



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

Rob Sand  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

November 8, 2019

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Lytton, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations, not tracking the use of local option sales tax proceeds, a deficit balance in the Enterprise, Garbage Fund, disbursements exceeding budgeted amounts prior to amendment, the lack of surety bond coverage, use of improper utility rates and incorrect coding of receipts. Sand provided the City with recommendations to address each of the findings.

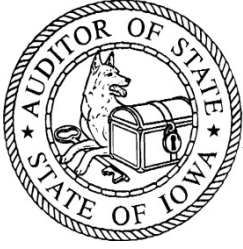
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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**CITY OF LYTTON**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2018 THROUGH JUNE 30, 2019**

**City of Lytton**



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October 14, 2019

Officials of the City of Lytton  
Lytton, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Lytton, Iowa, for the year ended June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Lytton throughout the agreed-upon procedures 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, appearing to read "Rob Sand".

Rob Sand  
Auditor of State

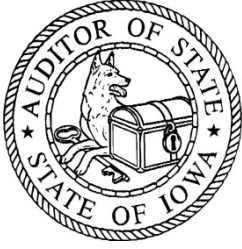
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**City of Lytton**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Jeff Ellerbrock	Mayor	Jan 2018	Jan 2020
Sara Casey	Council Member	Jan 2018	Jan 2020
Larry Coon	Council Member	Jan 2018	Jan 2020
Nicholas Albright	Council Member	Jan 2018	Jan 2020
Jeff Townsend	Council Member	Jan 2018	Jan 2020
Paul Toms	Council Member	Jan 2018	Jan 2020
Julie Haberstroh	City Clerk/Treasurer		Indefinite
George C. Blazek	Attorney		Indefinite



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Rob Sand  
Auditor of State

Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Lytton for the period July 1, 2018 through June 30, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Lytton'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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

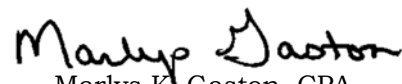
9. The City has no debt.
10. The City has no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City has no voter approved levies.
13. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting 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.
14. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers are proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 findings and 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 Lytton 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.

  
Marlys K. Gaston, CPA  
Deputy Auditor of State

October 14, 2019



## **Detailed Findings and Recommendations**

City of Lytton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. 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) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Journal entries – preparing and recording.

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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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.

(C) 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...”. While the combined disbursements of the community and economic development and general government functions reported in the AFR agreed to the City’s general ledger, the details and totals of each function did not agree to the City’s records.

Recommendation – The City should establish procedures to ensure future Annual Financial Reports agree with the City’s records.

City of Lytton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (D) Local Options Sales Tax – The City’s local option sales tax (LOST) ballot requires 100% of LOST receipts to be allocated for necessary capital improvement projects. During the year ended June 30, 2019, the City transferred \$10,000 of LOST receipts to the General Fund with no specific documentation to support the use of the funds was in accordance with the LOST ballot.

Recommendation – The City should implement procedures to properly track the use of LOST receipts to demonstrate compliance with the LOST ballot. Because the City is unable to specifically document the use of the funds was in accordance with the LOST ballot, the City should make a \$10,000 corrective transfer from the General Fund to the Special Revenue, LOST Fund.

- (E) Transfers – For the year ended June 30, 2019, transfers in did not agree to transfers out by \$2,000. The City did not record both sides of one transfer to the proper account code. In addition, one transfer for \$16,631 was incorrectly recorded as a receipt in the Enterprise, Sewer Fund and a disbursement in the Enterprise, Water Fund, rather than as a transfer.

Recommendation – Interfund transfers should be balanced monthly to ensure transfers in agree to transfers out and transfers should be reviewed to ensure they are posted to the proper account codes.

- (F) Investment Records – An accounting record/register is not maintained for each investment.

Recommendation – An accounting record/register for each investment including the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained

- (G) Financial Condition – The Enterprise, Garbage Fund had a deficit balance of \$1,612 at June 30, 2019.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial condition.

- (H) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public works and community and economic development functions prior to the budget amendment. 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 as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (I) 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 obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

City of Lytton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (J) Utility Rates – Recently adjusted garbage utility rates were entered into the computer system before the ordinance effective date of July 1, 2019 causing customers to be billed a higher rate for one month. Additionally, the City was unable to locate the prior garbage utility rate ordinance.

Recommendation – The City should ensure garbage utility rates are billed according to the garbage utility rate ordinance. An independent person should review the rates entered into the computer system to ensure they are accurate and agree to the current garbage utility rate ordinance. The City should retain utility rate ordinances.

- (K) Recording Receipts – Interest earned on the cash balance in the Special Revenue, Local Option Sales Tax Fund was recorded as intergovernmental receipts rather than as use of money and property.

Recommendation – The City should establish procedures to ensure receipts are properly recorded.

City of Lytton

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy  
Brian R. Brustkern, CPA, Manager  
Taylor I. Cook, Senior Auditor  
AFM Tahsinuzzaman, Intern Auditor