



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 22, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Lehigh, Iowa for the period April 1, 2016 through March 31, 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 maximum internal control possible, including independent reviews of reconciliations and journal entries. In addition, the City should comply with meeting minutes publication requirements of the Code of Iowa and the water revenue note requirements.

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/1722-0907-EPOP>.

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CITY OF LEHIGH
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2016 THROUGH MARCH 31, 2017

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City of Lehigh

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Phil Richardson	Mayor	Sep 2016	Nov 2017
Charles Gilliland	Council Member	Sep 2016	Nov 2017
Paula Martin	Council Member	Oct 2016	Nov 2017
Melissa Rude	Council Member	Oct 2016	Nov 2017
Douglas Dellachiesa	Council Member	Jan 2016	Jan 2020
Dave Hrubes	Council Member	Jan 2016	Jan 2020
Theresa Grosnsickle	City Clerk/Treasurer	Feb 2017 to Present	
Sonya Bailey	City Clerk/Treasurer	Dec 2016 to Jan 2017	
Amanda Pigman	City Clerk/Treasurer	Oct 2016 to Dec 2016	
Kathy Gambill	City Clerk/Treasurer	Resigned Sep 2016	
Michael D. Tunesvik	Attorney		Indefinite

City of Lehigh



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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 Lehigh for the period April 1, 2016 through March 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Lehigh'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 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 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.
4. 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.
5. 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.
6. We reviewed 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.
7. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.

8. We reviewed and tested selected disbursements for 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.
9. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.

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.

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 performed 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 11.6 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 Lehigh 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

May 7, 2018

Detailed Recommendations

City of Lehigh

Detailed Recommendations

For the period April 1, 2016 through March 31, 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 to earnings.
- (3) Long-term Debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (8) Journal entries – preparing and recording.

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 and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The June 2016 bank cash report generated from the City’s financial system did not include one of the savings accounts. It was subsequently included in the reports. The activity in the savings accounts was not recorded in a timely manner.

Recommendation – The City should establish procedures to ensure bank, savings and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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 should be documented by the signature or initials of the reviewer and the date of the review.

City of Lehigh

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (D) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within 15 days of the meeting, including total disbursements from each fund, a summary of receipts and a summary of ordinances or amendments adopted during each meeting. The publication of minutes for three of four meetings tested did not include total disbursements from each fund or a summary of all receipts.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes which include total disbursements from each fund and a summary of receipts.

- (E) Payroll – Timesheets are not reviewed and approved by supervisory personnel prior to the preparation of payroll. In addition, the approved hourly rates were not documented in the City Council meeting minutes for two new hires.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to the preparation of payroll. Supervisory review/approval should be evidenced by the supervisor's initials and the date approved. Approved hourly rates should be documented in the City Council meeting minutes.

- (F) Petty Cash – Petty cash on hand at City Hall is not maintained on an imprest basis.

Recommendation – The petty cash fund should be maintained on an imprest basis to provide additional control over the fund. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

- (G) Water Revenue Note – The City's water revenue note resolution requires principal and interest on the notes be paid solely from water net receipts. Payments were made from the Debt Service Fund rather than the Enterprise, Water Fund.

Recommendation – The City should ensure the note payments are paid from the Water Fund as required by the note resolution provisions.

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

Recommendation – All journal entries should be supported. This support should be provided to an independent person for review and approval of the journal entry. Approval should be documented by signing or initialing and dating the journal entries.

- (I) 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 receive an image of the back of each cancelled check for several 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.

City of Lehigh

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Chad C. Lynch, Staff Auditor
Micaela A. Tintjer, Assistant Auditor


Marlys K. Gaston, CPA
Director