



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Pam Bormann
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FOR RELEASE

October 11, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Larchwood, 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 twenty findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 15 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, no supervisory review of timesheets and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

Three of the findings discussed above are repeated from the prior year. 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 LARCHWOOD
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023

City of Larchwood



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Des Moines, Iowa 50319-0006
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Rob Sand
Auditor of State

July 23, 2024

Officials of the City of Larchwood
Larchwood, 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 Larchwood, 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 Larchwood 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 Larchwood

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dean Snyders	Mayor	Jan 2024
Holly Horstman	Council Member	Jan 2024
Candie Medema	Council Member	Jan 2024
Tanner Tracy	Council Member	Jan 2024
Michael Metzger	Council Member	Jan 2026
Shane Reinke	Council Member	Jan 2026
Sandi DeSmet	City Clerk/Treasurer	Indefinite
Lachlan Murphy Bonander	Attorney	Indefinite

City of Larchwood



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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 Larchwood 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 Larchwood'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 Larchwood'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 were in place and incompatible duties, from a control standpoint, were 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 were properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2023 Annual Financial Report to determine whether it was completed timely 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 observed 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. We scanned 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.
11. We observed 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.
12. We traced selected receipts for accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. 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 Larchwood'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 Larchwood 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 Larchwood 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

July 23, 2024

Detailed Findings and Recommendations

City of Larchwood

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, depositing, reconciling, and recording.
- (2) Investments – investing, recordkeeping, custody 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, entering payroll rates and adding/removing employees from the system.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining accounts receivable.
- (7) Journal entries – preparing and recording.
- (8) Long-term debt – recordkeeping, compliance, debt payment processing and reconciling.
- (9) Compensated absences – maintaining records and balances.
- (10) Financial reporting – preparing and reconciling.

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) Bank Reconciliations – A complete bank reconciliation summarizing all accounts and reconciling to the City's total fund balance was not prepared. For the two months observed, several items listed as outstanding were unsupported and the book balance exceeded the bank balance by \$520 and \$969, respectively.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by the signature or initials of the reviewer and the date of the review of the monthly reconciliations.

City of Larchwood

Detailed Findings and Recommendations

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

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. A delinquent account listing was prepared monthly; however, the listing was not reviewed and approved by an independent person.

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 date of the review.

- (D) Utility Billing Rates and Collections – During our procedures performed, we observed the following items related to utility billings and collections:

- The rate approved by the City Council for electrical service was not properly applied. According to Title II, Chapter 4, Article 11.10 of the City of Larchwood’s Code of Ordinances, the monthly rates for electrical service for residential customers was \$15.00 per month service charge and each kilowatt-hour should be 0.0865 cents per kilowatt-hour. Per observation of City billings, some residential customers were listed as “all electric” and the rate applied was \$15.00 per month service, 0.0865 cents per kilowatt-hour up to one thousand kilowatt-hours, then 0.0765 cents per kilowatt-hour thereafter. This rate for “all electric” was not included in the City ordinance for residential customers.
- The late penalty rate approved by the City Council for solid waste service (1.65%), water service (1.50%) and electrical service (1.50%) was not being properly applied for charges not paid by the twentieth of the month following the due date.
- For two of five collections observed, we were unable to trace the auto payment applied to the account to the subsequent bank deposit.

Recommendation – The City should establish policies and procedures to ensure correct rates, as specified in the City ordinance, are applied to all customers, including the assessment of required penalties. These rates should be entered into the system, reviewed and approved by an independent reviewer, with their signature or initials and dates documented for verification. Additionally, the City should implement policies and procedures to track auto payments for utility billings, maintaining detailed records which clearly link each auto payment to the corresponding bank deposit. Regular reconciliations should be performed to ensure all payments are accurately accounted for, with any discrepancies investigated and resolved promptly.

- (E) Payroll – There was no evidence all timesheets were reviewed by supervisory personnel prior to preparation of payroll. The Mayor signs only the top timesheet of the packet.

Recommendation – The City should establish procedures to ensure all timesheets are reviewed and approved by supervisory personnel prior to the preparation of payroll. The review should be indicated by the supervisor’s signature or initials and date on all timesheets.

City of Larchwood

Detailed Findings and Recommendations

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

- (F) Mayor and City Council Compensation – Chapter 372.13(8) of the Code of Iowa states in part, “By ordinance, the council shall prescribe the compensation of the mayor, council members, and the other elected city officers...” The Mayor and City Council member compensation was originally approved by City ordinance at \$400 per month and \$75 per meeting, respectively. In addition, the Mayor was approved \$75 per special or additional meetings attended.

