



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

February 24, 2011

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an agreed upon procedures report on the City of Lohrville, Iowa for the period December 1, 2008 through October 31, 2010. The agreed upon procedures were performed at the request of the City Council.

Vaudt recommended the City establish segregation of duties over cash, receipts and the City's accounting system. Vaudt also recommended the City establish procedures to perform bank reconciliations at the end of each month, to reconcile utility billings, collections and delinquencies each month and to investigate and resolve variances in a timely manner. The City's responses are included in the report.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1022-0107-BC00.pdf>.

###

CITY OF LOHRVILLE

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

**FOR THE PERIOD
DECEMBER 1, 2008 THROUGH OCTOBER 31, 2010**

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant’s Report on Applying Agreed Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Bank Reconciliations	B 8
Reconciliation of Utility Billings, Collections and Delinquencies	C 9
Separately Maintained Records	D 9
Employee Health Insurance	E 9
Local Option Sales Tax	F 10
Information System	G 10
Financial Reporting	H 10-11
Staff	12

City of Lohrville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Michael Hardy	Mayor	Jan 2012
Tami Kinney	Council Member	Jan 2010
Chris Kavanaugh	Council Member	Jan 2010
Craig Cunningham	Council Member	Jan 2012
Donald Hobbs	Council Member	Jan 2012
Roger Christensen	Council Member	Jan 2012
Suzanne Thompson	Clerk	Indefinite
Ray Snook	Attorney	Indefinite
(After January 2010)		
Michael Hardy	Mayor	(Resigned Mar 2010)
Donald Hobbs (Appointed)	Mayor	Nov 2010
Craig Cunningham	Council Member	Jan 2012
Donald Hobbs	Council Member	(Resigned Mar 2010)
Denise Brobst (Appointed)	Council Member	Nov 2010
Roger Christensen	Council Member	Jan 2012
Tami Kinney	Council Member	Jan 2014
Chris Kavanaugh	Council Member	Jan 2014
Suzanne Thompson	Clerk	(Resigned Apr 2010)
Therese Berning (Appointed)	Clerk	Indefinite
Ray Snook	Attorney	Indefinite

City of Lohrville



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Accountant's Report on Applying Agreed Upon Procedures

To the Honorable Mayor and
Members of the City Council:

We have performed the following procedures, which were agreed to by the City of Lohrville, solely to assist you in evaluating the operations of the City for the period December 1, 2008 through October 31, 2010. The City of Lohrville's management is responsible for the operating practices and procedures followed by the City. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this 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 as follows:

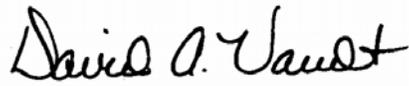
1. Reviewed City records for completeness and proper record keeping.
2. Reviewed and assisted with reconciliations of financial reports to City records.
3. Provided recommendations to improve record keeping.
4. Other procedures as appropriate.

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 of the operations of the City of Lohrville, the objective of which would be the expression of an opinion on the financial statements of the City of Lohrville. Accordingly, we do not express such an opinion. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Lohrville, other 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 Lohrville and other parties to whom the City of Lohrville 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 assistance extended to us by personnel of the City of Lohrville. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 8, 2010

Detailed Recommendations

City of Lohrville

Detailed Recommendations

December 1, 2008 through October 31, 2010

(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. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual has control over each of the following areas with no compensating controls:

- (1) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (3) Accounting system – performing all general accounting functions and having custody of assets.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of various reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – We will consider this and do what is possible with our limited staff.

Conclusion – Response accepted.

(B) Bank Reconciliations – The City prepares monthly bank reconciliations. However, the bank reconciliations are not prepared as of the last day of the month and the bank reconciliations do not reconcile to the fund balances reported in the monthly Treasurer's Report. As of October 31, 2010, total fund balances were \$30,061 more than the bank account balances.

Recommendation – To improve financial accountability and control, the City's fund balances should be reconciled with bank balances monthly as of the last day of the month. The reconciliation should be documented and retained. Any variances should be investigated and resolved in a timely manner. The reconciliation should be reviewed by an independent individual for propriety. Also, the City should resolve the variance between the monthly bank reconciliations and the monthly Treasurer's Report of fund balances.

Response – Bank reconciliation will be done as of the last day of the month. The Mayor will review the reconciliation. Council approved adjustments for the unknown variance of the fund balances and the adjustments have been completed. The fund balances have been reconciled with the bank balance.

Conclusion – Response accepted.

City of Lohrville

Detailed Recommendations

December 1, 2008 through October 31, 2010

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled each month.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month. The City Council should review the reconciliations and monitor delinquencies.

