



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 15, 2017

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 Lacona's Periodic Examination Report dated January 15, 2015. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period April 1, 2015 through March 31, 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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While seven of the nineteen findings reported in the Periodic Examination Report dated January 15, 2015 have been corrected and three were partially corrected, nine of the findings are repeated in this report and are reported as "not corrected".

A copy of the City of Lacona's Report on the Status of Periodic Examination Findings and Recommendations 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/1422-0874-EPFP>.

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CITY OF LACONA

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

**FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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City of Lacona

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Paul Butler	Mayor	Dec 2015	Jan 2018
Rick Champ	Council Member	Jan 2014	Jan 2018
Damon Quick	Council Member	Jan 2014	Jan 2018
Lori Goering	Council Member	Jan 2016	Jan 2020
John Miller	Council Member	Jan 2016	Jan 2020
Jo Schurman	Council Member	Jan 2016	Jan 2020
Staci Catron	City Clerk		Indefinite
Marc Elcock	Attorney		Indefinite

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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 January 15, 2015 on the City of Lacona, Iowa covering the period December 1, 2013 through November 30, 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 January 15, 2015 and the current status of the City's implementation of the recommendations included in that 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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

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 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 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

May 19, 2016

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

City of Lacona

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2015 through March 31, 2016

Findings Reported in the Periodic Examination Report dated January 15, 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) 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.

Current Status – Not corrected. The recommendation is repeated.

(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.

City of Lacona

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2015 through March 31, 2016

Current Status – Not corrected. With the help of the City’s accounting software vendor, the City was able to reconcile the cash balances in the City’s general ledger to the bank account balances through August 2015. However, since August 2015 no monthly bank reconciliations have been performed by the City. The recommendation is repeated.

- (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.

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.

Current Status – Corrected. All receipts and disbursements were properly reported on the fiscal year 2015 AFR and the ending fund balances agreed to the City’s general ledger.

- (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.

Current Status – Corrected. The fiscal year 2015 Street Financial Report agrees 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.

Current Status – Not corrected. The recommendation is repeated.

- (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.

Current Status – Not corrected. The recommendation is repeated.

City of Lacona

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2015 through March 31, 2016

- (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.

Current Status – Corrected. The City no longer utilizes a petty cash fund.

- (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.

Current Status – Partially corrected. During the period reviewed, the City Clerk began running a delinquent accounts report monthly in order to generate late notices. The delinquent accounts report was provided to and reviewed by the City Council each month. Monthly reconciliations of utility billings, collections and delinquent accounts were not prepared. The recommendation is partially repeated.

- (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.

Current Status – Not corrected. During the period reviewed, one open access grant totaling \$25 was deposited with the Friends of the Library rather than into the City's account. The recommendation is repeated.

- (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.

Current Status – Not corrected. During the period reviewed, five disbursements tested were paid prior to City Council approval but were for items not included in the resolution. The recommendation is repeated.

City of Lacona

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2015 through March 31, 2016

- (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.

Current Status – Not corrected. The recommendation is repeated.

- (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.

Current Status – Not corrected. Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the community and economic development function. The recommendation is repeated.

- (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.

Current Status – Partially corrected. For the period reviewed, no instances were noted where the minutes publication did not include a summary of ordinances or amendments adopted and closed sessions reviewed were entered into properly. However, the minutes publications did not include a summary of receipts. The recommendation is partially repeated.

City of Lacona

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2015 through March 31, 2016

- (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.

Current Status – Partially corrected. The City adopted a depository resolution on April 4, 2016. However, the City has not adopted a written investment policy. The recommendation is partially repeated.

- (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.

Current Status – No longer valid. During the period reviewed, the City did not enter in to any new 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.

Current Status – Corrected. During the period reviewed, no payments were made to unauthorized help.

- (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.

Current Status – Not corrected. At March 31, 2016, the City had a deficit balance of \$125,870 in the Enterprise, Water Fund. The recommendation is repeated.

- (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.

City of Lacona

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2015 through March 31, 2016

Current Status - Corrected. During the period reviewed, the Employer's Quarterly Federal Tax Returns, Forms 941, were completed and filed timely.

- (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.

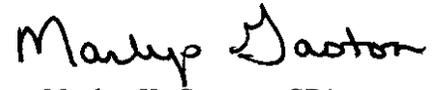
Current Status - Corrected. The City's Code of Ordinances was compiled and adopted on January 4, 2016.

City of Lacona

Staff

This engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager
Jenny M. Podrebarac, Senior Auditor II

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director