



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

December 13, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Linden's Periodic Examination Report dated August 25, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period July 1, 2017 through December 31, 2018.

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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While the City corrected two of the findings reported in the Periodic Examination Report dated August 25, 2016, partially corrected three and two of the findings are no longer valid, eleven of the findings are reported as "not corrected". Ten additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Linden's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

###

CITY OF LINDEN

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
JULY 1, 2017 THROUGH DECEMBER 31, 2018**

City of Linden



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

November 8, 2019

Officials of the City of Linden
Linden, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report on the Status of Periodic Examination Findings and Recommendations for the City of Linden, Iowa, for the period July 1, 2017 to December 31, 2018. Please note the Linden City Attorney, Christine L. Sand is no relation to me.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Linden throughout the follow-up 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 that reads "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

		<u>Page</u>
Officials		3
Auditor of State’s Independent Report on the Status of Periodic Examination Findings and Recommendations		5
Status of Findings and Recommendations Previously Reported in the City’s Periodic Examination Report:	<u>Finding</u>	
Segregation of Duties	A	7
City Library	B	7
Bank Reconciliations	C	8
Chart of Accounts	D	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	E	8
Deposits and Investments	F	8
City Council Meeting Minutes	G	9
Business Transactions	H	9
Separately Maintained Records	I	9
Payroll	J	10
Checks Signed in Advance	K	10
Surety Bond Coverage	L	10
Annual Financial Report	M	10-11
Bidding Procedures	N	11
Unrecorded Interest	O	11
Electronic Check Retention	P	11
Revenue Bonds	Q	11
Certified Budget	R	12
Additional Findings Identified During Follow-up Procedures:		
Restrictive Endorsement	S	12
Separately Maintained Records	T	12
City Fire Department	U	12
Local Option Sales Tax	V	12-13
City Library Payroll	W	13
Unsupported Disbursements	X	13
City Council Meeting Minutes	Y	13
Dual Compensation	Z	14
Revenue Bond Reserve	AA	14
Questionable Disbursements	BB	14
Staff		15

City of Linden

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Ken Basquin	Mayor	Jan 2018	Jan 2022
Korey Maynes	Council Member	Sep 2018	Nov 2019
Leon Daggett	Council Member	Jan 2016	Jan 2020
Doug Epley	Council Member	Jan 2016	Jan 2020
Pamela Basquin	Council Member	Jan 2018	Jan 2022
Wendy Lemke	Council Member	Jan 2018	Jan 2022
Cindy Perrigo	City Clerk/Treasurer		Indefinite
Christine L. Sand (No relation to Auditor of State Rob Sand)	Attorney		Indefinite

City of Linden



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

Auditor of State's Independent Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated August 25, 2016 on the City of Linden, Iowa covering the period July 1, 2015 through June 30, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated August 25, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period July 1, 2017 through December 31, 2018.

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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated August 25, 2016. 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 Linden during the course of our follow-up procedures engagement. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Marlys K. Gaston, CPA
Deputy Auditor of State

November 8, 2019

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Linden

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2017 through December 31, 2018

Findings Reported in the Periodic Examination Report dated August 25, 2016:

- (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, investing, custody of investments and reconciling earnings.
 - (3) Debt – recordkeeping, compliance and debt payment processing.
 - (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (6) Payroll – recordkeeping, preparing, signing and distributing.
 - (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write off records.

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.

Current Status – Not corrected. The recommendation is repeated.

- (B) City Library – All accounting functions are handled by one individual without adequate compensating controls. In addition, accounting records did not facilitate the proper classification of receipts or disbursements.

Recommendation – The Library should segregate accounting duties to the extent possible, utilizing other departments in the City, if needed, and properly classify receipts and disbursements in the accounting records.

Current Status – Not corrected. The recommendation is repeated.

City of Linden

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2017 through December 31, 2018

- (C) Bank Reconciliations – Although cash balances in the City’s general ledger were reconciled to bank account balances throughout the year, a complete reconciliation including investments was not performed. For one month reviewed, bank and book balances did not properly reconcile. A variance of \$255 was not resolved. In addition, bank reconciliations are not independently reviewed.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank balances should be investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Current Status – Not corrected. For one month observed, bank and book balances did not properly reconcile. A variance of \$16 was not resolved. The recommendation is repeated.

- (D) 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.

Current Status – Not corrected. The recommendation is repeated.

- (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 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.

Current Status – Not corrected. The recommendation is repeated.

- (F) 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. Also, an accounting register is not maintained for each investment.

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 approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa. A register should be maintained for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number.

