



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

April 21, 2011

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Auditor of State David A. Vaudt today released an agreed upon procedures report on the City of Lacona, Iowa for the period August 16, 2008 through August 31, 2010. The agreed upon procedures were performed as a result of a citizens' petition presented to the City Council pursuant to Chapter 11.6(3) of the Code of Iowa.

Vaudt recommended the City establish segregation of duties over financial reporting, receipts, disbursements, utilities, payroll and bank reconciliations. Vaudt also recommended the City establish certain policies and procedures, including procedures to reconcile bank statements and prepare accurate accounting records and reports regarding the City's financial condition. Other recommendations addressed compliance with the Code of Iowa, including Chapter 12B regarding a written investment policy, Chapter 21 regarding Council meetings and Chapter 26 regarding competitive bidding requirements. 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/1022-0874-B00F.pdf>.

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CITY OF LACONA
INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES
FOR THE PERIOD
AUGUST 16, 2008 THROUGH AUGUST 31, 2010

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City of Lacona

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William Ballard	Mayor	Jan 2014
Mike Oxenreider	Council Member	Jan 2012
Craig Spoon	Council Member	Jan 2012
Paul Butler	Council Member	Jan 2014
John Konrad	Council Member	Jan 2014
Theresa Shepherd	Clerk	Indefinite
Robert Benton	Attorney	Indefinite

City of Lacona



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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 Lacona, solely to assist you in evaluating the operations of the City for the period August 16, 2008 through August 31, 2010. The City of Lacona'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. We obtained an understanding of the City's internal controls over cash, investments, receipts, disbursements and payroll.
2. We tested certain receipts to determine if receipts were properly accounted for and used for a proper purpose.
3. We confirmed payments to the City by the State of Iowa to determine whether they were properly deposited to the City's accounts and deposited timely.
4. We tested certain disbursements to determine if disbursements were properly approved, recorded and accounted for.
5. We reviewed payments to the former City Clerk, including wages and reimbursements, to determine propriety.
6. We examined bank reconciliations to determine if the balances reconciled to the City's accounting records.
7. We inquired about monthly financial reports and reviewed the fiscal year 2009 Annual Financial Report and the fiscal year 2009 City Street Financial Report to determine if the amounts were reported accurately.
8. We reviewed Council minutes and certain transactions to determine compliance with the Code of Iowa.

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 Lacona, the objective of which would be the expression of an opinion on the financial statements of the City of Lacona. 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 Lacona, 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 Lacona and other parties to whom the City of Lacona 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 Lacona. 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

January 27, 2011

Detailed Recommendations

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

The City of Lacona is located in Warren County and has a population of 361, according to the 2010 census. Doris Loy began employment as the City Clerk on September 22, 2008 and her employment was terminated on August 24, 2010. Theresa Shepherd began employment as the City Clerk on October 4, 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) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (3) Disbursements – check writing, signing, posting and reconciling.
- (4) Payroll – preparation and distribution.
- (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (6) Bank reconciliations – preparation and maintenance of accounting records.

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.

Responses -

City – The Mayor has started reviewing and approving invoices for payment. We now require two initials on all invoices and two signatures on all checks, this is accomplished by Councilors (Council Members) or the Clerk. We will review all activities and will utilize available personnel to segregate duties to the extent possible.

Council Member Paul Butler – Agree and is being done.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – This is being taken care of now but it was also a recommendation of the last audit.

Council Member Craig Spoon – Why was the state not active in follow ups?

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

Conclusion – Responses accepted and acknowledged. Chapter 11 of the Code of Iowa does not provide for or require periodic audits of cities the size of Lacona, so follow-up is not required. Instead, the City Council is responsible for the City's internal control, including policies and procedures, as well as the resulting financial statements. While auditors report findings and make recommendations, the City Council has the responsibility and authority to make sure the findings, recommendations and corrective action, if any, are addressed and implemented. The City Council should have a procedure in place to follow-up on findings and recommendations to ensure corrective action is taken.

- (B) Monthly Bank Reconciliations – The Clerk's balances were not reconciled to the bank accounts and investments monthly.

Recommendation – To improve financial accountability and control, the book and bank balances should be reconciled monthly and the reconciliation should be retained. Any variances should be investigated and resolved in a timely manner. Investments and outside bank accounts should be included in the reconciliation.

Responses -

City – A Councilor or the Mayor will review the reconciliations and document their review. We have started doing this.

