



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

September 22, 2016

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Lynnville, Iowa for the period January 1, 2015 through December 31, 2015. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1522-0466-EPOP>.

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**CITY OF LYNNVILLE**

**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD**  
**JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

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**City of Lynnville**

**Officials**

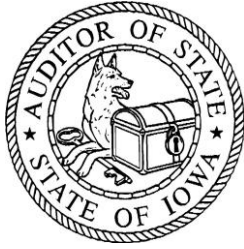
**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kelly Bryan	Mayor	Jan 2016
Roger Beason	Council Member	Jan 2016
Rahn Savage	Council Member	Jan 2016
Terry Fraker (Appointed Jan 2015)	Council Member	Nov 2017
Roy James	Council Member	Jan 2018
Bev Van Maanen	Council Member	Jan 2018
Kim Harsselaar	City Clerk	Indefinite
Gilbert Caldwell	Attorney	Indefinite

**(After January 2016)**

Roy James	Mayor	Jan 2018
Hugh Carney (Appointed Mar 2016)	Council Member	Nov 2017
Terry Fraker	Council Member	Nov 2017
Bev Van Maanen	Council Member	Jan 2018
Roger Beason	Council Member	Jan 2020
Mark Newberg	Council Member	Jan 2020
Kim Harsselaar	City Clerk	Indefinite
Gilbert Caldwell	Attorney	Indefinite

**City of Lynnville**



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Lynnville for the period January 1, 2015 through December 31, 2015. The City of Lynnville's management, which agreed to the performance of the procedures performed, is responsible 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 reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed 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 reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed 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 reviewed 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 reviewed the City's fiscal year 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.


9. We reviewed and tested 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.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Lynnville, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lynnville and other parties to whom the City of Lynnville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lynnville 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.

  
MARY MOSIMAN, CPA  
Auditor of State

April 6, 2016



## **Detailed Recommendations**

City of Lynnville

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
  - (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
  - (4) Payroll – recordkeeping, preparing and distributing.
  - (5) Utilities – billing, collecting, depositing, posting and reconciling.
  - (6) Financial reporting – preparing and reconciling.
  - (7) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.

Prior to July 2015, for the Lynnville Library, one individual had control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

For the Lynnville Volunteer Fire Department, one individual had control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Lynnville Volunteer Fire Department should review their 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. In July 2015, the Lynnville Library turned recordkeeping over to the City Clerk.

- (B) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

City of Lynnville

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (C) Management Financial Information – Although monthly City Clerk’s reports are prepared, the reports do not include a comparison of actual disbursements to budgeted disbursements by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function.

- (D) Separately Maintained Records – The Fire Department maintains an account separate from the City’s accounting records. The transactions and resulting balance of this account were not included in the City Clerk’s accounting records or the City’s annual budget and were not reported to the City Council each month.

Also, prior to July 2015, the Library maintained an account separate from the City’s accounting records. The transactions and resulting balance of this account were not included in the City Clerk’s accounting records or the City’s annual budget and were not reported to the City Council each month.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the City Council monthly.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account list was not prepared monthly. A reconciliation is designed to ensure the proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances. Also, utility records do not include information sufficient to document proper deposit of individual payments on account.

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, document the review with the signature or initials of the reviewer and the date of the review and monitor delinquent accounts. Also, utility records should be sufficient to document individual payments on account were deposited.

- (F) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. One of four meeting minutes tested was not published within fifteen days.

Recommendation – The City should publish minutes within fifteen days, as required.

City of Lynnville

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (G) Utility Rate Ordinance – Chapter 384.84 of the Code of Iowa requires utility rates be established by ordinance of the City Council. Chapter 372.13(5) of the Code of Iowa requires City records and documents be retained, including ordinances. The ordinance establishing the City's utility rates could not be located and was unavailable for review during the performance of our procedures.

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

- (H) Payroll – The following were noted regarding payroll:

- (1) City employees do not prepare and submit timesheets to support hours worked.
- (2) Approval of salary and wages for City employees is not documented in the City Council meeting minutes.
- (3) The City did not track and file a form 1099 with the Internal Revenue Service (IRS) for contract labor in excess of \$600 each calendar year, as required.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and reviewed, approved and signed by the employee's immediate supervisor prior to submission. Actual approved wages and hourly rates should be documented in the City Council meeting minutes. The City should establish procedures to ensure all required IRS Form 1099s are properly completed and filed.

- (I) Debit Card – The City has a debit card available for use by employees while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. Debit cards provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (J) Supporting Documentation – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for four transactions tested could not be located.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

- (K) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

City of Lynnville

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (L) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to make each time the same, or a similar, situation arises.

- (M) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not retain electronic images of the back of cancelled checks and the Fire Department does not retain electronic images of the front or the back of cancelled checks.

Recommendation – The City and Fire Department should retain an image of both the front and back of each cancelled check, as required.

- (N) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all receipts.

- (O) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works, 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 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.

- (P) Annual Financial Report – The beginning balances reported in the fiscal year 2015 Annual Financial Report (AFR) do not agree with the ending balances reported in the prior year AFR. Also, the AFR did not include the separately maintained Fire Department and Library account activity or balances for the year as required by Chapter 384.22 of the Code of Iowa. Certain budget amounts in the AFR did not agree with the certified budget.

Recommendation – The City should ensure the current AFR beginning balances agree with the prior year ending balances. The AFR should include activity for all City accounts. The budget amounts in the AFR should agree to the certified budget.

City of Lynnville

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (Q) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 50% for property tax relief and 50% for community betterment. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

- (R) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

- (S) City Council Vacancy – Chapter 372.13(2) of the Code of Iowa discusses vacancies in an elective city office during a term of office and the requirements for filling a vacancy by appointment by the remaining members of the City Council. This section states in part, “The appointment shall be made within sixty days after the vacancy occurs and shall be for the period until the next regular city election...”.

Terry Fracker was appointed by the City Council in January 2015 to replace Kevin Arment who resigned in November 2014 and whose term ended January 2018. In accordance with Chapter 372.13(2) of the Code of Iowa, Mr. Fracker’s appointment should have ended at the next regular City election, held in November 2015, and the remainder of the term for that City Council position should have been filled by election. However, the Council position was not placed on the November 2015 ballot and Mr Fracker continues to serve on the City Council without the required electorate vote.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

City of Lynnville

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Erin J. Sietstra, Staff Auditor  
Cole L. Hocker, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director