Current Status – Partially corrected. The City approved a depository resolution on September 6, 2016, however, the City has not adopted a written investment policy, as required. Also, an accounting register is not maintained for each investment. The recommendation is partially repeated.

City of Linden

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2017 through December 31, 2018

(G) City Council Meeting Minutes – The following were identified:

- (1) Although minutes of City Council proceedings were published, the City did not publish a summary of receipts or total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.
- (2) The minutes record did not indicate the vote of each City Council member present as required by Chapter 21.3 of the Code of Iowa.
- (3) The City Council went into closed session on August 3, 2015. The specific exemption under Chapter 21.5 of the Code of Iowa was not identified or documented as required. In addition, final action was not taken in open session.

Recommendation – A summary of receipts and total disbursements by fund should be published, as required. The minutes record should indicate the vote of each Council member present. In addition, when going into closed session, the minutes should document the specific exemption under Chapter 21.5 of the Code of Iowa and final action should be taken in open session.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (Y).

(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
Roy Root, City Council Member, Maintenance Contractor	Mowing, lawn care and snow removal	\$ 2,927

In accordance with Chapter 362.5(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.

Current Status – Not longer valid. However, see finding (Z).

(I) Separately Maintained Records – The City of Linden Public Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

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 reported to the City Council on a monthly basis.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (T).

City of Linden

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2017 through December 31, 2018

- (J) Payroll – The City Council has not formally approved the City Clerk’s salary. In addition, the City did not maintain documentation showing all Internal Revenue Service (IRS) Forms 941 were correctly filed.

Recommendation – The City Council should approve the City Clerk’s salary and include approval in the City Council meeting minutes. The City should maintain documentation showing all necessary IRS Forms 941 are properly filed.

Current Status – Partially corrected. The City is maintaining documentation of properly filed IRS Forms 941. However, for the period reviewed, the City Council has not formally approved the City Clerk’s salary. The recommendation is partially repeated.

- (K) Checks Signed in Advance – Certain checks are signed before the payee and amount are completed.

Recommendation – Checks should not be signed in advance.

Current Status – Corrected. During the period reviewed, blank checks were not signed.

- (L) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained for the year ended June 30, 2016, as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and maintain surety bond coverage. The City’s coverage should be periodically reviewed for adequacy.

Current Status – Corrected. During the period reviewed, the City had acquired the required coverage.

- (M) Annual Financial Report – The beginning balances for the governmental and proprietary activities on the fiscal year 2015 Annual Financial Report (AFR) did not agree to the ending balances reported on the fiscal year 2014 AFR. In addition, ending fund balances reported on the fiscal year 2015 AFR did not agree with the City’s general ledger and \$1,200 of fiscal year 2016 expenditures were erroneously included in the fiscal year 2015 AFR.

Recommendation – The City should ensure the current year Annual Financial Report beginning balances agree with the prior year ending balances. The City should ensure that amounts reported on the AFR are supported by the City’s general ledger and are reported in the correct period.

Current Status – Partially corrected. The beginning fund balances on the 2018 Annual Financial Report agreed with the prior year ending fund balances on the fiscal year 2017 AFR. However, the total ending fund balances reported on the 2018 AFR of \$154,404 did not agree with the City’s summary of ledger activity of \$200,311. Also, the public works and general government function disbursements were understated by \$6,499 and \$788, respectively in the General Fund and the business type activities function disbursements were understated by \$5,028, in the Enterprise, Sewer Fund. In addition, fiscal year 2018 receipts for the Enterprise,

City of Linden

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2017 through December 31, 2018

Sewer Fund were overstated by \$5,142. Further, classification errors were noted including, property tax receipts reported in the Special Revenue column instead of the General Fund column and Special Revenue, Road Use Tax Fund disbursements being reported in the General Fund column instead of the Special Revenue column. Finally, the City did not report the outstanding balance of the USDA loan on the 2018 AFR. The recommendation is partially repeated.

- (N) Bidding Procedures – Subsequent to the period under review, the City entered into a contract for road repairs without obtaining competitive bids, as required by Chapter 26.3 of the Code of Iowa.

Recommendation – The City should ensure all contracts exceeding the competitive bid threshold are competitively bid as required by Chapter 26.3 of the Code of Iowa.

Current Status – No longer valid. During the period reviewed, the City did not enter into any contracts requiring competitive bids.

- (O) Unrecorded Interest – The City does not record interest earned on certificates of deposit (CDs) in the City's general ledger.

Recommendation – Interest earned on CDs should be recorded in the City's general ledger.