Council Member Paul Butler – Agree with recommendation. Common sense.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – We're talking about regular bookkeeping procedures. There has got to be more accountability.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted and acknowledged. We cannot overemphasize the importance of performing timely and accurate reconciliations. Failure to properly reconcile the City's records may result in inaccurate and unreliable financial information for the City Council's management decisions and others relying on these reports. This is a fundamental duty of the City Clerk and corrective action should be prioritized by the City Clerk and City Council.

- (C) Monthly Financial Reports – Detailed monthly financial reports were not provided to the Council for approval.

Recommendation – Financial reports should be presented to the Council each month for review and approval.

Responses -

City – We agree. We have started doing this.

Council Member Paul Butler – Agree reports should be presented monthly.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

Council Member John Konrad – No response.

Council Member Mike Oxenreider – This should not happen and must be corrected.

Council Member Craig Spoon – Agree.

Conclusion – Responses accepted.

(D) Annual Financial Report – The following were noted regarding the City's Annual Financial Report (AFR):

- Because detailed financial records were not retained, we were unable to determine if the fiscal year 2009 AFR was accurate.
- The fiscal year 2009 ending fund balances did not reconcile to the bank statements.
- Certain insurance proceeds received during fiscal year 2009 were not reported in the AFR.
- Certain fiscal year 2009 disbursements for City Hall construction were not reported in the AFR.

Recommendation – The City should review the AFR, make appropriate corrections and resubmit a corrected report to the State.

Responses -

City – We will actively work on this with the documentation we have.

Council Member Paul Butler – Agree with recommendation – we will do the best possible with bank statements etc.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – Is this where we go back and guess what the 2008 balance was and go from there?

Council Member Craig Spoon – Could this be chargeable offenses – i.e. dereliction of duty?

Conclusion – Responses accepted and acknowledged. The City should use current reconciled financial information and report correct balances in the fiscal year 2010 AFR using the adjusted fiscal year 2009 beginning balances.

We are unable to provide legal guidance regarding the question as to dereliction of duty. If the City wishes to pursue this, the City should consult legal counsel.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

- (E) Accounting Records – The City switched financial information from QuickBooks to Summit software around May 2010. Detailed financial records from QuickBooks were not retained. Because detailed financial records were not retained, the City is unable to reconcile the Clerk’s records to the bank.

Recommendation – Using available documentation, the City should reconcile the Clerk’s records to the bank balance. The City should retain all financial activity to help ensure City records are complete.

Responses -

City – During the review of bank reconciliations, a Councilor or the Mayor will ensure the Clerk retains the documentation. We have started doing this.

Council Member Paul Butler – Agree with recommendation. This will be done.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – How do we do this and why has it not been done?

Council Member Craig Spoon – We may possibly look into CPA checking books yearly.

Conclusion – Responses accepted and acknowledged. It is unclear why the City Clerk did not retain detailed financial records from QuickBooks. The City should implement procedures to ensure financial records are retained.

- (F) Utility Reconciliations – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – The City should ensure utility billings, collections and delinquent accounts are reconciled monthly. Variances should be investigated in a timely manner. An independent person should review the reconciliations and document their review by initialing and dating the monthly reconciliations.

Responses -

City – We have started doing this.

Council Member Paul Butler – Agree and are doing this.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – No response.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

- (G) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual. In addition, the City does not have an official open records policy.

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

- (1) Aid in training additional or replacement personnel.
- (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 similar, situation arises.

In addition, the City should develop an open records policy in accordance with Chapter 22 of the Code of Iowa.

Responses -

City – We agree with the recommendation and we have already started policies and procedures manuals as the training is being accomplished. We will also develop an open records policy.

Council Member Paul Butler – Agree with recommendation – we will work on this.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – No real response yet the Mayor is working on this.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted.

- (H) Receipts – The City does not maintain an initial listing of receipts and pre-numbered receipts are not issued unless requested.

Recommendation – An initial listing of receipts should be maintained. Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. Receipts should be recorded and reconciled with bank deposits, and the reconciliation should be reviewed periodically by an independent person. The independent person should initial and date the reconciliation as evidence of review.

Responses -

City – We have started doing this.

Council Member Paul Butler – Water bills are already put on a detailed receipt. Any other receipts should be out of the book as recommended.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

Council Member John Konrad – No response.

Council Member Mike Oxenreider – This is so basic. I have no response.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted.