During the year ended June 30, 2023, the compensation for the Mayor and City Council members was established by resolution, not by ordinance as required by Chapter 372.13(8) of the Code of Iowa. The City Council members compensation was established at \$100 per hour and the Mayor at \$500 per month and \$100 per extra meeting.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for current and past, if any, amounts paid to the Mayor and City Council members in excess of approved amounts.

- (G) Appointed City Officers and Employees Compensation – Title I, Chapter 3, Article 8.01(6) of the City Code of Ordinances states in part, "By resolution the council shall prescribe the compensation of appointed city officers and employees." The following items were observed:

- The City Council approved compensation for all part-time employees by resolution on May 8, 2023; however, the measure was subsequently vetoed by the Mayor on May 22, 2023. No additional resolution to increase employee compensation was approved after the veto. City officials discussed salary increases, but no formal resolution was included. Employees began receiving the amounts from the original resolution starting from the first pay period after May 22, 2023. As a result, all part-time employees, excluding the City Clerk and summer employees, were paid a rate higher than the last official resolution approved by the City Council.
- For the year ended June 30, 2023, the City Clerk's salary was approved by the City Council, through a resolution, at an hourly rate of \$26.50 per hour. However, the City Clerk received \$75 per City Council Meeting instead of the approved hourly rate.
- On December 12, 2022, the City Council, through motion only, approved, “Christmas bonuses for all City employees and City appointed boards.” The bonuses were in the form of \$50 per person “Larchwood bucks” certificates, which could be used at participating establishments within the City of Larchwood. In addition, the bonuses were not processed as payroll in the accounting system and related payroll withholdings were not deducted from the additional compensation.
- One of five employees observed was paid at a higher than approved payroll rate due to a salary resolution being made during the pay period. This new salary rate was applied for the entire pay period instead of the portion of hours worked after the salary resolution was approved.

Recommendation – The City should consult legal counsel to determine the disposition of these matters.

City of Larchwood

Detailed Findings and Recommendations

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

- (H) Compensatory Time – Compensatory time (comp time) refers to the practice of providing time off in lieu of overtime pay for hours worked beyond the standard workweek. The City Clerk was utilizing comp time; however, the City did not have an established policy governing the accrual and usage of comp time. Additionally, there was no system in place to accurately track, review, and approve the comp time balance for the City Clerk.

Recommendation – The City should establish a formal comp time policy which clearly defines the accrual, usage and approval process for comp time. A system should be put in place to accurately track comp time balances. Regular reviews and approvals should be conducted by appropriate supervisory personnel to ensure compliance with the policy.

- (I) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the general government function 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 in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (J) 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 to the City, and all expenditures...” The following items were observed for the City’s fiscal year 2023 AFR:

- Total receipts were understated for the proprietary funds by \$292, compared to City records.
- The ending fund balances for the Debt Service Fund was understated by \$966 and the Proprietary Funds were understated by \$15,025 compared to City records.
- The City allocates the Library appropriation by writing a check from the main City checking account to the City Library bank account. The disbursement and subsequent receipt is recorded in the General Fund, overstating both receipts and disbursements on the Annual Financial Report by \$61,595.

Recommendation – The City should establish procedures to ensure amounts reported on the AFR reconciles to City records. An independent person should review the AFR for accuracy and document the review by the signature or initials of the reviewer and the date of the review.

- (K) Journal Entries – Journal entries were not properly supported and were not reviewed and approved by an independent person.

Recommendation – Supporting documentation should be maintained for all journal entries. Journal entries should be reviewed by someone independent of the journal entry process, and the review should be documented with the signature or initials of the reviewer and date of the review.

City of Larchwood

Detailed Findings and Recommendations

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

- (L) Interfund 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 the reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred.” The transfers approved by resolution did not include the purpose of each transfer.

Recommendation – The City Council should ensure all transfer resolutions include the information required by Section 545-2 of the City Finance Committee Rules.

- (M) Tax Increment Financing Certification – The City certified the purchase of land for additional parking next to the softball field. The City did not maintain documentation on how the purchase was allowable under Chapter 403 of the Code of Iowa. In addition, the purchase was made from the Special Revenue, Tax Increment Financing (TIF) Fund.

Chapters 403.19(10)(b) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable LMI assistance. These costs do not represent TIF obligations and accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should consult TIF legal counsel to document whether amounts certified as TIF were determined to be in compliance with Chapter 403 of the Iowa Code. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund or other fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collections of TIF receipts and reimbursement to the specified fund to repay the advance. If disbursements are not for a qualified TIF project, the City should decertify the amount certified for the purchase of land and reimburse the TIF Fund.

