

City of Lovilia

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

For the period July 1, 2016 through June 30, 2017

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**City of Lovilia, Iowa
OFFICIALS**

Name	Title	Term began	Term expires
Pat Gilbert	Mayor	January 2014	December 2017
Brian Brown	Council Member	January 2014	December 2017
Sadie Dykstra	Council Member	January 2016	December 2019
Josh Pettyjohn	Council Member	November 2015	December 2017
Karrie Hutchinson	Council Member	January 2016	December 2019
Jess Hutchinson	Council Member	January 2016	December 2019
Patti DeGross	City Clerk		Indefinite

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Honorable Mayor and
Members of the City Council
Lovilia, Iowa

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 Lovilia (the City) for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City'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 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 reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
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 Lovilia during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 3, 2017

DETAILED RECOMMENDATIONS

City of Lovilia
DETAILED RECOMMENDATIONS
For the period July 1, 2016 through June 30, 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. Investing – recordkeeping and custody of investments.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Utilities – billing, collecting, depositing, entering and approving rates in the system, and maintaining detailed accounts receivable and write-off records.
5. Debt – recordkeeping and debt payment processing.
6. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
7. Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.

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. CITY COUNCIL MINUTES

Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to be published, or, in the case of cities with a population less than two hundred, posted in three officially designated public places, within fifteen days of the meeting. The City posts minutes of Council meetings in three public places. However, given the size of the City, the Code of Iowa requires the City to publish its meeting minutes in a local newspaper.

Recommendation

The City should comply with the Code of Iowa and publish its minutes in a local newspaper.

C. BANK RECONCILIATIONS

Although monthly bank reconciliations were prepared for individual accounts, there was no evidence of an independent review of the reconciliations.

Recommendation

Monthly reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

City of Lovilia
DETAILED RECOMMENDATIONS (continued)
For the period July 1, 2016 through June 30, 2017

D. GENERAL OBLIGATION BONDS

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." The City paid some of the general obligation debt from a fund other than the Debt Service Fund.

Recommendation

In the future, the City should transfer funds to the Debt Service Fund to pay general obligation debt.

E. ANNUAL FINANCIAL REPORT

The City's Fiscal 2017 Annual Financial Report has understated outstanding debt balances by \$23,448.

Recommendation

The City's debt obligations should be reported on the Annual Financial Report.

F. SEPARATELY MAINTAINED RECORDS

The City has a volunteer fire department fund and cemetery fund, both of which are not adequately reconciled or supervised by the Council or City Clerk, nor do they get included in the City's accounting records.

Recommendation

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." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

G. RECONCILIATION OF UTILITY BILLINGS, COLLECTIONS AND DELINQUENT ACCOUNTS

Reconciliations of utility billings, collections and delinquent accounts were not retained. The reconciliations were not reviewed 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 of the reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

H. PAYROLL

Timesheets did not include evidence of supervisory review. Additionally, the timesheets are not signed by the employees.

Recommendation

All timesheets should be signed by the employee, and should be reviewed and approved by supervisory personnel prior to processing payroll.

City of Lovilia
DETAILED RECOMMENDATIONS (continued)
For the period July 1, 2016 through June 30, 2017

I. CERTIFIED BUDGET

Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public works, general government, and business-type 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.