



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Pam Bormann
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FOR RELEASE

February 25, 2025

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Breda, Iowa, for the period July 1, 2023 through June 30, 2024. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported ten 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, business transactions that may represent conflicts of interest and errors in the annual financial report. Sand provided the City with recommendations to address each of the findings.

Six of the 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, 2023 THROUGH JUNE 30, 2024**

City of Breda



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0006
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Rob Sand
Auditor of State

February 11, 2025

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, 2023 through June 30, 2024. 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 2024)

<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	City Clerk	Indefinite
George Blazek	City Attorney	Indefinite

(After January 2024)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Snyder	Mayor	Jan 2026
Robert Boeckman	Council Member	Jan 2026
Samantha Pietig	Council Member	Jan 2026
Christopher Uhlenkamp	Council Member	Jan 2026
Jeff Riesberg	Council Member	Jan 2028
Kayla Tiefenthaler	Council Member	Jan 2028
Rhonda Martin	City Clerk	Indefinite
George Blazek	City Attorney	Indefinite

City of Breda



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Rob Sand
Auditor of State

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, 2023 through June 30, 2024, 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 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 2024 Annual Financial Report to determine whether it was completed timely and accurately reflected 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. 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 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.

A handwritten signature in black ink that reads "Pam Bormann". The signature is written in a cursive style with a large initial "P" and a stylized "B".

Pam Bormann, CPA
Deputy Auditor of State

February 11, 2025

Detailed Findings and Recommendations

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

(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, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, posting, recording, reconciling, 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.

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 collected TIF receipts 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 collected and not remitted at June 30, 2024 totals \$169,410.

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

In addition, in April 2013, the City entered into a general obligation loan agreement with Breda Savings Bank, providing for a loan to the City in the amount of \$375,000 for the purpose of constructing street, sanitary sewer, water and street lighting improvements. This general obligation loan agreement was certified as TIF debt. According to the County Auditor's TIF reconciliation, the TIF collected by the County and remitted to the City related to the annual principal and interest payment on the general obligation debt, which was TIF certified, was not sufficient to cover the payments. As a result, the City has utilized \$169,410 of the \$169,410 collected for the previously discussed rebate agreement debt to subsidize the debt related to the general obligation loan agreement.

Recommendation – The City should consult legal counsel and determine whether the \$169,410 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. In addition, the City should consult legal counsel on the disposition of using TIF collections to subsidize another TIF debt which has not generated sufficient collections to cover the required payments.

- (C) Certified Budget – Disbursements during the year ended June 30, 2024, exceeded the amounts budgeted in community and economic development, general government and debt service 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 did not agree with City records. In addition, the debt outstanding reported is overstated by \$9,924.

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

- (E) Annual Financial Report (AFR) – Chapter 384.22 of the Code of Iowa requires the City's AFR contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The beginning balance reported was \$111,003 lower than the City's records; therefore, the ending balance was also reported lower than City records.

Recommendation – The City should establish procedures to ensure the amounts reported in the AFR are accurate and supported by the City's records. An independent person should review the AFR for accuracy and the review should be documented by the signature or initials of the reviewer and the date of the review.

City of Breda

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

- (F) Questionable Disbursements – In accordance with Article II, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. A disbursement of \$800 to Red’s Place for an employee Christmas party was noted which we believe may not meet the requirements of public purpose as defined by the Attorney General’s opinion since the public benefits to be derived have not been clearly documented.

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

- (G) Disbursements – For 35 disbursements observed, the following items were noted:

- For two disbursements observed, invoices and other supporting documentation were not maintained by the City to support the disbursements.
- For two disbursements observed, meal disbursements included an invoice; however, they were not itemized.
- Sales tax was paid on two transactions observed for \$6. As a governmental entity, the City maintains a tax-exempt status. As a result, the City should not incur sales tax.
- Two invoices were paid twice. Checks were later returned to the City of Breda and were voided.
- For one disbursement observed, the City paid late fees on credit cards totaling \$40.

Recommendation – The City should establish procedures to ensure all disbursements are supported by an itemized invoice or other supporting documentation. In addition, the City should establish procedures to ensure all payments are reviewed to prevent the payment of sales tax and reviewed timely to avoid interest and late fees.

- (H) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kayla Tiefenthaler, Council Member daughter-in-law of the owner of Tiefenthaler Building & Supplies Inc.	Materials and supplies	\$ 12,567

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$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 Breda

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

- (I) Petty Cash Policy – The City utilizes a petty cash fund for its ambulance service; however, the City does not have a policy for the petty cash fund specifying proper usage, allowable disbursements, approvals and maximum dollar amount to be maintained in the petty cash fund.

Recommendation – The City should establish a petty cash fund policy which includes proper usage, allowable disbursements, approvals and maximum dollar amount to be maintained in the petty cash fund.

- (J) Receipts – At June 30, 2024, \$553 of interest earned was not properly recorded in the City's accounting system.

Recommendation – The City should establish procedures to ensure all interest earned is properly recorded in the City's accounting system.

City of Breda

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Deputy
Alexander N. Kawamura, CPA, Manager
Maria R. Collins, Staff Auditor
Jennifer H. Wagner, Assistant Auditor