



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

May 4, 2018

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Lynnville's Periodic Examination Report dated April 6, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period March 1, 2017 through November 30, 2017.

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 or partially corrected eleven of the nineteen findings reported in the Periodic Examination Report dated April 6, 2016, eight of the findings are reported as "not corrected". Five additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Lynnville's Report on the Status of Periodic Examination Findings and Recommendations 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/1522-0466-EPFP>.

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**CITY OF LYNNVILLE**

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

**FOR THE PERIOD  
MARCH 1, 2017 THROUGH NOVEMBER 30, 2017**

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## City of Lynnville

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Roy James	Mayor	Jan 2016	Jan 2018
Hugh Carney	Council Member	Mar 2016	Nov 2017
Terry Fraker	Council Member	Jan 2015	Nov 2017
Bev Van Maanen	Council Member	Jan 2014	Jan 2018
Roger Beason	Council Member	Jan 2016	Jan 2020
Mark Newberg	Council Member	Jan 2016	Jan 2020
Bev Arthur	City Clerk/Treasurer		Indefinite
Gilbert Caldwell	Attorney		Indefinite

**City of Lynnville**



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Independent Accountant's 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 April 6, 2016 on the City of Lynnville, Iowa covering the period January 1, 2015 through December 31, 2015 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain 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 date April 6, 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 March 1, 2017 through November 30, 2017.

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 April 6, 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 Lynnville during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Mary Mosiman*  
MARY MOSIMAN, CPA  
Auditor of State

April 5, 2018

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



City of Lynnville

Report on the Status of Periodic Examination Findings and Recommendations

For the period March 1, 2017 through November 30, 2017

**Findings Reported in the Periodic Examination Report dated April 6, 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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting and reconciling.
- (6) Financial reporting – preparing and reconciling.
- (7) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.

Prior to July 2015, for the Lynnville Library, one individual had 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.

For the Lynnville Volunteer Fire Department, one individual had 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 and the Lynnville Volunteer 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. In July 2015, the Lynnville Library turned recordkeeping over to the City Clerk.

**Current Status – Not corrected. Effective July 2015, the City began accounting for the transactions and balances of the Lynnville Library. The recommendation is repeated.**

City of Lynnville

Report on the Status of Periodic Examination Findings and Recommendations

For the period March 1, 2017 through November 30, 2017

- (B) 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 – Corrected. During the period reviewed, the City followed the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee.**

- (C) Management Financial Information – Although monthly City Clerk's reports are prepared, the reports do not include a comparison of actual disbursements to budgeted disbursements by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk's monthly financial reports to the City Council should include comparisons to the certified budget by function.

**Current Status – Not corrected. The recommendation is repeated.**

- (D) Separately Maintained Records – The Fire Department maintains an account separate from the City's accounting records. The transactions and resulting balance of this account were not included in the City Clerk's accounting records or the City's annual budget and were not reported to the City Council each month.

Also, prior to July 2015, the Library maintained an account separate from the City's accounting records. The transactions and resulting balance of this account were not included in the City Clerk's accounting records or the City's annual budget and were not reported to the City Council each month.

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 annual budget and should be reported to the City Council monthly.

**Current Status – Partially corrected. During the period reviewed, the Library transactions were included in the City's accounting records and annual budget and were reported to the City Council each month. The Fire Department continued to maintain a separate account for which the transactions and resulting balance were not included in the City Clerk's accounting records or the City's annual budget and were not reported to the City Council each month. 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 and a delinquent account list was not prepared monthly. A reconciliation is designed to ensure the proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances. Also, utility records do not include information sufficient to document proper deposit of individual payments on account.

City of Lynnville

Report on the Status of Periodic Examination Findings and Recommendations

For the period March 1, 2017 through November 30, 2017

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, document the review with the signature or initials of the reviewer and the date of the review and monitor delinquent accounts. Also, utility records should be sufficient to document individual payments on account were deposited.

**Current Status – Partially corrected. Based on our review, utility records are sufficient to document individual payments on account were deposited. However, utility billings, collections and delinquent accounts were not reconciled throughout the period reviewed and a delinquent account list was not prepared monthly. The recommendation is partially repeated.**

- (F) 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. One of four meeting minutes tested was not published within fifteen days.

