



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ September 4, 2015 _____

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Laurel, Iowa for the period February 1, 2014 through January 31, 2015. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its internal controls to obtain the maximum internal control possible, establish procedures to ensure an initial listing of receipts is prepared and ensure bank reconciliations are independently reviewed. The City should also ensure all City accounts are included in the City's accounting records.

Mosiman recommended the Laurel Volunteer Fire Department, a Department of the City, review its internal controls to obtain the maximum internal control possible, establish procedures to ensure bank account balances are reconciled to the general ledger monthly and the reconciliations are independently reviewed. The Department should also ensure all disbursements are properly approved by the City Council, supported by adequate documentation and meet the test of public purpose prior to the funds being disbursed.

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/1422-0608-EP0P.pdf>.

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CITY OF LAUREL

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
FEBRUARY 1, 2014 THROUGH JANUARY 31, 2015

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City of Laurel

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry Atcher	Mayor	Jan 2016
Darcy Eibs	Council Member	Jan 2016
Evan Folk	Council Member	Jan 2016
Tana Dixon	Council Member	Jan 2018
Patrick Kopsa	Council Member	Jan 2018
Suzanne Sietman	Council Member	Jan 2018
Lynne Gummert	City Clerk/Treasurer	Indefinite
Jeff Hazen	Attorney	Indefinite

City of Laurel



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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 Laurel for the period February 1, 2014 through January 31, 2015. The City of Laurel'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 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 transfers between funds for propriety, proper authorization and accurate accounting.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 Laurel, 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 Laurel, 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 Laurel and other parties to whom the City of Laurel 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 Laurel 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

March 11, 2015

Detailed Recommendations

City of Laurel

Detailed Recommendations

For the period February 1, 2014 through January 31, 2015

- (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. One individual performs all investing functions for the City, including recordkeeping, investing, custody of investments and reconciling earnings.

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) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, no independent review of the bank reconciliations was performed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Initial Receipts Listing – An initial listing of collections was not prepared.

Recommendation – An initial listing of collections should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Separately Maintained Records – The City of Laurel Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

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.

- (E) Fire Department Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The Fire Chief and/or Department Treasurer have control over each of the following areas for which there are no compensating controls:

- (1) Receipts – collecting, preparing deposits and making deposits.
- (2) Disbursements – purchasing, preparing checks, signing and distributing checks.
- (3) Bank accounts – reconciling monthly bank statements to the accounting records.
- (4) Reporting – preparing the monthly Treasurer’s Report and other reports requested by the Fire Chief or other parties.

City of Laurel

Detailed Recommendations

For the period February 1, 2014 through January 31, 2015

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the Department and the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff and elected officials.

- (F) Fire Department Debit Cards – The Fire Department has debit cards available for use by volunteers while on Department business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the Fire Department. Debit cards provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (G) Fire Department Financial Accounting Records – Limited financial records were maintained by the Department for the period reviewed. The following conditions were identified:

- Pre-numbered receipts were not issued for collections from donations and fund raising activities.
- Disbursements were not approved or documented in the City Council or Fire Department meeting minutes.
- Adequate supporting documentation for disbursements was not maintained.
- Checks were not always issued in numerical sequence and some check numbers appear to have never been used.
- Monthly bank reconciliations were not completed and bank statements were delivered to and reviewed by the individual responsible for disbursing the Department's funds.

Recommendation – The Department should develop policies and procedures to maintain adequate supporting documentation and accounting records to account for all receipts and disbursements. Records should include:

- Pre-numbered receipts issued for all collections.
- Adequate supporting documentation for disbursements, including vendor invoices.
- Checks prepared by the Treasurer and issued in sequential order. Checks should be reviewed and signed by the Fire Chief. The review should include comparing invoices and other supporting documentation to the check.
- Monthly bank to book reconciliations prepared by an independent person and reviewed by the Fire Chief, with the review being documented by the signature or initials of the reviewer and the date of the review.

In addition, disbursements should be reviewed and approved at Department and City Council meetings.

