



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

March 30, 2017

Contact: Marlys Gatson
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Linden, Iowa for the period July 1, 2015 through June 30, 2016. 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 independent review of reconciliations. The City should also establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. In addition, the City should also comply with Chapter 12C.2 of the Code of Iowa by establishing a resolution naming official depositories.

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/1622-0235-EPOP>.

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CITY OF LINDEN

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

**FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016**

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City of Linden

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Dave Hutchins	Mayor	Jan 2016	Jan 2018
Don Finnell	Council Member	Jan 2014	Jan 2018
June Rector	Council Member	Jan 2014	Jan 2018
Leon Daggett	Council Member	Jan 2016	Jan 2020
Doug Epley	Council Member	Jan 2016	Jan 2020
Roy Root	Council Member	Jan 2016	Jan 2020
Cindy Perrigo	City Clerk/Treasurer		Indefinite
DuWayne Dalen	Attorney		Indefinite

City of Linden



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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 Linden for the period July 1, 2015 through June 30, 2016. The City of Linden'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 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 note agreements, 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.

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 Linden, 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 Linden and other parties to whom the City of Linden 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 Linden 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

August 25, 2016

Detailed Recommendations

City of Linden

Detailed Recommendations

For the period July 1, 2015 through June 30, 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.

(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.

(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.

City of Linden

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (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.

- (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.

- (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.

- (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.

City of Linden

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (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.

- (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.

- (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.

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

Recommendation – Checks should not be signed in advance.

- (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.

- (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.

City of Linden

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

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.

- (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.

- (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.

- (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.

- (Q) Revenue Bonds – Principal and interest on the City’s water 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 water revenue bond sinking account and payments on the bonds should be made from the water sinking account, as required.

- (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.

City of Linden

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Cole L. Hocker, Assistant Auditor
Taylor I. Cook, Assistant Auditor


Marlys K. Gaston, CPA
Director