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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

September 27, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Linn Grove, 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 the maximum internal control possible. In addition, the City should adopt a written investment policy in accordance with Chapter 12B.10B of the Code of Iowa.

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/1622-0086-EPOP>.

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CITY OF LINN GROVE
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 Linn Grove

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Ronda Ellis	Mayor	Jan 2016	Jan 2018
Aaron Anderson	Council Member	Jan 2016	Jan 2018
Chance Goddard	Council Member	Jan 2016	Jan 2018
Diane Lindahl	Council Member	Jan 2016	Jan 2018
John Nelson	Council Member	Jan 2016	Jan 2018
Marlin Weier	Council Member	Jan 2016	Jan 2018
Barbara Sennert	City Clerk/Treasurer		Indefinite
Donald J. Hemphill	Attorney		Indefinite

City of Linn Grove



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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 Linn Grove 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 Linn Grove'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 2016 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 Linn Grove 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 29, 2017

Detailed Recommendations

City of Linn Grove

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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, posting and reconciling.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Computer system – performing all general accounting functions and controlling all data input and output.
- (8) Utilities – billing, collecting, depositing and posting.
- (9) Journal entries – preparing and recording.

For the Linn Grove Library and Fire Department accounts, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements - preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City, the Library and the Fire Department should review their 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 – Although monthly bank reconciliations were prepared, the reconciliations did not include all City funds and investments were not recorded at current value because interest earned and added to the certificate of deposit balances was not recorded. Also, certain transactions considered as void were recorded as reconciling items and were not cleared from the general ledger. In addition, bank reconciliations were not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly, including all City funds. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Interest on investments should be recorded timely. Voided transactions should be properly cleared from the general ledger.

City of Linn Grove

Detailed Recommendations

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

- (C) 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. Also, certain property tax receipts and special assessments were incorrectly recorded as miscellaneous receipts.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed and all financial activity should be recorded correctly.

- (D) 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.

- (E) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (F) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published, including a summary of all receipts. The minutes publications for two meetings tested did not include a summary of all receipts.

Recommendation – The City should comply with the Code of Iowa and publish a summary of all receipts, as required.

- (G) Certified Budget – Disbursements at March 31, 2017 exceeded the amounts budgeted in the debt service 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) Disbursements – Certain postage payments from the City’s Enterprise, Water Fund were not properly authorized and were not recorded in the general ledger. Also, supporting documentation for claims is not cancelled to prevent reuse.

For the Linn Grove Library account, disbursements are made by cash or money order and not by check. Also, two of four disbursements tested for the Library were not recorded in the City’s general ledger.

Recommendation – The City Council should establish procedures to ensure all disbursements are recorded in the general ledger and are properly included in the list of claims to be approved at the monthly meetings. In addition, supporting documentation for disbursements should be cancelled to prevent reuse.

Also, in order to provide better financial oversight, all disbursements for the separate Library account should be made by check.

City of Linn Grove

Detailed Recommendations

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

- (I) Payment of General Obligation Notes – Principal and interest on the City’s general obligation water improvement notes were paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Water Fund to the Debt Service Fund for future funding contributions. Payments on the note should be made from the Debt Service Fund as required.

- (J) Receipts – Checks were not restrictively endorsed upon receipt. In addition, prenumbered receipts were not issued for all collections.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt. Also, prenumbered receipts should be issued for all collections.

- (K) Timesheets and Mayor Compensation – Timesheets did not include evidence of supervisory review. In addition, the Mayor was paid \$30 per month, \$180 for the period reviewed, to clean the Community Center with no supporting documentation of the hours worked. Section 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.” Accordingly, the Mayor was not entitled to receive compensation for cleaning the community center as an employee of the City.

The Mayor could have been compensated for the services performed while Mayor if the Mayor had resigned as a City employee and instead had been selected through a competitive bid process to perform the services as an independent contractor, as defined by the Internal Revenue Service, and meeting one or more exemptions under Chapter 362.5 of the Code of Iowa.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Supervisory approval should be evidenced by the supervisor’s initials and the date approved. All hours paid should be supported. The City Council should consult legal counsel to determine the disposition of the Mayor’s compensation for cleaning the Community Center, including considering seeking reimbursement for the \$180 improperly paid to the Mayor.

- (L) Separately Maintained Records – The City of Linn Grove Fire Department and Library maintain 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.

- (M) 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.

City of Linn Grove

Detailed Recommendations

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

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.

- (N) Petty Cash – The Library maintains a petty cash fund for which no authorization could be located. In addition, petty cash funds on hand at the Library were not maintained on an imprest basis.

Recommendation – The petty cash fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund.

- (O) 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...” At June 30, 2016, the City’s AFR included receipts, disbursements and beginning and ending fund balances that did not agree to the City’s records, including the June 2016 City Clerk’s report.

Recommendation – The City should establish procedures to ensure future Annual Financial Reports agree to the City’s records, including the City Clerk’s reports.

- (P) Utility Collections – The City deposits all utility receipts into the Enterprise, Water Fund checking account and makes quarterly transfers to the City’s main checking account for the amounts collected. The utility receipts are not recorded into the general ledger until the quarterly transfers are made, resulting in incorrect reporting of utility receipts.

Recommendation – The City should establish procedures to ensure utility receipts are properly recorded in the general ledger on a monthly basis.

- (Q) Journal Entries – Supporting documentation was not always retained for journal entries. Journal entries are not reviewed and approved by an independent person.

Recommendation – The City should retain supporting documentation for all journal entries. An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

City of Linn Grove

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Ryan J. Pithan, CPA, Senior Auditor II


Marlys K. Gaston, CPA
Director