Recommendation – The City should publish minutes within fifteen days, as required.

**Current Status – Not corrected. One of ten meeting minutes tested was not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. The recommendation is repeated. In addition, see finding (T).**

- (G) Utility Rate Ordinance – Chapter 384.84 of the Code of Iowa requires utility rates be established by ordinance of the City Council. Chapter 372.13(5) of the Code of Iowa requires City records and documents be retained, including ordinances. The ordinance establishing the City's utility rates could not be located and was unavailable for review during the performance of our procedures.

Recommendation – The City should ensure utility rates are established by ordinance and retain all ordinances, as required.

**Current Status – Partially corrected. Ordinance 2016-01 was approved in December 2016 increasing sewer rates was properly retained. The ordinance establishing the City's other utility rates could not be located and was unavailable for review. The recommendation is repeated.**

- (H) Payroll – The following were noted regarding payroll:

- (1) City employees do not prepare and submit timesheets to support hours worked.
- (2) Approval of salary and wages for City employees is not documented in the City Council meeting minutes.
- (3) The City did not track and file a form 1099 with the Internal Revenue Service (IRS) for contract labor in excess of \$600 each calendar year, as required.

City of Lynnville

Report on the Status of Periodic Examination Findings and Recommendations

For the period March 1, 2017 through November 30, 2017

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and reviewed, approved and signed by the employee's immediate supervisor prior to submission. Actual approved wages and hourly rates should be documented in the City Council meeting minutes. The City should establish procedures to ensure all required IRS Form 1099s are properly completed and filed.

**Current Status – Partially corrected. Form 1099 was filed with the IRS for contract labor in excess of \$600 for calendar year 2016. While City employees submit a summary of hours worked for each pay period, employees do not prepare timesheets which summarize hours worked daily or taken as leave time and timesheets are not signed by the employee and reviewed, approved and signed by the employee's immediate supervisor prior to submission to the Clerk. During the period reviewed, the City Council minutes noted approval of raises for two City employees. However, only the raise was noted and not the amount of raise and or the new hourly rate. The recommendations for timesheets and approval of wages and hourly rates are repeated.**

- (I) Debit Card – The City has a debit card available for use by employees while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. Debit cards provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

**Current Status – Corrected. Per discussion with the City Clerk, the debit card has been destroyed. Bank statements for the period under review were scanned and debit card transactions were not noted.**

- (J) Supporting Documentation – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for four transactions tested could not be located.

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

**Current Status – Corrected. The twenty-five disbursement transactions tested during the period reviewed were properly supported by an invoice or other supporting documentation.**

- (K) 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.

Recommendation – The City should adopt a written investment policy which 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.

**Current Status – Not corrected. The recommendation is repeated.**

City of Lynnville

Report on the Status of Periodic Examination Findings and Recommendations

For the period March 1, 2017 through November 30, 2017

- (L) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to make each time the same, or a similar, situation arises.

**Current Status – Corrected. During the period reviewed, the City maintained an accounting policies and procedures manual.**

- (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 retain electronic images of the back of cancelled checks and the Fire Department does not retain electronic images of the front or the back of cancelled checks.

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

**Current Status – Partially corrected. During the period reviewed, the City received and retained electronic images of the front and back of each cancelled check, while the Fire Department received and retained electronic images of only the front of cancelled checks. The recommendation is repeated for the Fire Department.**

- (N) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all receipts.

**Current Status – Not corrected. The recommendation is repeated.**

- (O) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works, community and economic development, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended 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. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the community and economic development, general government and business-type activities functions. The recommendation is repeated.**

City of Lynnville

Report on the Status of Periodic Examination Findings and Recommendations

For the period March 1, 2017 through November 30, 2017

- (P) Annual Financial Report – The beginning balances reported in the fiscal year 2015 Annual Financial Report (AFR) do not agree with the ending balances reported in the prior year AFR. Also, the AFR did not include the separately maintained Fire Department and Library account activity or balances for the year as required by Chapter 384.20 of the Code of Iowa. Certain budget amounts in the AFR did not agree with the certified budget.

