



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

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Auditor of State

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NEWS RELEASE

FOR RELEASE

December 14, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Granville, Iowa for the period July 1, 2017 through June 30, 2018. 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 comply with 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/audit-reports/>.

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CITY OF GRANVILLE

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

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City of Granville

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Karl Kellen	Mayor	Jan 2018
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
Karmen Jeltema	City Clerk	Indefinite
Michael Murphy	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Karl Kellen	Mayor	Jan 2020
Chris Chrustoffel	Council Member	Jan 2020
Kay Koob	Council Member	Jan 2020
Matt Rienhart	Council Member	Jan 2020
Chris Hunt	Council Member	Jan 2022
John Schuver	Council Member	Jan 2022
Karmen Jeltema	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, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Granville'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 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 2018 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 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 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. 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 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

December 10, 2018

Detailed Recommendations

City of Granville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(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) Investments – 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 records.
- (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. Also, although the City reports on the cash basis of accounting, certain disbursements are posted using the accrual basis of accounting, evidenced by liabilities remaining in the fund “Balance Sheet” report at each month end reviewed. Also, balances in retained earnings and net income exist in the “Balance Sheet” report causing the “cash” balance to disagree with the “fund” balance in certain funds.

Recommendation – To provide better financial information and control over budgeted disbursements, the recommended COA, or its equivalent, should be followed. Also, the City should establish procedures to ensure financial transactions are properly recorded and are reported using the cash basis of accounting. Liability accounts in the “Balance Sheet” report should be zeroed out each month and any balances in the retained earnings and net income accounts should be closed into fund balances at year end. The City should also contact their software provider to obtain help in determining the other reasons for the variance between the “cash” balance and the “fund” balance in certain funds.

City of Granville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (D) Monthly City Clerk's Report – The monthly City Clerk's reports presented to the City Council do not report receipts, disbursements, transfers or beginning and ending fund balances for each fund. Also, the monthly reports do not include a comparison of actual disbursements to the certified budget by function.

Recommendation – To provide better financial accountability, the City should establish procedures to ensure monthly City Clerk's reports include receipts, disbursements, transfers and balances for each fund. Also, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City should establish procedures to ensure monthly City Clerk's reports include a comparison of total disbursements for all funds to the certified budget by function.

- (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.

- (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, 2018 exceeded the amounts budgeted in health and social services, community and economic development and general government 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 appropriations."

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 deposits amounts as required by Chapter 12C.2 of the Code of Iowa.

City of Granville

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (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 \$240 for serving as the volunteer fire department Fire Chief and \$1,575 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 \$1,815 improperly paid to the Mayor.

- (J) Questionable Disbursements – The City disbursed \$106 to Amazon for an Amazon Prime membership. 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 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.

- (K) Disbursements – One of thirty disbursements tested was not properly supported. Additionally, four disbursements tested included sales tax.

Recommendation – All disbursements should be supported by vendor invoices or other supporting documentation. Procedures should be established to ensure the City does not pay sales tax.

- (L) 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.

- (M) Financial Condition – At June 30, 2018, the City had a deficit balance of \$4,107 in the Capital Projects Fund.

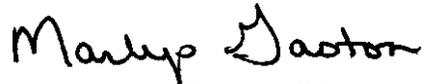
Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial condition.

City of Granville

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager
Chris M. Anderson, Staff Auditor
Taran E. McCusker, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director