



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

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NEWS RELEASE

FOR RELEASE

October 14, 2016

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Lambs Grove Periodic Examination Report dated September 4, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2015 through February 29, 2016.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. The findings included in this report are indications the City Council has exercised fiduciary oversight and has taken action to implement many of the recommendations. Eight of twelve findings reported in the periodic examination agreed-upon procedures report dated September 4, 2014 have been corrected. The City Council has not yet taken action to implement the remaining four findings.

A copy of the Report on the Status of Findings and Recommendations from the City of Lambs Grove Periodic Examination dated September 4, 2014 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/1422-0465-EPFP>.

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CITY OF LAMBS GROVE

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
JUNE 1, 2015 THROUGH FEBRUARY 29, 2016**

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City of Lambs Grove

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Perrenoud	Mayor	Jan 2016
Tom Clark	Council Member	Jan 2016
Kent DeGoey	Council Member	Jan 2016
Cindy Humke	Council Member	Jan 2016
Kevin Parsons	Council Member	Jan 2016
Steve Thomassen	Council Member	Jan 2016
Christina Machin	City Clerk/Treasurer	Indefinite

City of Lambs Grove



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Independent Accountant's Report on the Status of Periodic Examination
Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated September 4, 2014 on the City of Lambs Grove, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 4, 2014 and the status of the City's implementation of the recommendations included in the report.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

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 Lambs Grove and other parties to whom the City of Lambs Grove 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 Lambs Grove during the course of our follow up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

April 12, 2016

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Lambs Grove

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through February 29, 2016

Findings Reported in the Periodic Examination Report dated September 4, 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) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Debt – recordkeeping, compliance and debt payment processing.
- (5) Journal entries – preparing and journalizing.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (8) Computer system – performing all general accounting functions, controlling all data input and output and having custody of assets.
- (9) Financial reporting – preparing 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. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

(B) Bank Reconciliations – Bank and investment balances were not reconciled to the book balances recorded in the City’s accounting system and the reconciliations were not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger balances monthly. The reconciliations should be reviewed by an independent person and the review should be documented by signing or initialing and dating the reconciliation.

Current Status – Corrected. Bank reconciliations were performed monthly for the period reviewed and the reconciliations were independently reviewed. For the two months tested, June 2015 and February 2016, bank and investment account balances properly reconciled to the general ledger, the reconciliations were reviewed by an independent person and the independent review was documented.

City of Lambs Grove

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through February 29, 2016

- (C) Investments – An accounting record/register is not maintained for each investment, investments are not confirmed and investment earnings are not verified.

Recommendation – An accounting record/register should be maintained for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number.

Current Status – Corrected. An investment register was prepared monthly for the period reviewed. For the two months tested, June 2015 and February 2016, an investment register was correctly completed and included the appropriate information.

- (D) Disbursements – While the City Council notes approval of claims in the minutes and a list of claims is prepared, payment approval is not documented by the signature or initials of the reviewer and the date of approval on the supporting documentation. Also, invoices are not compared to purchase orders or receiving reports and checked for mathematical accuracy. In addition, supporting documentation for claims is not cancelled to prevent reuse.

Recommendation – Payment approval should be documented by the signature or initials of the reviewer with the date of review on the supporting documentation. Also, invoices should be compared to purchase orders or receiving reports and the mathematical accuracy should be verified. In addition, supporting documentation for claims should be cancelled to prevent reuse.

Current Status – Corrected. For the period reviewed, approved disbursement listings were signed by all Council members, supporting documentation was attached to each listing and supporting documents were canceled by marking them with “PD” followed by the check number.

- (E) 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.

Current Status – Not corrected as of February 29, 2016. However, an official depository resolution was adopted on April 7, 2016.

- (F) 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 receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (G) Transfer and Journal Entry Documentation – Supporting documentation was not maintained for interfund transfers. Additionally, transfers and journal entries are not approved by an independent person.

City of Lambs Grove

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through February 29, 2016

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable. Journal entries should be approved by an independent person and the approval should be documented.

Current Status – Partially corrected. During the period reviewed, transfers and journal entries were approved by the City Council and the approval was documented. However, the purpose of each transfer was not documented.

- (H) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments recommended by the City Finance Committee.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Not corrected. The recommendation is repeated.

- (I) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

Current Status – Corrected. The Annual Financial Report for the year ended June 30, 2015 was properly supported and receipts, disbursements and fund balances agreed with the City’s general ledger.

- (J) Monthly City Clerk’s Report – The Monthly City Clerk’s Report showed no evidence of independent review.

Recommendation – The City should ensure the Monthly City Clerk’s Report is reviewed by an independent person and the review is documented by the signature or initials of the reviewer and the date of review.

Current Status – Corrected. For the period reviewed, the monthly City Clerk’s Reports were reviewed by the City Council and the review was documented by the signature of each Council member.

- (K) City Council Meeting Minutes – Meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

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

Current Status – Corrected. For the period reviewed, the City Council meeting minutes were signed by the City Clerk and each Council Member.

City of Lambs Grove

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2015 through February 29, 2016

- (L) Gross Pay of Elected Officials – According to the City’s Code of Ordinances, the Mayor and each City Council Member should be paid \$32 and \$25 for each month, respectively. However, the City has not withheld Federal Insurance Contribution Act (FICA) tax from their gross pay, as required.

Recommendation – The City should ensure FICA has been withheld from elected officials’ gross pay, as required.

Current Status – Corrected. For the two months tested, the City properly withheld FICA for the elected officials.

City of Lambs Grove

Staff

This engagement was performed by:

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Marlys K. Gaston, CPA
Director