City of Laurel

Detailed Recommendations

For the period February 1, 2014 through January 31, 2015

- (H) Fire Department Questionable Disbursements – Chapter 384.3 of the Code of Iowa states in part, “All moneys received for city government purposes from taxes and other sources must be credited to the general fund of the city.” We determined the Department is a part of the City and, therefore, all monies received by the Department are subject to section 384.3 of the Code of Iowa and Article III, Section 31 of the Iowa Constitution, which requires public funds be spent only for the public benefit.

Certain disbursements which 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. These disbursements are detailed as follows:

- We identified the following occasions when the Fire Chief used the Department’s debit card for personal use: 1) May 20, 2014 for \$23 of gas purchased at a Hy-Vee in Topeka, KS and 2) August 6, 2014 for \$35 of food purchased at a Sonic Drive-In in Bethany, MO.
- We identified four disbursements totaling \$50 for the purchase of alcohol.
- We identified eight disbursements totaling \$237 for the purchase of food, meals for volunteers and gas.

According to the Attorney General’s opinion, it is possible for these 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.

We also noted payments totaling \$509 to the Fire Chief for items identified in the check memo as “can, vest, office supplies, computer, 1 used Dell PC laptop”. No documentation was available to support these payments. Accordingly, we were unable to determine the propriety of the payments, including whether these items were for personal or public use.

In addition, an allegation the Fire Chief used Department funds to purchase a vehicle for his son was brought to our attention. Per inquiry of the Fire Chief, the funds in question relate to two checks the City issued to the Fire Chief during 2013 to purchase a used Gator for the Fire Department if/when the Chief found an acceptable Gator at an auction or estate sale. We reviewed checks issued from the Fire Department’s checking account and identified check number 1201 dated April 26, 2013 and check number 1208 dated September 16, 2013 issued to the Fire Chief for \$500 and \$2,800, respectively. The “memo” on check number 1201 indicated “petty cash” and the “memo” on check number 1208 indicated “truck”. On June 9, 2014, several months after issuing these checks to the Fire Chief, the Department purchased a new Gator for \$14,500.

Although the Fire Chief reimbursed the above amounts to the City, \$500 on March 3, 2015 and \$2,800 on March 4, 2015, the reimbursements occurred nearly a year after the City purchased a new Gator and nearly two years after the checks were originally issued to the Fire Chief. We were unable to determine the propriety of these two payments to the Fire Chief, including why the City’s funds were advanced to the Fire Chief and why reimbursement of these funds was not made timely.

City of Laurel

Detailed Recommendations

For the period February 1, 2014 through January 31, 2015

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

It is not unusual for local fire departments to establish legally separate auxiliary organizations which raise funds used to support the department. Proceeds raised by legally separate auxiliary organizations are typically from fundraisers and similar events. Legally separate auxiliary organization funds may be maintained separate from the City's accounts and may be used for purchases the City Council does not include in the City's budget.

In addition, the City should consult legal counsel to determine the disposition of the checks issued to the Fire Chief. Checks should be written for goods only after a verified vendor invoice supporting the payment is received and reviewed. Advances to City personnel should be prohibited. In addition, the City should consult legal counsel and seek reimbursement for the personal use items identified above.

- (I) Fire Department Supporting Documentation for Disbursements – The Fire Department did not maintain adequate supporting documentation for all disbursements. We identified 39 disbursements totaling \$2,302 for which adequate supporting documentation was not maintained. We were able to determine a portion of the disbursements were necessary and reasonable for the Department's operations based on the goods and services provided by the vendor.

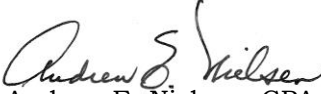
Recommendation – The Department and the City Council should implement policies requiring adequate supporting documentation be provided in order to determine the goods and services purchased and the related quantity. Disbursements should not be approved unless adequate supporting documentation is available.

City of Laurel

Staff

This agreed-upon procedures engagement was performed by:

James S. Cunningham, CPA, Manager
Ryan T. Jelsma, Senior Auditor
Jessica L. Russell, Assistant Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State