

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

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 9, 2016

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Lost Nation, Iowa for the period January 1, 2015 through December 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 control procedures to obtain the maximum internal control possible and establish procedures to reconcile utility billings, collections and delinquent accounts. 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 and the City should fully implement the Uniform Chart of Accounts for Iowa City Governments.

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 <https://auditor.iowa.gov/reports/1522-0210-EPOP>.

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CITY OF LOST NATION

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

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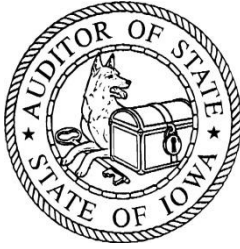
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City of Lost Nation

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James S. Schroeder	Mayor	Jan 2018
Sharon Steiner	Mayor Pro Tem	Jan 2016
Gary Spinler	Council Member	Jan 2016
Derrick Dirks	Council Member	Jan 2018
Ken Lacy	Council Member	Jan 2018
Justin Wagner	Council Member	Jan 2018
Janet Burke	City Clerk/Treasurer	Indefinite
Steve Kahler	Attorney	Indefinite

City of Lost Nation



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Independent Accountant's Report on Applying Agreed-Up 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 Lost Nation for the period January 1, 2015 through December 31, 2015. The City of Lost Nation'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 2015 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 and tested selected receipts for accurate accounting and consistency with the recommended COA.

9. 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.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. 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.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Lost Nation, 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 Lost Nation and other parties to whom the City of Lost Nation 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 Lost Nation 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

April 18, 2016

Detailed Recommendations

City of Lost Nation

Detailed Recommendations

For the period January 1, 2015 through December 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. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – investing, recordkeeping, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing, distributing and entering rates into the system.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (8) Financial reporting – preparing and reconciling.

For the Library Board, one individual has control over each of the following areas:

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

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and Library Board should review their 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) Library Account Bank Reconciliations – Bank reconciliations were prepared each month for the Library accounts except for September 2015. However, the bank reconciliations prepared after July 2015 did not include investment account balances. There is no evidence of independent review of the bank reconciliations. In addition, the check register has not been updated since September 2015.

Recommendation – Bank reconciliations should be prepared monthly and should include all activity and balances. Independent reviews should be documented by the signature or initials of the reviewer and the date of the review. The check register should be kept current.

City of Lost Nation

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (C) City Bank Reconciliations – Monthly bank reconciliations were not always retained and, accordingly, there is no evidence the bank reconciliations were performed. The June 2015 bank reconciliation was retained. While the reconciliation report generated from the City’s financial system includes the City’s main checking account, it excludes the City’s investment accounts. Reconciliations are not reviewed by an independent person. In addition, the City did not retain voided checks.
- Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Voided checks should be retained.
- (D) Investments – An accounting record/register is not maintained for each investment. In addition, the City does not maintain a record of the interest earned on certificates of deposit (CD) held for the Enterprise, Water and Sewer Funds. Interest earned on these CDs is added to the investment and a check is not remitted to the City.
- Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained. The City should develop procedures to ensure the value of all investments is properly reflected in the accounting records, including interest earned and added to CD balances.
- (E) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.
- Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.
- (F) Security of Unused Checks – Unused checks are not stored in a secure location.
- Recommendation – The City should develop procedures to ensure unused checks are stored in a secure location.
- (G) Chart of Accounts and Accounting System – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City’s accounting system does not allow the City to track balances by fund and the City has not established procedures to track balances by fund outside of the accounting system.
- Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed. The City should develop procedures to ensure fund balances are maintained and accounted for accurately.
- (H) Annual Financial Report – The total fund balance of \$445,196 reported in the fiscal year 2015 Annual Financial Report (AFR) was \$7,655 less than the City’s general ledger balance plus the value of certificates of deposit held on June 30, 2015. In addition, the fund balance allocation between governmental and proprietary funds reported in the AFR could not be supported.

City of Lost Nation

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

Recommendation - The City should ensure future Annual Financial Reports agree with the City's records.

- (I) Management Financial Information – The City Clerk's financial reports to the City Council included year-to-date receipts and disbursements but did not include cash and investment balances, comparisons to the certified budget by function or a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendment of the certified budget, the City Clerk's monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, the monthly reports should include the cash and investment balances and beginning balances, receipts, disbursements, transfers and ending balances for each fund.

- (J) 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 should be documented by the signature or initials of the reviewer and the date of the review.

- (K) Local Option Sales Tax (LOST) – The City's LOST ballot requires LOST receipts be used 50% for property tax relief, 40% for capital improvements and 10% for economic development. No documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

- (L) Payroll – The following were identified during our payroll testing:

- (1) Timesheets did not include evidence of supervisory review.
- (2) Compensatory time hours and balances are not adequately tracked, properly approved or reviewed.
- (3) There was no evidence of approval by the City Council for the salary of the City Clerk or the wage rate for two employees tested.
- (4) An independent person does not test wages and withholdings to ensure proper payroll calculations.

Recommendation - All timesheets and accrual or usage of compensatory time should be reviewed and approved by supervisory personnel prior to processing payroll. The City Council should approve pay rates for City employees at the time of hiring and when raises occur. Salary and wage rate approval should be documented in the minutes record. An independent person should periodically review and test wage and withholding rates entered in the system for proper calculations. Evidence of testing should be retained.

City of Lost Nation

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (M) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the public safety function. 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.

- (N) City Council Meeting Minutes – Minutes of City Council meetings are not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – All minutes of City Council meetings should be signed to authenticate the actions taken, as required.

- (O) Official Depositories – 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 – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council, as required.

- (P) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not retain electronic images of the back of cancelled checks.

Recommendation – The City should retain images of both the front and back of cancelled checks, as required.

- (Q) Separately Maintained Records – The bookkeeping and custody of the Library checking account, savings accounts and certificates of deposit were under the control of the Library Board and maintained separately from the City’s Clerk’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.

- (R) Questionable Disbursements – During the period reviewed, \$100 was donated to the Lost Nation Booster Club and \$50 was donated to Midland Post Prom. These disbursements may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

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.

City of Lost Nation

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

Recommendation – The City Council 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 requirements for proper public purpose documentation.

- (S) Disbursements – The City Council approves disbursements at each monthly meeting. Two disbursements tested were not included in the listing provided to the City Council for approval. One disbursement tested was not properly supported.

Recommendation – All City disbursements should be approved by the City Council and adequate supporting documentation should be maintained.

- (T) Library Board Disbursements – No documentation was available to support one disbursement tested. In addition, paid invoices or other supporting documentation are not properly cancelled to prevent reuse.

Recommendation – Supporting documentation should be maintained for all disbursements. Paid invoices or other supporting documentation should be cancelled to prevent reuse.

City of Lost Nation

Staff

This agreed-upon procedures engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager
Gwen D. Fangman, CPA, Senior Auditor II
Alex M. Kawamura, Assistant Auditor


Marlys K. Gaston, CPA
Director