- (I) Disbursements – A listing of disbursements was not always provided to the Council for approval. Not all checks contained dual signatures. Detailed supporting invoices or other documentation was not maintained for all disbursements and certain claims did not have original receipts. Certain invoices were not cancelled to prevent reuse.

Recommendation – A list of disbursements should be provided to and approved by the Council. Checks should contain dual signatures. All disbursements should be supported by original invoices or other supporting documentation and claims should be canceled to prevent reuse.

Responses -

City – Procedures are currently in place and we will continue to do this.

Council Member Paul Butler – Agree and now do this.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – No response.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted.

- (J) Payroll and Employee Contracts – Timesheets could not be located for all employees and available timesheets were not approved by a supervisor. Signed employment contracts were not retained and Council minutes do not provide sufficient detail to support a \$400 monthly insurance payment to employees.

Also, a detailed record of vacation and sick leave earned and used by each employee is not maintained. The City does not have a compensated absence policy and the Clerk's employment contract did not address compensatory time.

Recommendation – The City should develop policies and procedures to ensure all timesheets are maintained and approved by a supervisor. Signed employment contracts should be retained. The City should adopt a policy for monthly insurance payments to employees or discontinue the payments.

Also, a detailed record of employee compensated absences should be maintained to account for the proper accumulation and use of this time. The City should develop a compensated absence policy, including compensatory time.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

Responses -

City - We now ensure timesheets are retained and approved by two members. We are pursuing paying the health insurance directly for the employee. Signed contracts are on file for current employees. We will work on records for compensated absences.

Council Member Paul Butler - Both employees do a good job keeping track of their hours. Oxenreider's opinion is unfounded with what we are now doing. Agree with recommendation.

Council Member John Konrad - No response.

Council Member Mike Oxenreider - I have brought up to the Council and Mayor our time keeping on employee hours worked is lacking.

Council Member Craig Spoon - No response.

Conclusion - Responses accepted.

- (K) Former City Clerk Reimbursements - Detailed original supporting documentation was not retained for all reimbursements. Certain reimbursements were for mileage. However, the business purpose was not documented. Other reimbursements did not include the destination for calculating appropriate mileage.

Also, the City does not have a written policy to address travel approval and reimbursement.

Recommendation - Reimbursements should be supported with original documentation (receipts), include travel destination and document the business purpose of the trip.

Also, the City should adopt a policy to address approved travel and reimbursement.

Responses -

City - We agree and we have policies in place at this time.

Council Member Paul Butler - Agree with recommendation. Policy in place.

Council Member John Konrad - No response.

Council Member Mike Oxenreider - We have policies in place.

Council Member Craig Spoon - Possible small claims court to recover.

Conclusion - Responses accepted.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

- (L) Former City Clerk Termination Payout – The employment of the former City Clerk was terminated on August 24, 2010. According to the Clerk’s employment contract, the Clerk was entitled to two weeks of vacation at the end of one year of service and on her subsequent anniversary date. Since the former Clerk was terminated prior to completing her second year of service, her maximum accumulated vacation balance would be 80 hours. However, the payroll system reflected a vacation balance of 104 hours.

Since the maximum vacation the Clerk was entitled to was 80 hours, and because the payroll system reflects 8 hours of vacation used, the maximum remaining balance the Clerk was entitled to was 72 hours. Therefore the Clerk was paid for at least 32 hours of vacation she was not entitled to, at a cost to the City of \$466.

Also, the former City Clerk’s employment contract provides specific duties to be performed. These duties included, among other things, typing Council minutes, paying all bills, retaining receipts and completing various reports for submission to State of Iowa authorities, such as the annual financial report (AFR) and the City Street Financial Report (RUT report).

As noted in comment (M), an official record of minutes was not retained at City Hall and we were unable to obtain evidence minutes were published prior to February 1, 2010.

As noted in comment (D), detailed financial records were not retained and we were unable to determine if the fiscal year 2009 AFR was accurate.

As noted in comment (I), detailed supporting invoices or other documentation was not maintained for all disbursements and certain claims did not have original receipts.

As noted in comment (O), the fiscal year 2009 City Street Financial Report beginning and ending balances do not agree to amounts reported on the City’s Annual Financial Report.

We were unable to determine whether the former Clerk fulfilled the duties of City Clerk as outlined in the employment contract.

Recommendation – The City should consult legal counsel to resolve this matter. Also, the City should ensure the duties of the City Clerk are fulfilled.

Responses -

City – The City will consider this.

