



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ March 5, 2015 _____

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Lone Rock, Iowa for the period July 1, 2013 through June 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. The City should establish procedures to ensure variances in bank reconciliations are investigated and resolved timely, utility reconciliations are completed and the bank and utility reconciliations are independently reviewed. The City should also ensure the Annual Financial Report and monthly Treasurer reports are prepared accurately.

A copy of the agreed-upon procedures 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/1422-0523-BL0F.pdf>.

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CITY OF LONE ROCK
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014

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City of Lone Rock

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Gerald Thompson	Mayor	Jan 2014
Dave Newbrough	Council Member	Jan 2014
William Weisbrod	Council Member	Jan 2014
Mandy Anderson	Council Member	Jan 2016
Jim Cejka	Council Member	Jan 2016
Lisa Thompson	Council Member	Jan 2016
Judy Haase	City Clerk/Treasurer	Indefinite
Paul Doster	Attorney	Indefinite
(After January 2014)		
Gerald Thompson	Mayor	Jan 2016
Mandy Anderson	Council Member	Jan 2016
Jim Cejka	Council Member	Jan 2016
Lisa Thompson	Council Member	Jan 2016
Dave Newbrough	Council Member	Jan 2018
William Weisbrod	Council Member	Jan 2018
Judy Haase	City Clerk/Treasurer	Indefinite
Paul Doster	Attorney	Indefinite

City of Lone Rock



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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 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 Lone Rock for the period July 1, 2013 through June 30, 2014. The City of Lone Rock'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 2014 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 transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 City of Lone Rock, the objective of which is the expression of opinions on the City's 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 Lone Rock, 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 Lone Rock and other parties to whom the City of Lone Rock 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 Lone Rock during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 9, 2014

Detailed Recommendations

City of Lone Rock

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

(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, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records and records of accounts written-off.
- (5) Debt – recordkeeping, compliance and debt payment processing.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Journal entries – preparing, approving and journalizing.
- (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (9) Computer system – performing all general accounting functions, controlling all data input and output and having custody of assets.
- (10) Financial reporting – preparing and reconciling.

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) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes every 60 to 90 days.
- Allowing only authorized personnel to request resetting their own passwords.
- Not allowing another employee to request a reset of a password for another employee and then having access to this password.

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

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s internal control over its computer system.

City of Lone Rock

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (C) Bank Reconciliations – Although monthly bank reconciliations were prepared, variances existed between the bank statement balance and the City’s general ledger fund balances. Additionally, the reconciliations were not reviewed by an independent person.

Recommendation – To improve financial accountability and control, variances between book and bank balances identified by the monthly bank reconciliations should be investigated and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the reviews should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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 reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The receipts, disbursements and fund balances reported in the City’s Annual Financial Report do not agree with the City’s general ledger.

Recommendation – The City should ensure the amounts reported in future Annual Financial Reports agree with the City’s general ledger.

- (F) Monthly Treasurer’s Report – The Monthly Treasurer’s Report generated by the City’s software does not agree to the general ledger. In addition, the report lacked evidence of an independent review.

Recommendation – The City should investigate and resolve the variances between the Monthly Treasurer’s Report and the general ledger. The City should enlist the help of the software vendor, if necessary. In addition, the City should ensure the Monthly Treasurer’s Report is reviewed by an independent person and the review is documented by the signature or initials of the reviewer and the date of review.

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works, culture and recreation and general government 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.

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

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

City of Lone Rock

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (I) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the General Fund. The LOST ballot requires the receipts be used for community betterment. During the year, LOST disbursements were not tracked in a manner which documented compliance with the LOST ballot provisions and annual City Council resolutions.

Recommendation – The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement and balance of all LOST funds to document compliance with the LOST ballot provisions.

- (J) City Council Minutes – The following were identified:

- Minutes were not properly signed as required by Chapter 380.7 of the Code of Iowa.
- Minutes did not show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.
- The minutes posted did not include the total disbursements for each fund, a list of all claims allowed, including the reason, and a summary of receipts, as required by Chapter 372.13(6) of the Code of Iowa.

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

- (K) United States Department of Agriculture (USDA) Loan Agreement – The provisions of the USDA loan agreement require the City to establish a reserve and short lived asset reserve account. While the City has established an account to cover both reserves, the City has underfunded this account by \$794.

Recommendation – The City should implement procedures to ensure sufficient reserves required by the loan agreement are maintained.

- (L) Disbursements – Certain invoices were not approved by the City Council.

Recommendation – All invoices should be approved by the City Council.

- (M) Questionable Disbursements – During the year, \$35 was disbursed for a plaque for a retirement party. This disbursement 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 were noted.

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 subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

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

City of Lone Rock

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

- (N) Transfer and Journal Entry Documentation – Supporting documentation was not maintained for interfund transfers and journal entries. Additionally, transfers and journal entries are not approved.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers and journal entries. Additionally, all interfund transfers should be documented by approval in the City Council minutes or the City’s budget, as applicable. Journal entries should be approved by an independent person and the approval should be documented by the signature or initials of the approver and the date of approval.

- (O) Timesheets - Timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll. In addition, salaried personnel of the City do not prepare and file timesheets.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll for all employees. The review and approval should be documented by the signature or initials of the approver and the date of approval.

- (P) Pre-numbered Receipts – Pre-numbered receipts were not issued for all collections and an initial listing of collections was not prepared.

Recommendation – Prenumbered receipts should be issued for all collections and an initial listing of collections should be prepared. The initial listing should be compared to the bank deposit and accounting records by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (Q) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

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

- Aid in training additional or replacement staff.
- Help achieve uniformity in accounting and in the application of policies and procedures.
- Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (R) Investment Policy - 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.

- (S) Unrecorded Interest – The City holds a certificate of deposit valued at \$45,889 for which interest earned has not been recorded in the City’s accounting records or balances.

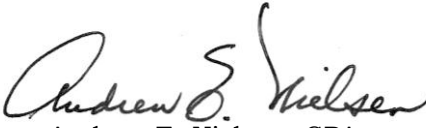
Recommendation – The City should ensure all investment income is properly reflected in the City’s accounting records.

City of Lone Rock

Staff

This agreed-upon procedures engagement was performed by:

Timothy D. Houlette, CPA, Manager
Kyle C. Smith, Staff Auditor
Paige A. Snyder, Auditor Intern



Andrew E. Nielsen, CPA
Deputy Auditor of State