



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

October 3, 2018

Contact: Marlys Gaston  
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Lockridge, Iowa for the period January 1, 2017 through December 31, 2017. 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, including ensuring independent review of monthly bank reconciliations. The City should also establish procedures to ensure bank reconciliations include all accounts and are retained. In addition, the City should establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period.

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://www.auditor.iowa.gov/reports/audit-reports/>.

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**CITY OF LOCKRIDGE**

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

**FOR THE PERIOD**  
**JANUARY 1, 2017 THROUGH DECEMBER 31, 2017**

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**City of Lockridge**

**Officials**

| <u>Name</u>         | <u>Title</u>   | <u>Term Began</u> | <u>Term Expires</u> |
|---------------------|----------------|-------------------|---------------------|
| Paul Corbin         | Mayor          | Jan 2016          | Jan 2018            |
| Danny Nelson        | Council Member | Jan 2014          | Jan 2018            |
| Richard Richardson  | Council Member | Jan 2014          | Jan 2018            |
| James Gross         | Council Member | Jan 2016          | Jan 2020            |
| Judy Hoover-Warning | Council Member | Jan 2016          | Jan 2020            |
| Michael Renken      | Council Member | Nov 2017          | Jan 2022            |
| Joyce LeDuc         | City Clerk     |                   | Indefinite          |
| Donna Fillinger     | City Treasurer |                   | Indefinite          |
| Michael Brown       | Attorney       |                   | Indefinite          |

**City of Lockridge**



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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 Lockridge for the period January 1, 2017 through December 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Lockridge's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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 2017 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.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lockridge 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

September 4, 2018



## **Detailed Recommendations**

City of Lockridge

Detailed Recommendations

January 1, 2017 through December 31, 2017

(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 or two individuals have control over each of the following areas for the City:

- (1) Cash – handling, collecting and depositing.
- (2) Investments – recordkeeping and reconciling earnings.
- (3) Receipts – opening mail, collecting and depositing, recording and reconciling.
- (4) Payroll – recordkeeping and distributing.
- (5) Utilities – billing, collecting, depositing, entering rates into the system and maintaining detail accounts receivable records.

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 monthly reconciliations performed in the software were not saved and only the last monthly reconciliation performed by the City was available from the accounting system. We tested the last reconciliation in the system which was for January 2018 and the bank and book balances properly reconciled. Because monthly reconciliations are not retained, there is no evidence of independent reviews of the monthly bank reconciliations. In addition, the Playground Fund is not included in the reconciliation. The June 30, 2017 bank statement balance in the Playground Fund was \$372.

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. The reconciliations should include all accounts and should be retained by the City. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

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

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

(D) Monthly City Clerk's Report – The monthly City Clerk's reports (Consent Agenda) to the City Council did not include a summary of beginning and ending fund balances, year to date receipts and disbursements by fund or a comparison of total disbursements for all funds to the certified budget by function. The reports also did not include a \$3,971 certificate of deposit (CD) and the outstanding debt reported on the July 5, 2017 consent agenda for the June 30, 2017 report was overstated by \$15,005.

City of Lockridge

Detailed Recommendations

January 1, 2017 through December 31, 2017

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons of total disbursements to the certified budget by function. Also for better financial information, the City Clerk’s monthly reports should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund. Additionally, outstanding debt should be properly reported and all bank and investment activity, including CDs, should be included on the City Clerk’s monthly report.

- (E) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, although a resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa, it does not include the maximum allowable deposits for each institution.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (F) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the community and economic development and debt service 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.

- (G) 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 for several bank accounts.

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

- (H) Transfers – Transfers are recorded as disbursements and receipts. Transfers between funds were not approved individually by the City Council. They were, however, approved as a receipt or disbursement for each fund involved.

Recommendation – The City Council should approve all interfund transfers prior to the actual transfer and document approval as part of the minutes record. Transfers should be recorded as such in the accounting system to distinguish them from receipts and disbursements.

City of Lockridge

Detailed Recommendations

January 1, 2017 through December 31, 2017

- (I) Annual Financial Report – While the June 30, 2017 total ending Annual Financial Report (AFR) balance agreed with the City’s records, total receipts and disbursements did not agree with City records.

Recommendation – The City should establish procedures to ensure the AFR receipts and disbursements agree with City records.

- (J) Disbursements – Two receipts totaling \$20 for meals while traveling were not properly supported. Support consisted of hotel bill charges, however detailed receipts were not retained.

Recommendation – The City should ensure all disbursements are properly supported prior to payment.

- (K) Unclaimed Property – The City does not report and remit unclaimed property to the Office of State Treasurer as required by Chapter 556.11 of the Code of Iowa.

Recommendation – The City should ensure unclaimed property is properly reported and remitted to the Office of State Treasurer annually, as required.

- (L) Payroll – The City Clerk and City Treasurer each utilize an informal timesheet system consisting of recording time worked in a notebook. However, there is no evidence of approval by an independent person.

Recommendation – The City should implement the use of formal timesheets. All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Supervisory approval should be documented by the signature or initials of the supervisor and the date of approval.

- (M) Public Hearing – During the period of review, the City entered into a \$202,000 loan agreement to provide funds to remove an old school building. The City did not comply with the provisions of Chapter 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures be followed prior to entering into a loan agreement, including publication of a notice of intended action and the time and place of a public hearing, to approve the intended action.

Recommendation – The City should comply with Chapters 384.24A and 384.25 of the Code of Iowa before entering into future loan agreements.

- (N) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Lockridge

Detailed Recommendations

January 1, 2017 through December 31, 2017

(O) Investments – An accounting record/register is not maintained for each investment.

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

City of Lockridge

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Kelly L. Hilton, Senior Auditor  
Erin M. Wittrock, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director