Council Member Paul Butler – Legal fees will outweigh money recovered.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – I don’t have a response yet.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

Council Member Craig Spoon – Would favor small claims to recover.

Conclusion – Responses accepted and acknowledged. The City should consult legal counsel to resolve this matter. Also, the City should ensure the duties of the City Clerk are fulfilled.

(M) Council Minutes – Chapter 21 of the Code of Iowa requires minutes be kept of all meetings of governmental bodies. The following were noted during our review of minutes:

- The City did not maintain an official record of minutes at City Hall.
- Because an official record of minutes was not kept, certain minutes could not be located.
- We were unable to obtain evidence minutes were published prior to February 1, 2010 as required by Chapter 372.13(6) of the Code of Iowa.
- The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978 and Chapter 372.13(6) of the Code of Iowa.
- Closed sessions:
 - A closed session was on the agenda for the February 15, 2010 meeting. However, a closed session was not discussed in the minutes.
 - The purpose of the February 15, 2010 closed session, "law enforcement matter", is not specific enough to be one of the allowable reasons listed in Chapter 21.5 of the Code of Iowa for closing a meeting.
 - The Council went into closed session on April 6, 2010 and May 4, 2010. However, the minutes record did not document the specific information regarding the closed session required by Chapter 21 of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa. The City should maintain an official record of minutes and the minutes should be signed to authenticate the record. The City should publish minutes and annual gross salaries as required by Chapter 372.13 of the Code of Iowa.

Responses -

City – We have started doing this and will continue to do this including publishing annual gross salaries.

Council Member Paul Butler – Agree with recommendation. Minutes are now being kept.

Council Member John Konrad – No response.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

Council Member Mike Oxenreider – Many of these recommendations were brought out in the last audit.

Council Member Craig Spoon – Does the Auditor’s Office not follow up on audits to verify corrections?

Conclusion – Responses accepted and acknowledged. Chapter 11 of the Code of Iowa does not provide for or require periodic audits of cities the size of Lacona, so follow-up is not required. Instead, the City Council is responsible for the City’s internal control, including policies, procedures and the resulting financial statements while auditors report findings and make recommendations, the City Council has the responsibility and authority to make sure the findings, recommendations and corrective action, if any, are addressed and implemented. The City Council should have a procedure in place to follow-up on findings and recommendations to ensure corrective action is taken.

(N) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Responses -

City – We will do this.

Council Member Paul Butler – Would like some guidelines how to invest.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – No response.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted and acknowledged. Chapter 12B.10(5)(a) of the Code of Iowa provides a detailed listing of allowable investments.

(O) City Street Financial Report (Road Use Tax Report) – The fiscal year 2009 City Street Financial Report beginning and ending balances do not agree to amounts reported in the City’s Annual Financial Report (AFR).

Also, the City has not submitted the City Street Financial Report for fiscal year 2010 as required by Chapter 312.14 of the Code of Iowa.

Recommendation – The City should review the fiscal year 2009 City Street Financial Report and AFR and contact the Iowa Department of Transportation (DOT) to resolve discrepancies.

Also, the City should complete and submit the fiscal year 2010 City Street Financial Report to the Iowa Department of Transportation as required by Chapter 312.14 of the Code of Iowa.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

Responses -

City - We agree with the recommendation to review fiscal year 2009 and attempt to resolve any discrepancies with what records we have. We are in the process of submitting the fiscal year 2010 City Street Financial Report to the DOT.

Council Member Paul Butler - Will do our best with what records we have.

Council Member John Konrad - No response.

Council Member Mike Oxenreider - This does not seem possible, this recommendation needs to be followed immediately.

Council Member Craig Spoon - No response.

Conclusion - Responses accepted.

- (P) City Hall Construction - The City constructed a City Hall and Library at a cost of \$397,801. The City purportedly held a public hearing and accepted bids on April 6, 2009 as required by Chapter 26.3 of the Code of Iowa, as evidenced by a notice of the public hearing. Council minutes were not retained to evidence the public hearing. Therefore, we were unable to determine if bids were opened in accordance with Chapter 26.10 of the Code of Iowa. Bid documentation was not retained. Therefore, we were unable to determine if the City awarded the contract to the lowest responsive, responsible bidder as required by Chapter 26.9 of the Code of Iowa.

In addition, the City did not retain original, signed copies of all contract change orders.

Recommendation - Proceedings to approve future construction projects should comply with Chapter 26 of the Code of Iowa. The City should retain original, signed copies of all contract change orders.