Response – The Clerk will implement the procedure of reconciling the utility billings, collections and delinquencies each month.

Conclusion – Response acknowledged. However, the City Council should also review the reconciliations and monitor delinquencies.

- (D) Separately Maintained Records – The City maintains separate bank accounts for the fire department, ambulance, EMT building and library. The financial transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget or monthly and year-end financial reports.

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, annual budget and monthly and year-end financial reports and should be reported to the Council on a monthly basis.

Response – The Clerk is currently working on getting all financials up to date and to enter all of the information into the City's current accounting software system.

Conclusion – Response accepted.

- (E) Employee Health Insurance – The City provides health insurance to employees. However, the City paid the prior City Clerk \$566 for health insurance which was not included on the prior City Clerk's IRS Form W-2.

Recommendation – Payments to employees for health insurance are required to be included on the employee's IRS Form W-2.

Response – The City currently is paying health insurance through the payroll system and all applicable taxes are being taken out, as well as the income is being reported to the IRS.

Conclusion – Response acknowledged. However, the City should contact the IRS to determine how to resolve this issue.

City of Lohrville

Detailed Recommendations

December 1, 2008 through October 31, 2010

- (F) Local Option Sales Tax – All local option sales tax (LOST) receipts are recorded in the Special Revenue, LOST Fund. The ballot for the LOST requires the receipts to be used as follows: 90% for water, sanitation and sewer maintenance and repair and 10% for streets.

Recommendation – A record should be maintained to document the collection, disbursement and balance of LOST collections. Disbursement of the LOST collections should be properly identified to document compliance with referendum provisions.

Response – In accordance with the approval of the City Council, the City Clerk has transferred the 10% portion for Streets to the Special Revenue, Road Use Tax Fund and will make appropriate accounting for the other 90% for water, sanitation and sewer maintenance.

Conclusion – Response accepted.

- (G) Information System – The following weaknesses in the City’s information system were noted:

The City does not have written policies for:

- (1) Requiring the maintenance of password privacy and confidentiality.
- (2) Requiring passwords to be changed at least every 60 to 90 days.
- (3) Requiring password history to be maintained to prevent employees from using the same password.
- (4) Usage of the internet.
- (5) Anti-virus software.
- (6) Requiring backups to be performed daily and stored off site.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based financial information systems. Also, a written disaster recovery plan should be developed and tested periodically.

Response – The Clerk will work on getting written policies in place.

Conclusion – Response accepted.

- (H) Financial Reporting – We identified material amounts of adjustments and corrections needed to the City’s financial statements, as follows:

- (1) The Library JJ Hands Trust is not reported in the Treasurer’s Report and is reported in the Bank Cash Report in the General Fund for \$52,068.

City of Lohrville

Detailed Recommendations

December 1, 2008 through October 31, 2010

The balance at October 25, 2010 was \$81,213. Also, the bank statements are not cut off on the last day of the month.

- (2) The General Fund included disbursements of \$74,482 for the housing rehab grant. However, the related reimbursements for the grant were recorded in the Special Revenue, Housing Rehab Fund.
- (3) Disbursements of \$1,975 for the I-JOBS grant were made from the Special Revenue, Road Use Tax Fund. However, the reimbursement for the grant was recorded in the Special Revenue, I-JOBS Fund.
- (4) The Enterprise, Water Sinking Fund has a deficit fund balance of \$51,441. Water revenue bond debt payments were appropriately paid from the Enterprise, Water Sinking Fund. However, the City did not make monthly transfers from the Enterprise, Water Fund to the Enterprise, Water Sinking Fund as required by the revenue bond resolution.

Recommendation – The City should make corrections to the City’s financial statements as follows:

- (1) The City should report the Library JJ Hands Trust in a special revenue fund for the correct dollar amount and should request bank statements which cut off on the last day of the month.
- (2) The City should transfer the grant reimbursements of \$74,482 from the Special Revenue, Housing Rehab Fund to the General Fund.
- (3) The City should transfer \$1,975 from the Special Revenue, I-JOBS Fund to the Special Revenue, Road Use Tax Fund.
- (4) The City should make a transfer of \$51,441 from the Enterprise, Water Fund to the Enterprise, Water Sinking Fund.

Response – In accordance with the City Council’s approval, the City Clerk has made all of the above corrections and changes as of October 31, 2010.

Conclusion – Response accepted.

City of Lohrville

Staff

This agreed upon procedures engagement was performed by:

K. David Voy, CPA, Manager

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State