

**CITY OF LARCHWOOD  
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT  
FOR THE PERIOD  
JULY 1, 2012 THROUGH JUNE 30, 2013**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Examination Report	4 – 5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Chart of Accounts	B 7
Deposits and Investments	C 7
City Council Minutes	D 7
Certified Budget	E 8
Business Transactions	F 8
Payment of General Obligation Bonds	G 8
Tax Increment Financing	H 8
Utility Delinquent Accounts	I 8
Electronic Check Retention	J 9

**City of Larchwood**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dean Snyders	Mayor	Jan 2014
Josh Feucht	Council Member	Jan 2014
Mike Metzger	Council Member	Jan 2014
Ted Underberg	Council Member	Jan 2016
Brian Meffert	Council Member	Jan 2016
Sharon Meffert	Council Member	Jan 2016
Sandi DeSmet	Clerk/Treasurer	Indefinite
Lachlan Murphy Bonander	Attorney	Indefinite

Paul T. East, CPA  
Paul W. Vander Woude, CPA  
Rose M. Grant, CPA, MST

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**Independent Accountant's Examination Report**

To the Honorable Mayor  
and Members of City  
Council:

We have performed an examination of the City of Larchwood pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Larchwood for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

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 security 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 (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2012 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. 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.
8. We reviewed 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.
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 CFC recommended chart of accounts.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts 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 audit of the operations of the City of Larchwood, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Larchwood, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Larchwood and other parties to whom the City of Larchwood may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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 examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*East, Vander Woude, Grant & Co., P.C.*

East, Vander Woude, Grant & Co., P.C.  
Certified Public Accountants  
Sioux Falls, SD  
December 17, 2013

## Detailed Recommendations

City of Larchwood  
Detailed Recommendations  
For the period July 1, 2012 through June 30, 2013

- (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, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

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 evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (CFC) on September 25, 2002.

Recommendation – Since the CFC Uniform Chart of Accounts does not use Fund 002 for the Library the City needs to determine what Fund number should be used.

- (C) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. A resolution naming official depositories was adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa in 2009.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should determine if the amounts in the 2009 resolution naming the official depositories is sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (D) City Council 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. Minutes for one of the meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required.

City of Larchwood  
Detailed Recommendations  
For the period July 1, 2012 through June 30, 2013

- (E) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety functions. 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.

- (F) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Josh Feucht, City Council Member, owner of Feucht’s Custom Cabinets	Built shelf in Gym, Cabinets and Council Table in the City Hall	\$ 5,365 00
Brian Meffert, City Council Member, employee of DRG Mechanical	Parts, equipment and supplies	\$ 6,414 17

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

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

- (G) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation sanitary sewer bonds were paid from the Enterprise, Sewer 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 Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

- (H) Tax Increment Financing – Chapter 384.22 of the Code of Iowa requires the tax increment financing (TIF) transactions to be accurately recorded. The Annual Urban Renewal Report beginning cash balance at July 1, 2012 does not match the cash balance on the trial balance, also the TIF revenue does not match the trial balance but does match the amount that Lyon County Treasurer collected for the City.

Recommendation – The City Council should review the report and compare with the trial balance and County collections.

- (I) Utility Delinquent Accounts – In reviewing the list of delinquent accounts for City officials and employees it was noted that the City Clerk was on the list.

Recommendation – The City Council needs to monitor this delinquent account.

City of Larchwood  
Detailed Recommendations  
For the period July 1, 2012 through June 30, 2013

- (J) 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 for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.