

**CITY OF DIAGONAL**  
**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 Diagonal**

### **Officials**

<u>Name</u>	<u>Title</u>	Term <u>Began</u>	Term <u>Expires</u>
Lowell Johnson	Mayor	1/1/2016	1/1/2018
Doug Ruby	Council Member	1/1/2016	1/1/2020
John William Egly	Council Member	1/1/2014	1/1/2018
Lester Elliott	Council Member	1/1/2014	1/1/2018
Jim Norris	Council Member	1/1/2016	1/1/2020
Shon O'Kelley	Council Member	1/1/2016	1/1/2020
Julie Malcom	City Clerk		Indefinite

## **City of Diagonal**

**Independent Accountant's Report on Applying Agreed-Upon Procedures**

To the Honorable Mayor and Members of the City Council:

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 Diagonal 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 of Diagonal's management, which agreed to the performance of the procedures performed, is responsible 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 2016 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 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.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 Diagonal 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.

*Community CPA*

Community CPA & Associates Inc.

September 30, 2017

## **Detailed Recommendations**

City of Diagonal  
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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - 3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
  - 4) Payroll – recordkeeping, preparing and distributing.
  - 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 recommended Unified Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on July 8, 2015 as transactions are not codified in accordance to the Unified Chart of Accounts.

Recommendation – The City should follow the COA approved by the City Finance Committee for better financial information and control.

- (C) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual. Also, the City does not have an organizational chart that clearly identifies roles and reporting channels within the City.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- 1) Aid in training additional or replacement staff.
- 2) Help achieve uniformity in accounting and in the application of policies and procedures.
- 3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises; and
- 4) Ensure that detailed records and journal entries are reviewed and approved by a qualified City official.
- 5) The City should develop and maintain an organizational chart showing roles and reporting channels within the City.

- (D) Investments – The City has not adopted a written investment policy as required by Iowa Code section 12B.10B. In addition, resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

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

- (E) Accounting/Register for Investments – There is no accounting record or register for investments, including cost, description, date purchased, interest rate, maturity date and identifying number as recommended. Also, investments balances are not reconciled, corrected and presented to the City Council periodically.

Recommendation – A register should be maintained for all investments showing the cost, the description, the date the investment is purchased, the interest rate, maturity date and identifying number. They should be properly accounted for in the underlying accounting software and reported in the Annual Financial reports. Also, they should be monitored on a monthly basis by obtaining statements from the bank, recording interests received and reconciling the bank balance per statement to underlying accounting records. The investments balance should form part of the Clerk's Report presented to the City Council on a monthly basis.

- (F) Bank Reconciliation Statements – Bank reconciliation statements are prepared on a monthly basis. However, they are not systematically reviewed and signed off by an independent qualified City official separate from the preparer.

Recommendation – Bank reconciliation statements should be systematically reviewed by an independent qualified City official separate from the preparer. This review should be materialized by a signature and date of review.

- (G) Payroll – We reviewed payroll and noted that although the City reviews payroll annually, salary increases are approved in percentages only.

Recommendation – Increases in staff payroll should be in percentage and dollar amounts.

- (H) City Clerk's Reports – In addition to its underlying accounting maintained in QuickBooks, the City also maintains Clerk's Reports for the General and Utilities Funds showing opening balances, receipts, disbursements, inter-fund transfers and closing balances by fund. However, it does not have Clerk's Report for activities related to the Fogle bank account and also does not have a combined report for all funds showing the total balance for all funds. In addition, disbursements are not systematically compared to the budget by function. These do not allow for conscious decision-making over opening balances, receipts, disbursements, inter-fund balances, and ending balances by fund and in total for all funds.

Recommendation – A City Clerk's Report should be prepared monthly showing receipts, disbursements, transfers and balances for each fund and in total. It should also show the comparison between actual disbursements to the budget by function. Total fund balance for all funds should reconcile to the City's bank reconciliation. The City Clerk's report should be presented to the City Council on a monthly basis.

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- (I) Long-term Debt – We noted the following balances in the City’s General Ledger relating to debts that had long been redeemed. These include:

- 1) A Sewer loan balance of \$37,000.00 which according to the City was paid off on June 16, 2016.
- 2) A Street loan of \$7,159.00 which according to the City was paid off on June 14, 2016.
- 3) An internal loan balance of \$8,005.00 from the Fogle fund related to Snow Plow that according to the City had been forgiven by the Fogle Lake Board.

Recommendation – The General Ledgers should be reconciled and cleared of any transactions or balances that are not supported. The City should implement adequate review procedures over financial reports to ensure they are prepared and reported accurately.

- (J) Long-term Debt Procedures – The City does not have written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Federal Internal Revenue Service Rules.

Recommendation – The City should maintain written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Federal Internal Revenue Service Rules.

- (K) Reconciliation of Annual Financial Report –We identified the following differences between the Annual Financial Report (AFR) and the General Ledger (GL) and at June 30, 2016:

	Per AFR (\$)	Per GL (\$)	Difference (\$)
Receipts	341,423.00	341,410.00	13.00
Disbursements	293,087.00	283,948.00	9,139.00

Recommendation – Financial reporting should be accurately presented. Accounting and Annual Financial Reports should be systematically reviewed and approved by an independent qualified City official separate from the preparer. Errors and misstatements in underlying financial reports and the Annual Financial Reports should be investigated and corrected.

- (L) Surety Bond for City Officials - There is a surety bond for City officials. However, the bond has not been reviewed since 1997. Chapter 64.1A and 64.2 of the Code of Iowa requires adequate bonding of public officials including the City Mayor and Clerk.

Recommendation –The City should revisit its surety bonds to ensure adequate coverage in compliance with Chapters 64.1A and 64.2 of the code of Iowa on bonding of public officials.

- (M) 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.

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