Current Status – Not corrected. The recommendation is repeated.

- (P) 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 an image of the back of each cancelled check.

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

Current Status – Not corrected. The recommendation is repeated.

- (Q) Revenue Bonds – Principal and interest on the City's wastewater revenue bond was paid from the Sewer Fund. The provisions of the water revenue bond resolution requires sufficient monthly transfers be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City has established a water revenue bond sinking account, however, monthly transfers are not made to this account.

Recommendation – The City should ensure monthly transfers are made to the wastewater revenue bond sinking account and payments on the bonds should be made from the wastewater sinking account, as required.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (AA).

City of Linden

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2017 through December 31, 2018

- (R) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the business-type activities 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.

Current Status – Not corrected. Disbursements during the year ended June 30, 2018, exceeded the amounts budgeted in the public safety and business type activities functions. The recommendation is repeated.

Additional Findings as a Result of Follow-up Procedures:

- (S) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

- (T) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City of Linden Fire Department maintains bank accounts and accounting records for activity separate from the City Clerk’s accounting records. While this Department is part of the City, the transactions and the resulting balances are not included in the City’s annual budget, annual financial report and monthly financial reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

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 reported to the City Council on a monthly basis.

- (U) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, accounting records did not facilitate the proper classification of receipts or disbursements.

Recommendation – The Fire Department should segregate accounting duties to the extent possible, utilizing other departments in the City, if needed, and properly classify receipts and disbursements in the accounting records.

City of Linden

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2017 through December 31, 2018

- (V) Local Option Sales Tax – The Local Option Sales Tax (LOST) ballot passed November 7, 2017, requires LOST receipts to be used as follows: 20% for library services, 20% for the fire department, 20% for debt relief and 40% for utility services relief through City disbursements for the construction of capital improvements and the construction and maintenance of streets and sidewalks in the City of Linden. In August 2018, the City began receiving LOST receipts, however no documentation was maintained to demonstrate the receipts and disbursements were tracked to demonstrate compliance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate LOST receipts and disbursements are tracked to document compliance with the provisions of the LOST ballot referendum.

- (W) City Library Payroll – During calendar year 2018, \$7,935 of wages for five City Library employees were paid as a vendor through accounts payable rather than as an employee through payroll. Accordingly, the proper federal and state taxes were not withheld and the City did not report compensation on the Internal Revenue Service (IRS) form W-2 or report and remit the proper employee and employer IPERS contributions.

Recommendation – All compensation to City employees should be paid through payroll and subject to payroll taxes and withholdings. The City should contact IPERS, the Iowa Department of Revenue and the IRS to determine the disposition of the unreported compensation.

- (X) Unsupported Disbursements – During the period reviewed, the City purchased a mower for \$6,499 for which no supporting documentation could be located by the City. Also, one disbursement to an individual for \$60 for miscellaneous City services was not supported.

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

- (Y) 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, including total disbursements from each City fund and a list of claims allowed showing the name of the person or firm making the claim, the reason for the claim and the amount of the claim. For all minutes tested, the City did not publish the minutes within fifteen days of the meeting and the listing of claims allowed did not include the reason for the claim, as required. Also, the City Council meeting minutes were not properly signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – Publishing of City Council meeting minutes should be made within fifteen days of each meeting and the list of claims allowed should include the reason for the claim. Also, all minutes should be signed, as required.

City of Linden

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2017 through December 31, 2018

- (Z) 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.”

Attorney General’s Opinion dated August 15, 2018 clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8) (2018) bars city elected officials from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion, Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j)&(k) (2018), is retracted.”

During the fiscal year ended June 30, 2018 a City Council Member was paid \$580 for mowing and for miscellaneous maintenance. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits an elected official from receiving compensation as a City employee while serving as a City Council Member.

Recommendation – The City should seek reimbursement for the improperly paid amounts.

- (AA) Revenue Bond Reserve – The provisions of the water revenue bond resolution require monthly transfers of \$186 to a reserve account until the reserve account balance equals to \$22,386. The City has not established the reserve account.

Recommendation – The City should establish a water revenue reserve account and make required monthly transfers of \$186 into the account until the reserve is equal to \$22,386, as required.

- (BB) Questionable Disbursements – During the period reviewed, \$60 was disbursed to Linden Lyon’s Club and \$64 was disbursed to Fareway for a firefighters potluck. These disbursements were not supported and may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

According to the opinion, it is possible for such 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 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 documentation. Also, supporting documentation should be retained for all disbursements.

City of Linden

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Suzanne R. Dahlstrom, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II