



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

**NEWS RELEASE**

FOR RELEASE

May 17, 2018

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Luther, Iowa for the period January 1, 2017 through December 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 implement a chart of accounts and establish procedures to ensure receipts and disbursements are properly recorded.

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/1722-0060-EPOP>.

###



**CITY OF LUTHER**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JANUARY 1, 2017 THROUGH DECEMBER 31, 2017**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Chart of Accounts	B	8
Deposits and Investments	C	8
Salary Approval	D	8
Timesheets	E	8
Accounting Policies and Procedures Manual	F	9
Record of Investments	G	9
Prenumbered Receipts	H	9
Electronic Check Retention	I	9
Disbursements	J	9
Financial Reporting	K	9
Local Option Sales Tax (LOST)	L	10
Disbursements and Salaries	M	10
Federal and State Tax Withholding	N	10
Tax Increment Financing	O	10
Certified Budget	P	11
Reconciling Collections to Billings	Q	11
Visa Prepaid Gift Card	R	11
Staff		12

**City of Luther**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Eric Krohn	Mayor	Jan 2014	Jan 2018
Ellen Hartstack	Council Member	Jan 2016	Jan 2020
Gus Johnson	Council Member	Nov 2016	Nov 2017
Jeff Sandegren	Council Member	Jan 2016	Jan 2020
Robert Owens	Council Member	Jan 2014	Jan 2018
Margaret Wilczak	Council Member	Jan 2014	Jan 2018
Deanna Sandegren	City Clerk		Indefinite
James Paprocki	Treasurer		Indefinite

**City of Luther**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Luther for the period January 1, 2017 through December 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Luther'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 2017 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 and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. 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.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. 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 Luther 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

April 23, 2018



## **Detailed Recommendations**

City of Luther

Detailed Recommendations

For the period January 1, 2017 through December 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 – record keeping, handling, and reconciling.
- (3) Receipts – opening mail, collecting, posting and reconciling.
- (4) Disbursements – Check preparation, posting, signing, and reconciling.
- (5) Payroll – Check preparation, posting, and entering rates into system.

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.

(B) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments recommended by the City Finance Committee.

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

(C) 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.

(D) Salary Approval – Approval for the City’s Treasurer’s salary was not documented in the City Council minutes.

Recommendation – Approved salaries for all employees should be adequately documented in the City Council minutes.

(E) Timesheets – Timesheets for employees are maintained. However, the timesheets are not reviewed or approved by supervisory personnel.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll.

City of Luther

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (F) 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 be made each time the same, or a similar, situation arises.

- (G) Record of Investments – A detailed record of investment transactions was not maintained.

Recommendation – A detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate, and amount of principal and interest received.

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

Recommendation – Prenumbered receipts should be issued for all collections. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented

- (I) 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.

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.

- (J) Disbursements – Supporting documentation for disbursements is not cancelled to prevent reuse.

Recommendation – The City should properly cancel all supporting documentation for disbursements to prevent reuse.

- (K) Financial Reporting – Procedures are not in place to ensure receipts and disbursements are properly recorded in the City's Annual Financial Report (AFR).

Recommendation – The City should implement procedures to ensure receipts and disbursements are properly recorded in the AFR.

City of Luther

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (L) Local Option Sales Tax (LOST) – The City’s local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 100% for the Capital Improvement Fund. However, the City’s LOST receipts are recorded as follows: 50% to the General Fund and 50% to the Capital Improvement Fund. Documentation is not maintained to support how the funds are used or the unspent balances held for specific purposes.

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 provisions.

- (M) Disbursements and Salaries – Certain disbursements were not approved by the City Council prior to disbursement. The City does not have a written disbursement approval policy allowing certain bills to be paid prior to City Council approval. Also, the City did not post annual gross salaries in accordance with an Attorney General’s opinion dated April 12, 1978.

Recommendation – The City should adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval. Also, the City should post annual individual gross salaries, as required.

- (N) Federal and State Tax Withholding – The City is not withholding or remitting federal or state taxes from City employee pay checks.

Recommendation – The City should contact the Internal Revenue Service and the Iowa Department of Revenue to determine the disposition of the unreported and unpaid State and Federal payroll taxes. The City should establish procedures to ensure the proper withholding of federal and state taxes.

- (O) Tax Increment Financing – During the exam period, the City certified and then paid legal fees directly from the Tax Increment Financing (TIF) Fund. In addition, the City received reimbursement from Heartland Co-op for the legal fees. In accordance with Chapters 403.19(10)(b) and 403.22 of the Code of Iowa, the TIF fund may only be used for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable low-to-moderate income assistance, not for project costs or legal fees. In addition, Chapter 403.19(6)(b) of the code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

Recommendation – In the future, if disbursements are for a qualified TIF project (i.e. legal fees), the City should pay the costs from an allowable fund (i.e., General Fund), approve an advance (interfund loan) from the General Fund to the TIF fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance. In addition, the City should decertify the amount of reimbursement received from Heartland Co-Op.

City of Luther

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (P) Certified Budget – Disbursements for the year ended June 30, 2017 were not classified by function. Therefore, we were unable to determine if the actual disbursements exceeded the budgeted amounts by function. Although the monthly City Clerk’s reports to the City Council included budgeted amounts and the amount unexpended, we were unable to determine the accuracy of the unexpended by function.

Recommendation – Disbursements should be recorded and classified by function to facilitate the proper recording of disbursements and monitoring of the budget.

- (Q) Reconciling Collections to Billings – The City has not established procedures to reconcile amounts collected for City Hall rent to the amounts billed.

Recommendation – The City should establish procedures to reconcile City Hall rent collections to amounts billed.

- (R) Visa Prepaid Gift Card – The City has a prepaid gift card that is used by city employees for small purchases for City business.

Recommendation – The City Council should prohibit the use of gift cards for City purchases. The City should establish a petty cash fund approved by resolution of the City Council. Gift 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 gift card or debit card.

City of Luther

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager  
Brett S. Gillen, CPA, Assistant Auditor  
Nicholas A. Kruse, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director