Recommendation – The City should ensure the current AFR beginning balances agree with the prior year ending balances. The AFR should include activity for all City accounts. The budget amounts in the AFR should agree to the certified budget.

**Current Status – Partially corrected. The beginning balances reported in the fiscal year 2017 Annual Financial Report (AFR) agreed with the ending balances reported in the prior year AFR and the budget amounts in the AFR agreed to the certified budget. In addition, the AFR included activity for the Library. However, activity and balances for the separately maintained Fire Department account were not included as required by Chapter 384.20 of the Code of Iowa. The recommendation is repeated. In addition, see finding (V).**

- (Q) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 50% for property tax relief and 50% for community betterment. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

**Current Status – Not corrected. The recommendation is repeated.**

- (R) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

**Current Status – Not corrected. The recommendation is repeated.**

- (S) City Council Vacancy – Chapter 372.13(2) of the Code of Iowa discusses vacancies in an elective city office during a term of office and the requirements for filling a vacancy by appointment by the remaining members of the City Council. This section states in part, "The appointment shall be made within sixty days after the vacancy occurs and shall be for the period until the next regular city election...".

Terry Fraker was appointed by the City Council in January 2015 to replace Kevin Arment who resigned in November 2014 and whose term ended January 2018. In accordance with Chapter 372.13(2) of the Code of Iowa, Mr. Fraker's appointment should have ended at the next regular City election, held in November 2015, and the remainder of the term for that City Council position should have been filled by election. However, the Council position was not placed on the November 2015 ballot and Mr. Fraker continues to serve on the City Council without the required electorate vote.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

City of Lynnville

Report on the Status of Periodic Examination Findings and Recommendations

For the period March 1, 2017 through November 30, 2017

**Current Status – Corrected.** The City consulted legal counsel and subsequently published public notice of the intent to appoint a Council Member pursuant to Iowa Code section 372.13(2)(b). The notice included information for the electors of the City of the right to file a petition requiring the vacancy be filled by special election. No petition was filed. The notice was published December 1, 2016 and the vacancy was filled by the City Council at the December 12, 2016 meeting.

**Additional Findings as a Result of Follow-up Procedures:**

- (T) City Council Meeting Minutes – The City Council went into closed session on June 12, 2017. The closed session was not in compliance with Chapter 21.5 of the Code of Iowa since the specific exemption under Chapter 21.5 for closing the session was not identified or documented and final action was taken in closed the session, rather than in open session.

Recommendation – The City should comply with Chapter 21.5 of the Code of Iowa.

- (U) City Code – Chapter 380.8 of the Code of Iowa requires cities to compile a code of ordinances containing all ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances for vacating streets and alleys, at least once every five years. The City Code has not recodified within the past five years.

Recommendation – The City should comply with Chapter 380.8 of the Code of Iowa.

- (V) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report (AFR) to contain "a summary for the preceding fiscal year of all collections and receipts, all accounts due to the City, and all expenditures..." Certain receipts and disbursements included in the City's AFR for the fiscal year ending June 30, 2017 do not agree to the City's records. In addition, the ending balances reported on the AFR agree to bank and investment balances, not the City's book balances.

Recommendation – The City should establish procedures to ensure amounts reported in the AFR agree to the City's records. Ending balances reported on the AFR should agree to the City's book balances.

- (W) Recording of Receipts and Disbursements – During our review, we noted errors or inconsistencies in the coding of the City's receipts and disbursements. Coding of transactions is not reviewed by an independent person to ensure the accuracy of the City's records.

Recommendation – The City should establish procedures to ensure transactions are reviewed by an independent person to ensure the accuracy of the City's records.

- (X) Vacation and Sick Leave – One employee receives paid leave. Vacation and sick leave are not recorded in the City's accounting system and is not adequately tracked and reviewed by an independent person.

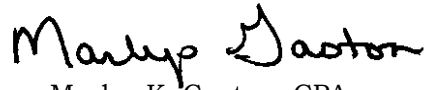
Recommendation – Use of paid leave should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. Vacation and sick leave should be properly tracked and recorded in the accounting system timely.

City of Lynnville

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager  
Lesley R. Geary, CPA, Senior Auditor II

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