

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE _____ March 5, 2015

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Water and Waste Disposal Systems for Rural Communities program for the City of Lone Rock, Iowa.

The City of Lone Rock's Water and Waste Disposal Systems for Rural Communities program disbursements totaled \$1,358,035 for the year ended June 30, 2014.

A copy of the audit 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-BC00.pdf>.

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**CITY OF LONE ROCK
WATER AND WASTE DISPOSAL SYSTEMS
FOR RURAL COMMUNITIES PROGRAM**

**INDEPENDENT AUDITOR'S REPORTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED 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
Water and Waste Disposal Systems
for Rural Communities Program**



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:


We have audited the accompanying Schedule of Expenditures of Federal Awards (Schedule) for the City of Lone Rock's Water and Waste Disposal Systems for Rural Communities program for the year ended June 30, 2014. The Schedule is the responsibility of the City of Lone Rock's management. Our responsibility is to express an opinion on the Schedule based on our audit.


We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, the Schedule was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the Schedule of Expenditures of Federal Awards referred to above presents fairly, in all material respects, the expenditures of federal awards under the City of Lone Rock's Water and Waste Disposal Systems for Rural Communities program for the year ended June 30, 2014 on the basis of accounting described in Note 1.

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, including federal awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 9, 2014

City of Lone Rock
Water and Waste Disposal Systems for Rural Communities Program

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Grantor/Program	CFDA Number	Federal Expenditures
Direct:		
U.S. Department of Agriculture:		
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 1,358,035</u>

See note to the Schedule of Expenditures of Federal Awards.

City of Lone Rock
Water and Waste Disposal Systems for Rural Communities Program

Note to Schedule of Expenditures of Federal Awards

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Lone Rock is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1899 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

The Schedule of Expenditures of Federal Awards includes only the program disbursements of the City's Water and Waste Disposal Systems for Rural Communities program.

B. Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

C. Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the Schedule of Expenditures of Federal Awards is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the Schedule of Expenditures of Federal Awards is not presented in accordance with U.S. generally accepted accounting principles.

**Independent Auditor's Report on Compliance for the Water and Waste Disposal Systems
for Rural Communities Program and on Internal Control over Compliance in Accordance
with the Program – Specific Audit Option Under OMB Circular A-133**



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Independent Auditor's Report on Compliance for the Water and Waste Disposal Systems for Rural Communities Program and on Internal Control over Compliance in Accordance with the Program - Specific Audit Option Under OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for the Water and Waste Disposal Systems for Rural Communities Program

We have audited the City of Lone Rock, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the Water and Waste Disposal Systems for Rural Communities program for the year ended June 30, 2014.

Management's Responsibility

Management of the City of Lone Rock (City) is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City's Water and Waste Disposal Systems for Rural Communities program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Water and Waste Disposal Systems for Rural Communities program occurred. An audit includes examining, on a test basis, evidence about the City's Water and Waste Disposal Systems for Rural Communities program compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the City's Water and Waste Disposal Systems for Rural Communities program. However, our audit does not provide a legal determination of the Water and Waste Disposal Systems for Rural Communities program compliance.

Opinion of the City's Water and Waste Disposal Systems for Rural Communities Program

In our opinion, the City of Lone Rock complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its Water and Waste Disposal Systems for Rural Communities program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of the City of Lone Rock is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Lone Rock's internal control over compliance with requirements that could have a direct and material effect on its Water and Waste Disposal Systems for Rural Communities program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lone Rock's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance with a type of compliance requirement of a program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.


Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings as 2014-001, we consider to be a significant deficiency.


The City's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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, including federal awarding agencies, and 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 audit. 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

City of Lone Rock
Water and Waste Disposal Systems for Rural Communities

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Part I: Summary of the Independent Auditor's Results:

- (a) An unmodified opinion was issued on the Schedule of Expenditures of Federal Awards, which was prepared in conformity with an other comprehensive basis of accounting.
- (b) A significant deficiency in internal control over the Water and Waste Disposal Systems for Rural Communities program was disclosed by the audit of the Schedule of Expenditures of Federal Awards.
- (c) The audit did not disclose any non-compliance which is material to the Schedule of Expenditures of Federal Awards.
- (d) An unmodified opinion was issued on compliance with requirements applicable to the Water and Waste Disposal Systems for Rural Communities program.
- (e) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (f) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.

City of Lone Rock
Water and Waste Disposal Systems for Rural Communities

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Part II: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

**CDFA Number 10.760: Water and Waste Disposal Systems for Rural Communities
Federal Award Year: 2014
U.S. Department of Agriculture**

2014-001 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.

Response and Corrective Action Planned – The City will implement procedures to ensure a City Council member is comparing the amount we are required to have in the reserve account to the amount maintained and evidence of this review will be documented.


Conclusion – Response accepted.

City of Lone Rock

Staff

This audit was performed by:

Timothy D. Houlette, CPA, Manager
Kyle C. Smith, Staff Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State