- (N) Excess Balance – Chapter 403.19 of the Code of Iowa allows the City to certify indebtedness and then provide for the division of property tax to repay the certified indebtedness in subsequent fiscal years. Chapter 403.19 of the Code of Iowa does not allow the City to set aside/advance property tax divided for tax increment purposes for current or future urban renewal projects. At June 30, 2023, the Special Revenue, Urban Renewal Tax Increment Financing Fund has a fund balance of \$608,817. TIF collections are in excess of the TIF debt certified and the balance is considered excessive. If an excess balance in the TIF fund exists, Chapter 24.21 of the Code of Iowa requires the excess balance be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the excess balance in the Special Revenue, Urban Renewal Tax Increment Financing Fund. If the City has no further tax increment financing debt, the balance should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa.

- (O) Debit Card – The City has a debit card available for use by City employees; therefore, there is no process for prior approval of purchases made with a debit card.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. The function of a debit card is to provide immediate access to the City funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions.

City of Larchwood

Detailed Findings and Recommendations

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

- (P) Credit Card and Charge Accounts Policy – The City has credit cards and charge accounts for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards or charge accounts and to establish procedures for the proper accounting of credit card charges or charge accounts.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards and charge accounts. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and charge accounts and for what purposes, as well as the types of supporting documentation required to substantiate charges. Additionally, all charges on City credit cards and charge accounts should be supported by an original receipt or invoice.

- (Q) Change Funds – The City maintains three change funds, one at City hall and two at the Library. The change funds and authorized amounts for each were not approved by City Council. The change funds are not maintained on an imprest basis. An imprest system is one which the change fund is maintained at a fixed, authorized amount.

Recommendation – The City should authorize an approved amount for the change funds by resolution and maintain the balances when preparing daily or weekly deposits. Change funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

- (R) Disbursements – We observed thirty disbursements and noted the following:

- Receipts or other supporting documentation was not retained to support one disbursement.
- One instance of sales tax totaling \$413 was paid. As a government entity, the City maintains a tax-exempt status. As a result, the City should not incur sales tax.
- Under the City Uniform Chart of Accounts, City disbursements should be coded to the respective fund/function which the disbursement most accurately relates to. For two of thirty transactions observed, \$1,666 of General Fund disbursements were improperly reported as Special Revenue, Road Use Tax Fund disbursements. In addition, for one of thirty transactions observed, \$185 of General Fund disbursements were improperly reported as Enterprise, Water Fund disbursements.

The City has adopted a written disbursement policy to allow payment of certain bills prior to City Council approval; however, the City policy allows for unfixed charges to be authorized for payment without prior approval of the Council. The City Council approves by motion a list of all claims to be paid monthly; however, the approval was done after the disbursements were made.

Recommendation – The City should establish procedures to ensure all disbursements are properly supported by original vendor invoices or receipts or other supporting documentation. In addition, the City should establish procedures to ensure all payments are reviewed to prevent the payment of sales tax.

The City should establish procedures to ensure disbursements are correctly coded to the appropriate fund/function according to the Uniform Chart of Accounts. In addition, the City should make corrective transfers of \$1,666 from the General Fund to the Special Revenue, Road Use Tax Fund and \$185 from the General Fund to the Enterprise, Water Fund for the disbursements paid from the incorrect fund.

City of Larchwood

Detailed Findings and Recommendations

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

The City should review the written disbursement policy. If conditions are not met in the policy, all disbursements should be approved by the City Council prior to disbursement. If the conditions are met, all disbursements should be approved by the City Council prior to disbursement, with the exception of those specifically allowed by the policy. Bills paid prior to approval should be submitted to the City Council for review and approval at its next meeting following payment. The action of the City Council should be recorded in the minutes of the City Council.

- (S) General Obligation Debt – Principal and interest on the City’s general obligation capital loan note, Series 2021 was paid from the Capital Projects 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 Capital Projects Fund to the Debt Service Fund for future funding contributions, if any. Payments on the notes should be made from the Debt Service Fund, as required.

- (T) Monthly City Clerk’s Report – As part of the packet the City Clerk provides to the City Council monthly, the City Clerk manually prepares a Treasurer’s Report which includes beginning balances, receipts, disbursements and ending balances. The City Council reviews and approves the manually prepared Treasurer’s Report. We observed the September 2022 report and noted activity reported did not agree with the Treasurer’s Report generated from the City’s accounting system for the same time period.

Recommendation – The City should establish procedures to ensure monthly Treasurer’s Reports presented to the City Council are accurate and are supported and agree with the City’s accounting system.

City of Larchwood

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Lesley R. Geary, CPA, Manager
Jamie T. Reuter, Senior II Auditor
Ronica H. Drury, Staff Auditor