



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

Mary Mosiman, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ June 16, 2015 \_\_\_\_\_

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Lacona, Iowa for the period December 1, 2013 through November 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, including implementing procedures to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile the bank balance to the book balance monthly. The City should also comply with the budget amendment requirements of Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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/1422-0874-EP0P.pdf>.

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**CITY OF LACONA**

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

**DECEMBER 1, 2013 THROUGH NOVEMBER 30, 2014**

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**City of Lacona**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expire</u>
<b><u>(Before January 2014)</u></b>		
William Ballard	Mayor	Jan 2014
Paul Butler	Council Member	Jan 2014
John Konrad	Council Member	Jan 2014
John Miller	Council Member	Jan 2016
Jolene Schurman	Council Member	Jan 2016
Brandon Smith	Council Member	Jan 2016
Theresa Shepherd	City Clerk	Indefinite
Robert Benton	Attorney	Indefinite
<b><u>(After January 2014)</u></b>		
William Ballard	Mayor	Jan 2018
John Miller	Council Member	Jan 2016
Jolene Schurman	Council Member	Jan 2016
Brandon Smith	Council Member	Jan 2016
Rick Champ	Council Member	Jan 2018
Damon Quick	Council Member	Jan 2018
Theresa Shepherd	City Clerk	Indefinite
Robert Benton	Attorney	Indefinite

**City of Lacona**



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Mary Mosiman, CPA  
Auditor of State

## 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 Lacona for the period December 1, 2013 through November 30, 2014. The City of Lacona'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 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.

8. 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.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Lacona, 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 Lacona, 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 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 many courtesies and assistance extended to us by personnel of the City of Lacona 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 JENKINS, CPA  
Chief Deputy Auditor of State

January 15, 2015

## **Detailed Recommendations**

City of Lacona

Detailed Recommendations

For the period December 1, 2013 through November 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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Debt – recordkeeping and debt payment processing.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing, distributing and recording vacation and sick leave.
- (6) Computer system – performing all general accounting functions and controlling all data input and output.
- (7) Financial reporting – preparing and reconciling.

For the Lacona Fire Department account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording, signing and reconciling.
- (3) Cash – handling, reconciling and recording.

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

(B) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to bank account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile. In addition, the bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

(C) Annual Financial Report (AFR) – The 2014 Annual Financial Report included \$11,340 of street disbursements paid from the General Fund in the Special Revenue Fund column. As a result, the General Fund ending fund balance was overstated and the total Special Revenue Funds ending fund balance was understated.

City of Lacona

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

Recommendation – The City should ensure all receipts and disbursements are included in the proper fund type in the Annual Financial Report by reconciling all totals to the City’s financial reports. An independent person should review the report for accuracy and document their review by signing or initialing and dating the report.

- (D) Financial Reporting – Chapter 312.14 of the Code of Iowa requires all cities to submit the Street Financial Report (SFR) to the Iowa Department of Transportation annually. The Street Financial Report submitted in August 2014 did not agree with the City’s financial records.

Recommendation – The City should consult with the Iowa Department of Transportation and an appropriate adjustment to the Street Financial Report should be completed to agree with the City’s financial records.

- (E) Monthly City Clerk’s Report – A Monthly City Clerk’s Report which includes a summary of receipts and disbursements is prepared. However, ending balances by fund were not included.

Recommendation – The City Clerk should prepare a Monthly City Clerk’s Report which includes a summary of receipts, disbursements and ending balances by fund. The City Council should review and approve the City Clerk’s report monthly.

- (F) Receipts – An initial listing of receipts was not prepared and prenumbered receipts are not issued for all collections.

Recommendation – An initial listing of receipts should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented. Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all receipts.

- (G) Petty Cash – Petty cash funds are not maintained on an imprest basis.

Recommendation – Petty cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

- (H) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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 reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

City of Lacona

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

- (I) Deposits – One open access grant totaling \$21 was deposited with the Friends of the Library rather than into the City’s account.

Recommendation – The City should establish procedures to ensure grant receipts are deposited in the City’s bank account and recorded in the City’s records.

- (J) City Council Disbursement Approval – The City has adopted a resolution allowing payment of bills prior to City Council approval. Certain invoices tested were paid prior to City Council approval but were for items not included in the resolution.

Recommendation – All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next meeting for review and approval.

- (K) Separately Maintained Records – The Lacona Fire Department maintains a bank account for activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Report.

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 and reported to the City Council on a monthly basis.

- (L) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the culture and recreation and business type activities 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.

- (M) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting, including a summary of receipts and a summary of ordinances or amendments adopted. All City Council meeting minutes tested were properly published within fifteen days of the meeting. However, the minutes publication did not include a summary of receipts and a summary of the amended water ordinance was not published, as required.

Additionally, the City Council went into closed session on July 7, 2014 to evaluate an employee’s performance. However, the minutes record did not document the employee requested the closed session as required by Chapter 21.5 of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish a summary of receipts and a summary of ordinances or amendments adopted, as required. In addition, the City should comply with Chapter 21.5 of the Code of Iowa.

City of Lacona

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

- (N) Investment Policy and Depository Resolution – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 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. Additionally, a resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

- (O) Bank Loan – On October 21, 2014, the City entered into an \$85,000 bank loan for an ambulance. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures be followed prior to entering into a loan, including publication of a notice of intended action and the time and place of a public hearing.

Recommendation – The City should comply with Code of Iowa requirements before entering into future loan agreements.

- (P) Unauthorized Help Hired – During the period reviewed, the City paid \$600 to the City Clerk's daughter to clean the Community Center. The City Council had assigned this duty to the City Clerk or Assistant City Clerk.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (Q) Financial Condition – At June 30, 2014, the City had a deficit balance of \$106,588 in the Enterprise, Water Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

- (R) Payroll Returns – The Employer's Quarterly Federal Tax Return, Form 941, was not completed and filed timely for the quarters ending December 31, 2013 and March 31, 2014.

Recommendation – The City should ensure all quarterly payroll tax returns are properly completed and filed on a timely basis.

- (S) City Code – Chapter 380.8(1)(c) of the Code of Iowa states, in part, "A city which does not maintain the city code of ordinances as provided in paragraph "b" shall compile a code of ordinances at least once every five years." The City Code of Ordinances was last codified in 1983.

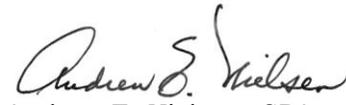
Recommendation – The City should compile a Code of Ordinances as required.

City of Lacona

Staff

This agreed-upon procedures engagement was performed by:

Ernest H. Ruben Jr, CPA, Manager  
Katherine L Rupp, CPA, Senior Auditor II  
Erin J. Sietstra, Assistant Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State