Responses -

City - We agree with the recommendation, only one company bid on this project.

Council Member Paul Butler - Agree with recommendation. Only one company bid on the project.

Council Member John Konrad - No response.

Council Member Mike Oxenreider - There should be more than one bidder of a project this size and we all know change orders cost money so the request for bid should be complete up front.

Council Member Craig Spoon - No response.

Conclusion - Responses accepted.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

- (Q) Separately Maintained Records – The Lacona Volunteer Fire Department and Friends of the Library maintain accounts separate from the City’s accounting records. The transactions and resulting balances of these accounts were not recorded in the City Clerk’s accounting records and were not reported to the Council each month.

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, including budget reports, and should be reported to the Council on a monthly basis.

Responses -

City – We have started doing this. Most groups are doing this now.

Council Member Paul Butler – Would like to see Fire Department and Friends of the Library now legally separate from the City. That way their fundraising activity would be solely theirs and not a fund of the City.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – Why has this not been done?

Council Member Craig Spoon – No response.

Conclusion – Responses accepted and acknowledged. The financial activity and balances of all City accounts should be included in the City’s accounting records, including budget reports, and should be reported to the Council on a monthly basis.

- (R) Financial Condition – The Annual Financial Report (AFR) filed with the Auditor of State for fiscal year 2009 reflects a deficit General Fund balance of \$46,357. Because detailed financial records were not retained, and because the ending balances reported on the AFR do not reconcile to the bank, other funds may also be in a deficit position.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position. The City should review the fiscal year 2009 AFR, reconcile balances to the bank, determine if other funds may be in a deficit position and investigate alternatives to eliminate deficits and return funds to a sound financial position.

Responses -

City – We agree with the recommendation. We have started doing this, there is lots of work to be done with old statements, but we will do our best.

Council Member Paul Butler – Agree with recommendation. Lots of work to be done with old statements, but will do our best.

Council Member John Konrad – No response.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

Council Member Mike Oxenreider – The above report is certified to be accurate.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted and acknowledged. As previously noted, reconciliation of the bank balances and City book balances is essential and this reconciliation function is necessary in maintaining accounting records which provide accurate and useful financial reports regarding the City's financial condition, including the AFR.

The City should review its procedures, including the reconciliation process, and implement procedures to ensure accurate and timely reconciliations are performed. The City should consider the need and options to provide assistance, training and oversight in the reconciliation process. Supervisory reviews should be performed and evidence of supervisory reviews should be indicated by initials of the independent reviewer, including the date of the review.

The City should be diligent in its efforts to restore all funds of the City to a sound financial condition.

- (S) City Ordinances and Resolutions – An official book of ordinances is not maintained by the City. Chapter 380.8 of the Code of Iowa states, in part, “a city shall compile a code of ordinances...”. Additionally, an official book of resolutions is not maintained.

Recommendation – A book of ordinances and a record of approved resolutions should be maintained by the City and retained permanently in accordance with Chapter 372.13(5) of the Code of Iowa.

Responses -

City – We are in the process of updating the City Ordinances started back in July 2010. We have an official book now along with gathering and recording all resolutions for the City.

Council Member Paul Butler – Agree and is being worked on.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – This is being taken care of.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

- (T) Questionable Disbursements – We noted certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid To	Purpose	Amount
Doris Loy	Christmas decorations	\$ 17.25
Sam’s Club <i>Customer Service</i>	Napkins, forks, cutlery, foam plates, cups	99.63
Center	DVD late fees	<u>6.00</u>
Total		<u>\$ 122.88</u>

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subjected to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Responses -

City – We agree with the recommendation and will establish written policies and procedures, including the requirement for proper documentation.

Council Member Paul Butler – Agree with recommendation. We will do this.

Council Member John Konrad – No response.

Council Member Mike Oxenreider – This recommendation is just good business.

Council Member Craig Spoon – No response.

Conclusion – Responses accepted.

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

Name, Title, and Business Connection	Transaction Description	Amount
Chester Butler, father of Council Member Paul Butler, rents ground.	Farm ground rent	\$ 1,893

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transaction does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the year.

City of Lacona

Detailed Recommendations

August 16, 2008 through August 31, 2010

- (V) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

Exhibit

City of Lacona

2009 Probationary City Clerk Contract

2009 Probationary City Clerk Contract

This agreement is made between the City of Lacona Iowa, hereafter referred to as the City, and Doris Loy, hereafter referred to as the City Clerk.

The City Clerk shall be required to perform all the duties spelled out in the attached job description.

