



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 21, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Lorimor, Iowa for the twelve month period October 1, 2016 through September 30, 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 and establish procedures to reconcile utility billings, collections and delinquent accounts each period. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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/audit-reports/>.

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CITY OF LORIMOR

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
OCTOBER 1, 2016 THROUGH SEPTEMBER 30, 2017

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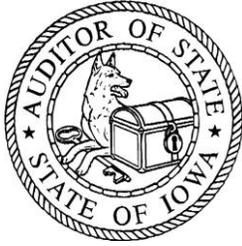
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City of Lorimor

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|------------------|----------------|-------------------|-----------------------|
| Kent Forbes | Mayor | May 2017 | (Resigned Oct 2017) |
| Lindsey Brobst | Mayor | Sep 2016 | (Resigned March 2017) |
| Karen Forbes | Council Member | Jan 2016 | (Resigned Oct 2017) |
| Kent Forbes | Council Member | Jan 2016 | (Resigned May 2017) |
| Tim O'Neil | Council Member | Jan 2016 | Jan 2020 |
| Jeanette Schwabe | Council Member | Sep 2016 | Jan 2020 |
| Deborah Stuchel | Council Member | May 2017 | (Resigned Oct 2017) |
| Cindy Harper | City Clerk | | (Resigned May 2017) |
| Judy Huxhold | City Clerk | | (Resigned Oct 2017) |
| Marc Elcock | Attorney | | Indefinite |

City of Lorimor



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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 Lorimor for the period October 1, 2016 through September 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Lorimor'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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 Lorimor 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

October 16, 2018

Detailed Recommendations

City of Lorimor

Detailed Recommendations

For the period October 1, 2016 through September 30, 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 individual has control over each of the following areas for the City:

- (1) Cash – handling, depositing, reconciling, and recording.
- (2) Investing – recordkeeping, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Debt – recordkeeping, compliance and debt payment processing.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing, distributing and adding or removing employees from the system.
- (7) Utilities – billing, collecting, depositing and posting.
- (8) 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.

(B) City Fire Department – All accounting functions are handled by one individual without adequate compensating controls. In addition, pre-numbered receipts are not issued, paid invoices or other supporting documentation are not properly canceled and accounting records did not facilitate the proper classification of receipts or disbursements.

Recommendation – The Fire Department should segregate accounting duties to the extent possible, require the issuance of pre-numbered receipts for all collections, cancel invoices or other supporting documentation and properly classify receipts and disbursements in the accounting records.

(C) Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations included only the checking accounts and did not include investments, which are necessary to reconcile with the monthly financial reports. In addition, there is no evidence an independent review of the bank reconciliations was performed.

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.

City of Lorimor

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (D) Annual Financial Report – The June 30, 2017 general ledger balance for the governmental funds did not agree to the ending balance reported in the fiscal year 2017 Annual Financial Report (AFR) for governmental activities by \$88. The June 30, 2017 general ledger balance for enterprise funds did not agree to the ending balance reported in the fiscal year 2017 AFR for business type activities by \$599. Also, certain receipts and disbursements did not agree with the City’s records.

Recommendation – The City should establish procedures to ensure the AFR agrees to the City’s financial records.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections, and delinquent accounts were not reconciled throughout the year. The City does not have a written policy pertaining to write-offs of delinquent utility accounts or assessing late fees. In addition, adjustments to accounts were not approved or supported.

Recommendation – Procedures should be established to reconcile utility billing, 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. The City should establish a formal written policy for writing off delinquent accounts and charging late fees. In addition, all write-offs should be supported and approved by the City Council.

- (F) Utility Rates – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. Chapter 372.13(5) of the Code of Iowa requires City records and documents be retained. The ordinance establishing the City’s utility rates could not be located and was unavailable for review during the performance of our procedures.

Recommendation – The City should ensure utility rates are established by ordinance and the ordinances are retained, as required.

- (G) Computer System – The City does not have written policies over general computer usage and security and does not have a written disaster recovery plan. Also, computer journal entries are not supported, reviewed and approved by an independent person.

Recommendation – The City should develop a computer usage and security policy to improve the City’s control over its computer system and should develop a written disaster recovery plan.

- (H) 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. Minutes for two meetings tested were not published within fifteen days. In addition, the City did not publish annual gross salaries for the year ending December 31, 2016 as required by Chapter 372.13(6) of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978. Also, the publication of minutes for four meetings tested did not include total disbursements by fund or a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes, including total disbursements by fund and a summary of receipts within fifteen days, as required. In addition, the City should publish annual gross salaries as required by the Code of Iowa and the Attorney General’s Opinion.

City of Lorimor

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (I) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, culture and recreation, 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.

- (J) Disbursements – One disbursement tested was not properly supported by an invoice.

Recommendation – The City should ensure all disbursements are properly supported by invoices or other supporting documentation.

- (K) Credit Card Disbursements – The City has credit cards for use by various employees for City purchases. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Additionally, supporting documentation was not always available in support of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy at minimum should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

- (L) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Fire Department 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 Fire Department does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The Fire Department 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.

- (M) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The Lorimor Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. While this Department is part of the City, 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 Reports.

City of Lorimor

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account's receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department separate accounts should be integrated with the City's accounting records in the City Clerk's office. The financial activity should be included in the City Clerk's accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of each account's receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (N) Financial Reporting – Community Development Block Grant receipts of \$22,192 were incorrectly recorded in the Road Use Fund rather than the General Fund. Also, certain receipt transactions were not recorded in the general ledger.

Recommendation – The City should implement procedures to ensure all receipts are properly recorded.

- (O) Financial Condition – At September 30, 2017, Special Revenue, Road Use Tax and Employee Benefits Funds and the Debt Service and Enterprise, Garbage Funds had deficit balances.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

- (P) Depository Resolution – 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 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.

- (Q) Investments – Although a record of investment transactions was maintained, the record was not updated or complete.

Recommendation – A current and complete detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate and amount of principal and interest received.

City of Lorimor

Staff

This engagement was performed by:

James S. Cunningham, CPA, Manager
Alex N. Kawamura, CPA, Staff Auditor
Luis Hernandez, Assistant Auditor


Marlys K. Gaston, CPA
Director