not reviewed by an independent person or there was no written evidence of who performed the independent review.

Recommendation – Reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

- (I) Journal Entries – Journal entries were not reviewed by an independent person for six months of the year.

Recommendation – Reviews should be performed by an independent person and should be documented by the signature or initials of the reviewer and the date of the review.

- (J) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of the Treasurer of State annually. The City did not remit two checks which were outstanding for greater than two years.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (K) Financial Reporting – In May 2021 the City entered into a \$360,000 interest free loan agreement to pay the costs of a pool project. The agreement states the City pledged the General Fund for the full payment of the principal and interest on this note and the note was not secured by the levy of property tax. However, the proceeds were reported in the City’s Debt Service Fund. The note was paid in full on December 31, 2021 from the City’s General Fund. The proceeds should have been reported as debt proceeds in the General Fund where the pool project expenses were paid.

Recommendation – The City should implement procedures to ensure loan proceeds are recorded to the proper fund. In addition, the proceeds recorded in the City’s Debt Service Fund should be transferred to the City’s General Fund to reimburse the fund where the actual expenses occurred.

City of Breda

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Suzanne R. Dahlstrom, CPA, Manager
Kerillos M. Hana, Staff Auditor
Hunter W. Penton, Staff Auditor