



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

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NEWS RELEASE

Contact: Pam Bormann
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FOR RELEASE

May 8, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Lynnville, Iowa, for the period July 1, 2022 through June 30, 2023. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported fifteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, separately maintained records, the lack of utility reconciliations and disbursements exceeding budgeted amounts. 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 website at [Audit Reports – Auditor of State](#).

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CITY OF LYNNVILLE

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023**

City of Lynnville



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April 15, 2024

Officials of the City of Lynnville
Lynnville, 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 Lynnville, Iowa, for the period July 1, 2022 through June 30, 2023. 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 Lynnville 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 that reads "Rob Sand".

Rob Sand
Auditor of State

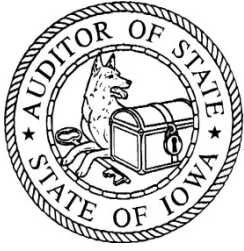
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City of Lynnville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Roy James	Mayor	Jan 2020	Jan 2024
Kevin Arment	Council Member	Jan 2020	Jan 2024
Mark Newberg	Council Member	Jan 2020	Jan 2024
Terry Fraker	Council Member	Jan 2022	Jan 2026
Mark Lageveen	Council Member	Jan 2022	Jan 2026
Bev Van Maanen	Council Member	Jan 2022	Jan 2026
Bev Arthur	City Clerk/Treasurer		Indefinite
Dustin Hite	Attorney		Indefinite



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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 Lynnville for the period July 1, 2022 through June 30, 2023, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Lynnville'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 City of Lynnville's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, 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 may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

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, journal entries 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 2022 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. We scanned 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. The City had no TIF.
11. We traced selected receipts for accurate accounting and consistency with the recommended COA.
12. The City had 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 to determine whether transfers were 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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Lynnville's management to perform this agreed-upon procedures engagement and conducted our engagement 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. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Lynnville and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 Lynnville 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.



Pam Bormann, CPA
Director

April 15, 2024

Detailed Findings and Recommendations

City of Lynnville

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

(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) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Debt – recordkeeping, compliance and debt payment processing.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Financial reporting – preparing and reconciling.
- (8) Accounting system – performing all general accounting functions, including journal entries and having custody of City assets.

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, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the 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.

City of Lynnville

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (B) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property."

The City Fire Department maintains a bank account for activity separate from the City Clerk's accounting records. While this Department is part of the City, the transactions and resulting balance of this account were not included in the City Clerk's accounting records, the City's annual budget or the Annual Financial Report. In addition, the transactions and resulting balance of this account was not reported to the City Council and disbursements from the account were not reviewed and approved by the City Council. Also, a summary of the receipts, total disbursements and the listing of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the City Fire Department's separate account should be integrated with the City's accounting records in the City Clerk's office. The financial activity should be included in the City Clerk's accounting records, monthly financial reports and the Annual Financial Reports. The activity in this account should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of the receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (C) City Fire Department Bank Reconciliations – Monthly bank reconciliation for the City Fire Department's separately maintained records were not prepared timely and were not reviewed by an independent person.

Recommendation – To improve financial accountability and control, monthly reconciliations of the book balances to bank and cash balances should be prepared timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the month reconciliations.

- (D) 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.

- (E) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to include the total disbursements from each City fund and be published in a newspaper of general circulation in the City.

Recommendation – The City should comply with the Code of Iowa and include the total disbursements from each fund in the published meeting minutes.

City of Lynnville

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (F) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amount budgeted in the general government function before the budget was amended. 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.

- (G) Prenumbered Receipts – Prenumbered receipts were not issued for all City or Fire Department collections received.

Recommendation – Prenumbered receipts should be issued for all collections. An independent person should account for the numerical sequence of the prenumbered receipts and compare these collections to the bank deposit and the accounting records, and the evidence of review should be documented with the name or initials of the reviewer and the date of the review.

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

1. Timesheets were not reviewed or approved by supervisory personnel prior to the preparation of payroll.
2. Approval of pay increases in the City Council meeting minutes did not document the new hourly rates for employees.
3. The City has not adopted an ordinance establishing compensation for the Mayor and City Council Members, as required by Chapter 372.13(8) of the Code of Iowa.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to the preparation of payroll. Supervisory review and approval should be evidenced by the supervisor's initials and the date of approval. Actual approved hourly rates should be documented in the City Council meeting minutes. In addition, the City should adopt an ordinance establishing compensation for the Mayor and the City Council as required by the Code of Iowa.

- (I) Disbursements – Four instances were observed which included sales tax of \$41 on purchases made by the City. As a government entity, the City maintains a tax-exempt status. As a result, the City should not incur sales tax.

Recommendation – The City should establish procedures to ensure all payments are reviewed to prevent the payment of sales tax.

City of Lynnville

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (J) Transfers – Section 545-2 of the City Finance Committee Rules requires "A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the funds into which the transfer is to be received, and the dollar amount to be transferred." The transfer resolutions did not include a clear statement of reason or purpose of the transfers.

Recommendation – The City Council should ensure all transfer resolutions approving the fund transfers include a clear statement of reason or purpose for all transfers as required by Section 545-2 of the City Finance Committee Rules.

- (K) Sewer Revenue Bonds – Section seven of the sewer revenue bond resolution requires that rents, rates, and other charges shall be at least sufficient to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond. The Enterprise Fund, Sewer Fund did not meet the net revenue requirement during the year.

Recommendation – The City should review the sewer revenue bond resolution and ensure the required net revenue requirement is met.

- (L) 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, 2022 did not agree to the City's records.

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

- (M) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires 50% of LOST collections be allocated for property tax relief and 50% of LOST collections be allocated for community betterment. The City has not properly tracked the use and unspent balances of LOST collections to demonstrate compliance with the ballot requirements.

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

- (N) City Code of Ordinances – Chapter 380.8 of the Code of Iowa states, in part, "A city shall compile a code of ordinances containing all of the city ordinances in effect, except grade ordinances, bond ordinances, zoning map ordinances, ordinances vacating streets and alleys and ordinances containing legal descriptions of urban revitalization areas and urban renewal areas." The City Code of Ordinances should be compiled at least once every five years. The City Code of Ordinances has not complied within the past five years.

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

City of Lynnville

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (O) 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, Director
Tiffany M. Ainger, CPA, Manager
Micaela A. Tintjer, CPA, Senior Auditor II
Brandon A. Krug, Assistant Auditor