



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

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

June 15, 2018

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Granville, Iowa for the period July 1, 2016 through June 30, 2017. 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, including requiring independent reviews of bank reconciliations, and establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. In addition, the City should fully implement the recommended Uniform Chart of Accounts and establish procedures to ensure the Annual Financial Report is accurate.

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/1722-0801-BLOF>.

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**CITY OF GRANVILLE**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2016 THROUGH JUNE 30, 2017**

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**City of Granville**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Karle Kellen	Mayor	Jan 2018
Chris Stotz	Council Member	(Resigned May 2017)
Matt Rienhart (Appointed Jul 2017)	Council Member	Nov 2017
Chris Hunt	Council Member	Jan 2018
John Schuver	Council Member	Jan 2018
Chris Chrustoffel	Council Member	Jan 2020
Kay Koob	Council Member	Jan 2020
Paula Steffes	City Clerk	(Resigned Oct 2016)
Karmen Jeltema (Appointed Dec 2016)	City Clerk	Indefinite
Michael Murphy	Attorney	Indefinite

**City of Granville**



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Independent Accountant's Report on Applying Agreed-Up 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 Granville for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Granville 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 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 2017 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. 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.


9. We reviewed debt, including 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 reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 of Granville. 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.

We were not engaged to and did not conduct an examination or review, 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 preformed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.63 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 Granville 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

June 1, 2018



## **Detailed Recommendations**

City of Granville

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (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) Investing – recordkeeping, custody of investments and reconciling earnings.
  - (3) Long-term debt – recordkeeping, reconciling and debt payment processing.
  - (4) Receipts – opening mail, collecting, depositing, reconciling and posting.
  - (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable.
  - (6) Journal entries – preparing and recording.
  - (7) Disbursements – purchasing, check writing, mailing, reconciling and recording.
  - (8) Payroll – recordkeeping, preparing and entering rates into the system.
  - (9) Computer System – performing all general accounting functions and all data input and output.

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) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, an independent review of the bank reconciliations was not performed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Accounting Records and Financial Information – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City Clerk’s financial reports to the City Council do not include receipts, disbursements, transfers and balances for each fund and year-to-date totals of receipts by fund and source and disbursement by fund and function are not maintained to facilitate the preparation of and support for the Annual Financial Report (AFR). Also, the information provided to the City Council did not include a comparison of the certified budget by function to actual disbursements.

City of Granville

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

Recommendation – To provide better financial information and control over budgeted disbursements, the recommended COA, or its equivalent, should be followed, including proper classification of receipts by source and disbursements by function. The City Clerk should prepare a monthly City Clerk’s report which includes receipts, disbursements, transfer and balances for each fund. This report should be reviewed and approved by the City Council. In addition, year-to-date totals of receipts by fund and source and of disbursements by fund and function should be maintained to facilitate the preparation of and support for the AFR. 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 of actual disbursements to the certified budget by function.

- (D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The fiscal year 2017 AFR did not accurately report the beginning and ending fund balances by \$2,240 and \$2,295, respectively, after considering the errors noted below.

The City did not report the City’s contribution to IPERS as a disbursement. The amounts were recorded as a liability and were not run through the City’s general ledger as a disbursement. This resulted in an understatement on the City’s AFR. Additionally, disbursements in total were understated on the AFR by \$104,831, primarily due to errors in the fire and ambulance departments. Also, we were unable to determine which function the human development program disbursements and payroll taxes of \$22,524 and \$13,672, respectively, were recorded in. In addition, the AFR reported community and economic development disbursements of \$107,778 in the culture and recreation function.

Local option sales taxes (LOST) receipts on the AFR were overstated by \$1,498. Also, \$5,348 of receipts were recorded as disbursements. After adjustments for these and other errors, receipts were understated on the AFR by \$467.

Additionally, the City reported the redemption of the local bank note for the fire station and community center in the public safety and culture and recreation functions rather than the debt service function.

Recommendation – The City should ensure the financial information reported on the AFR agrees with the City’s records. City contributions to IPERS should be reported as a disbursement and all collections should be recorded through a receipt account, not netted against disbursements. The redemption of notes and other debt should be through the debt service function. Additionally, an independent person should review the AFR for accuracy.

- (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 designated independent person should review the reconciliations and monitor delinquent accounts. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

City of Granville

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (F) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – Journal entries should be reviewed and approved by an independent person. This review should be documented by the signature or initials of the independent reviewer and the date of the review.

- (G) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in public safety and culture and recreation functions prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the public safety function. 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) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Additionally, a depository resolution has not been approved by the City.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should adopt a depository resolution which establishes maximum deposit amounts as required by Chapter 12C.2 of the Code of Iowa.

- (I) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.” During the period reviewed, the Mayor received \$255 for serving as the volunteer fire department Fire Chief and \$900 for performing duties as a water department employee. This compensation violates Chapter 372.13(8) of the Code of Iowa.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$1,155 improperly paid to the Mayor.

- (J) Cell Phone Reimbursement – The Mayor receives periodic reimbursements for use of his personal cell phone. The City receives no supporting documentation for the reimbursement claims. The reimbursements are not processed through payroll and accordingly, the proper tax withholdings are not applied, if applicable. In addition, the public purpose of the reimbursements was not clearly documented.

Recommendation – The City should determine and document the public purpose served by reimbursing the Mayor for personal cell phone use. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper supporting documentation and inclusion of cell phone reimbursements in taxable income, if applicable.

City of Granville

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (K) Petty Cash – Petty cash on hand at City Hall was not maintained on an imprest basis and included receipts from utility fees.

Recommendation – The petty cash fund should be maintained on an imprest basis to provide additional control over the fund. All receipts, including utility fees, should be deposited intact, and should not be co-mingled with petty cash.

- (L) 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 and image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for two bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (M) Questionable Disbursements – The Fire Department disbursed \$116 to Yard Inflatables to purchase an inflatable Santa. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

According to the opinion, it is possible for such a disbursement 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 and the Fire Department should determine and document the public purpose served by this disbursement 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.

- (N) Disbursements – One of thirty disbursements tested were not properly supported.

Recommendation – Supporting documentation should be retained for all disbursements.

- (O) Computer System – The City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop a written disaster recovery plan for its computer system. The disaster recovery plan should be reviewed at least once a year.

- (P) City Council Compensation and Payroll Taxes – City Council member compensation was not reduced by the required Federal Insurance Contributions Act (FICA) tax.

Recommendation – The City should contact the Internal Revenue Service (IRS) to determine the disposition of the FICA withholding issue.

City of Granville

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Melissa Kellen, Mayor's wife	Temporary office help	\$ 4,400

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 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 Grandville

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager  
Chris M. Anderson, Staff Auditor  
Elin M. Landgren, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director