



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

January 9, 2025

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Keota, Iowa, for the period July 1, 2020 through June 30, 2021. 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 9 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank reconciliations, disbursements exceeding budgeted amounts, errors in the annual financial report and a deficit balance in the Enterprise, Sewer Fund.

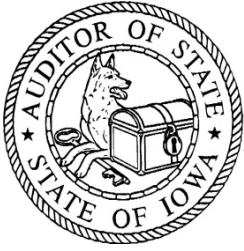
Eleven of the findings discussed above are repeated from the prior year report. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

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CITY OF KEOTA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021

City of Keota



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STATE OF IOWA

Rob Sand
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Telephone (515) 281-5834

January 6, 2025

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, 2020 through June 30, 2021. 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,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Keota

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Anthony Cansler	Mayor	Jan 2022
Curt Burroughs	Council Member	(Resigned Aug 2020)
Heath McDonald (Appointed Aug 2020)	Council Member	Nov 2021
Mike Bender	Council Member	Jan 2022
Keith Conrad	Council Member	Jan 2022
Rod Hill	Council Member	Jan 2022
Matt Greiner	Council Member	Jan 2024
Tomisha Hammes	City Clerk/Treasurer	Indefinite
Scott Flynn	Attorney	Indefinite

City of Keota



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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 Keota for the period July 1, 2020 through June 30, 2021, 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 were in place and incompatible duties, from a control standpoint, were 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, journal entries 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 were properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2021 Annual Financial Report to determine whether it was completed timely 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 observed 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, no exceptions were 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 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 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.

A handwritten signature in black ink that reads "Pam Bormann". The signature is written in a cursive, flowing style.

Pam Bormann, CPA
Deputy Auditor of State

January 6, 2025

Detailed Findings and Recommendations

City of Keota

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (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 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, reconciling 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, distributing and entering rates in the system.

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, 2020 through June 30, 2021

- (C) Bank Reconciliations – A complete reconciliation of all cash and investment balances in the City’s general ledger to bank and investment account balances was not completed throughout the year. During fiscal year 2021, the City maintained 26 bank and investment accounts, of which only one of these accounts was reconciled monthly. The City’s June 30, 2021 reconciliation identified an initial variance of \$721,744, with the City’s bank balance exceeding the City’s book balance by that amount. The City did not take the necessary steps to resolve the initial variance and related reconciliation issues. Upon further review, it was determined the City’s book balances used in the reconciliation were incorrect due to inaccurate journal entries made when recording interfund transfers and loan proceeds during fiscal year 2021. After accounting for this activity, the variance was reduced to \$5,843, with the book balance exceeding the bank balance. The City is in the process of resolving the reconciliation variances and upgrading to new accounting software.

Additionally, a listing of outstanding checks was maintained however, when compared to the accounting system’s records it did not agree. The outstanding checks according to the system included a total of \$1,517 checks written which had already cleared during the fiscal year.

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 of the general ledger and variances should be resolved timely. An independent person should review the reconciliations and document the review by the signature or initials and the date of the review. The City should consider reducing the number of bank accounts maintained to simplify the reconciling process. The City should continue to work with their software company to ensure all activity is properly reported, the outstanding check listing is correct and any corrections are made to resolve the reconciliation variances.

- (D) Payroll – For two of five employee timesheets observed, there was no evidence of supervisor review.

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 the review.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year; however, utility reconciliations are not being independently reviewed.

Recommendation – 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 Keota

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (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, 2021, the City Clerk's Report total bank cash balance did not agree to the general ledger balance. In addition, the monthly reports include a comparison of actual disbursements to the budget by fund, not by function.

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. In addition, the City Clerk's report should compare actual disbursements by function to budgeted amounts to allow the City's elected officials to monitor the City's compliance with the approved budget. 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.

- (G) Certified Budget – Disbursements during the year ended June 30, 2021, exceeded the amounts budgeted in the community and economic development and business type activities functions prior to the budget amendment and at year end. 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) 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.

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

- (1) The beginning balance reported in the fiscal year 2021 AFR was overstated by \$663,524 while the ending balance was overstated by \$1,118,278 compared to the City's general ledger.
- (2) The receipts and disbursements reported in the AFR were understated by \$450,600 and \$318,965 respectively, compared with the City's general ledger. The State Revolving Fund (SRF) fund activity was not included on the AFR which represents the majority 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.

City of Keota

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (J) Disbursements – Four of thirty transactions observed were approved by the City Council after the check was written and one of thirty transactions observed was not approved by the City Council.

Recommendation – All disbursements should be approved by the City Council prior to the checks being written.

- (K) Financial Condition – At June 30, 2021, the City had a deficit balance of \$53,184 in the Enterprise, Sewer Fund.

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

City of Keota

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Deputy
Tammy A. Hollingsworth, CIA, Manager
Molly N. Kalkwarf, Senior Auditor
Charlie P. Duff, Staff Auditor