



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

October 3, 2016

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Leon, Iowa for the period July 1, 2014 through June 30, 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. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements exceed the amounts budgeted.

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/1521-0251-BLOF>.

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CITY OF LEON

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

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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City of Leon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Kilgore	Mayor	(Resigned Apr 2015)
Allen Simmonds (Appointed)	Mayor	Nov 2015
Allen Simmonds	Mayor Pro-tem	(Resigned Apr 2015)
Sharon South	Mayor Pro-tem	Jan 2016
Sue Kelly	Council Member	Jan 2016
Joe Stephens (Appointed)	Council Member	Nov 2015
Troy Armstrong	Council Member	Jan 2018
Elmer Easton	Council Member	Jan 2018
Gregory Crocker	City Administrator/Clerk	Indefinite
Eric Fisk	Attorney	Indefinite

City of Leon



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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 Leon for the period July 1, 2014 through June 30, 2015. The City of Leon'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 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.

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 Leon, 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 Leon and other parties to whom the City of Leon 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 Leon 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

March 23, 2016

Detailed Recommendations

City of Leon

Detailed Recommendations

For the period July 1, 2014 through June 30, 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) Receipts – opening mail, collecting, depositing, journalizing, maintaining receivable records, reconciling and posting.
- (2) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (3) Disbursements – check writing, recording 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.

(B) Utility Reconciliations – While utility billing reconciliations are prepared, the amounts in the reconciliations are not compared to supporting records, including billing registers and general ledger receipts, to ensure accuracy. In addition, delinquent account listings are not maintained by the City.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to ensure amounts in the utility reconciliations agree to supporting records. The City Council or a City Council designated independent person should review the reconciliations and monitor delinquent accounts. Reviews of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

(C) Revenue Bonds – The provisions of the water revenue bonds require water user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During the year ended June 30, 2015, the City was not in compliance with the net receipt requirement for the water revenue bonds as required by the bond resolution.

Recommendation – The City should ensure water user rates are established at a level which produces net receipts of 110% of the annual principal and interest payments on the bonds.

(D) Local Option Sales Tax – Prior to July 1, 2010, Local Option Sales Tax (LOST) receipts were collected for the construction and maintenance of the swimming pool. On June 30, 2010, the City had \$352,928 of local option sales tax receipts available for pool maintenance. On July 1, 2010, a revised LOST ballot measure was approved changing the allowable use of LOST funds to the construction and maintenance of street improvements, including necessary equipment, and the acquisition, demolition and restoration of dangerous and dilapidated properties.

City of Leon

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

Since July 1, 2010, when the allowable use of LOST receipts changed, the City has pooled LOST receipts and balances into one fund and has not properly tracked the use of LOST receipts or unspent balances for the purposes specified in the LOST ballots.

Recommendation – The City should determine the appropriate unspent balances pertaining to the two LOST ballot measures and should separately account for the use of LOST receipts and unspent balances for each specified purpose.

- (E) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the culture and recreation function prior to the budget amendment. At June 30, 2015, disbursements in the public works function exceeded the amount budget. 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.

- (F) Disbursements – For 5 of 30 items tested, disbursements were not approved by the City Council.

Recommendation – The City should develop procedures to ensure all disbursements are properly approved by the City Council.

- (G) Payroll – Salary increases have been approved as percentage increases and the actual salaries or wages are not documented in the City Council meeting minutes.

Recommendation – Procedures should be established to ensure all pay increases are adequately documented in the City Council meeting minutes by recording the new, approved rate or salary, not just the percentage increase.

- (H) Initial Listing – A listing of checks received in the mail was not prepared and reviewed by an independent person.

Recommendation – A listing of checks received in the mail should be prepared by a person other than accounting personnel. The listing should be compared to the receipt records by an independent person.

- (I) Computer System – The City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop a written disaster recovery plan for its computer system. The disaster recovery plan should be reviewed at least once a year.

- (J) Deficit Fund Balance – At June 30, 2015, the City had a deficit balance of \$1,228 in the Capital Projects Fund.

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

City of Leon

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (K) Payment of General Obligation Debt – Certain general obligation notes were paid from the Enterprise, Refuse Disposal Fund. Chapter 384.4 of the Code of Iowa states, in part, “Money’s pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation - The City should transfer from the Enterprise, Refuse Disposal Fund to the Debt Service Fund for future funding contributions. Payment of the notes should then be made from the Debt Service Fund.

- (L) Library Deposits – Receipts were not always deposited timely. For three of five payments received from the State of Iowa, the receipts were not deposited within two weeks.

Recommendation – Procedures should be established to ensure all receipts are deposited timely.

- (M) Commercial/Industrial Replacement Claim – The City incorrectly recorded the commercial/industrial replacement claim as “property tax” rather than “intergovernmental” receipts.

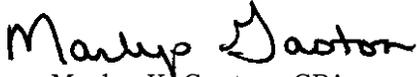
Recommendation – The City should ensure commercial/industrial replacement claim receipts are properly recorded.

City of Leon

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Dorothy O. Stover, Senior Auditor II
Alex W. Case, Assistant Auditor


Marlys K. Gaston, CPA
Director