Every 2-3 days

*Check mail

*Check water bill drop box

-- payments need to be logged and checks deposited in a timely manner

Weekly

*Pay maintenance person – Fridays

-- his pay is split as follows: Streets – 50%; Water and Park – 10% each; Sewer – 30%

*Pay city clerk

-- her pay is split as follows: Clerk – 30%; Water 35% and Sewer – 35%

Monthly

*Create and mail water bills – 25th of the month

*Payroll – last day of month

*Create and mail delinquent water bill notices – 16th of month (have until the end of the day on the 15th)

*Report to maintenance person waters that need shut off – 26th of month (have until the end of the day on the 25th)

*Post council agenda 4 days prior to meetings @ Co-op, PO, Community Hall and Bank
Attend council meetings (5:30 pm in city hall) – first Monday of each month; Tuesday if Monday is a holiday. Attend all city council meetings and be paid \$10.00 per meeting.

*Email agendas/minutes to mayor, maintenance person, fire chief. (Note: Ed needs a paper copy)

*Type and post council minutes w/in 4 days of meetings (same places as agendas)

*Pay all bills – be sure to have receipts so you know what department to allocate to

Quarterly

*Fed Tax return and payment

*IPERS report and withholdings payment

*Sales tax report and payment

*State of Ia withholdings report and payment

*Workforce report and payment

*Workers' Comp reporting – this varies

Annual

*Budget – due 3/15

*Annual financial report – due 12/1

*General obligation report – due 8/1

City of Lacona

2009 Probationary City Clerk Contract

- *IPI does IPERS audit – July
- *RUT report – September
- *Tobacco and alcohol permits (Rudy's, Co-op, O'Neal's)
- *TIF reporting
- *Build new budget/allocations in accounting system
- *Insurance reporting

Community hall

- *Schedule/book events
 - *Insure the renters have a key prior to the day they have the hall rented
 - *Keep Charles informed of all dates booked and/or canceled
- Community hall prices:
- *Small gatherings (typically < 10 people) - \$25
 - *Family dinners - \$50
 - *Receptions/ large parties - \$100
 - ** \$50 cleaning deposit

Misc

- *Letters to persons in violation of city ordinances
- *Work w/council members, mayor, citizens, various vendors, bank, county, state and local agencies
- *Split utility bills and insurance on the City Hall as follows: 20% admin; 20% library; 60% fire dept
- *Any clerical duties/projects assigned
- *Provide updates to person handling the website
- *Add/change/delete clients in the utility billing system
- *Obtain titles, license plates, etc as needed when vehicles are sold/purchased

Work Week: The City Clerk will be paid an hourly rate of \$14.56 per hour for work performed until June 30th, 2010 at which time this contract will be re-negotiated. At this time, there are no set hours of employment, only specific duties that need to be performed. Hours per week are 40 hours and will be re-evaluated at the time of re-negotiation.

Wages and Benefits: The employee's hourly salary is \$14.56 to be paid on a weekly basis.

Vacation and Paid Holidays: The following holidays will be granted each year:

- New Year's Day – 1 day
- Memorial Day – 1 day
- July 4th – 1 day
- Labor Day – 1 day
- Thanksgiving – 2 days
- Christmas – 1 day

City of Lacona

2009 Probationary City Clerk Contract

** If a holiday falls on a weekend, the employee shall take the closest working day off.
Floating Holidays – 2 days, to be used as need, not to be carried over to the following calendar year.

Two weeks of vacation will be awarded at the end of one year of service. Three weeks of vacation will be awarded at the end of five years of services. All vacation time must be taken. The employee can carry over up to one week from one year to the next.

Funeral Leave: The employee will be granted paid for leave as follows:

1 Week – spouse, daughter, son, grandson, granddaughter, mother, father brother, or sister

3 days – mother-in-law, father-in-law, daughter-in-law, son-in-law, grandmother, grandfather, brother-in-law or sister-in-law

1 day – aunt, uncle or cousin

Additional time may be taken with the council's approval.

This contract shall be in force and will be valid until 6/30/2010, at which time it will be up for re-negotiation. This contract and all its provisions are binding on both parties. Either party may terminate this contract with a 30 day written notice.

Date: _____

Employee's Signature: _____

Mayor's Signature: _____

City of Lacona

Staff

This agreed upon procedures engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Corinne M. Johnson, CPA, Senior Auditor II
Brian P. Schenkelberg, CPA, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State