



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

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**NEWS RELEASE**

FOR RELEASE

February 7, 2019

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Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Lost Nation's Periodic Examination Report dated April 18, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2017 through December 31, 2017.

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 the City corrected five of the twenty findings reported in the Periodic Examination Report dated April 18, 2016 and partially corrected six, nine of the findings are reported as "not corrected." Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Lost Nation's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**CITY OF LOST NATION**

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

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

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**City of Lost Nation**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Ramon Gilroy	Mayor	Jan 2018	Jan 2020
Robert Atkinson	Mayor Pro Tem	Jan 2016	Jan 2020
Robert Lynn Smith	Council Member	Jan 2016	Jan 2020
Stephanie Dosland	Council Member	Jan 2018	Jan 2022
Ken Lacey	Council Member	Jan 2018	Jan 2022
Justin Wagner	Council Member	Jan 2018	Jan 2022
Janet Burke	City Clerk/Treasurer		Indefinite
Jennifer Condon	Attorney		Indefinite

**City of Lost Nation**



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Auditor of State's Independent 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 April 18, 2016 on the City of Lost Nation, Iowa covering the period January 1, 2015 through December 31, 2015 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 date April 18, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2017 through December 31, 2017.

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.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated April 18, 2016. 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 Lost Nation 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.

A handwritten signature in black ink that reads "Rob Sand".

ROB SAND  
Auditor of State

January 8, 2019

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

City of Lost Nation

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2017 through December 31, 2017

**Findings Reported in the Periodic Examination Report dated April 18, 2016:**

(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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – investing, recordkeeping, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing, distributing and entering rates into the system.
- (7) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (8) Financial reporting – preparing and reconciling.

For the Library Board, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and Library Board should review their 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) Library Account Bank Reconciliations – Bank reconciliations were prepared each month for the Library accounts except for September 2015. However, the bank reconciliations prepared after July 2015 did not include investment account balances. There is no evidence of independent review of the bank reconciliations. In addition, the check register has not been updated since September 2015.

Recommendation – Bank reconciliations should be prepared monthly and should include all activity and balances. Independent reviews should be documented by the signature or initials of the reviewer and the date of the review. The check register should be kept current.



City of Lost Nation

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2017 through December 31, 2017

**Current Status – Partially corrected. During the period reviewed, bank reconciliations were prepared for each month. However, one of four bank reconciliations reviewed did not include investment balances. There is no evidence of independent review of the bank reconciliations. The recommendation is partially repeated.**

- (C) City Bank Reconciliations – Monthly bank reconciliations were not always retained and, accordingly, there is no evidence the bank reconciliations were performed. The June 2015 bank reconciliation was retained. While the reconciliation report generated from the City’s financial system includes the City’s main checking account, it excludes the City’s investment accounts. Reconciliations are not reviewed by an independent person. In addition, the City did not retain voided checks.

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. Voided checks should be retained.

**Current Status – Partially corrected. During the period reviewed, all bank statements and voided checks were retained. However, the reconciliation report excludes investment accounts. In addition, reconciliations are not reviewed by an independent person. The recommendation is partially repeated.**

- (D) Investments – An accounting record/register is not maintained for each investment. In addition, the City does not maintain a record of the interest earned on certificates of deposit (CD) held for the Enterprise, Water and Sewer Funds. Interest earned on these CDs is added to the investment and a check is not remitted to the City.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained. The City should develop procedures to ensure the value of all investments is properly reflected in the accounting records, including interest earned and added to CD balances.

**Current Status – Not corrected. The recommendation is repeated.**

- (E) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

**Current Status – Corrected. During the period reviewed, checks reviewed were restrictively endorsed.**

City of Lost Nation

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2017 through December 31, 2017

- (F) Security of Unused Checks – Unused checks are not stored in a secure location.

Recommendation – The City should develop procedures to ensure unused checks are stored in a secure location.

**Current Status – Corrected. During the period reviewed, unused checks were stored in a locked area.**

- (G) Chart of Accounts and Accounting System – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City's accounting system does not allow the City to track balances by fund and the City has not established procedures to track balances by fund outside of the accounting system.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed. The City should develop procedures to ensure fund balances are maintained and accounted for accurately.

**Current Status – Corrected. During the period reviewed, effective July 2017, the City established procedures to implement the Uniform Chart of Accounts and track balances by fund.**

- (H) Annual Financial Report – The total fund balance of \$445,196 reported in the fiscal year 2015 Annual Financial Report (AFR) was \$7,655 less than the City's general ledger balance plus the value of certificates of deposit held on June 30, 2015. In addition, the fund balance allocation between governmental and proprietary funds reported in the AFR could not be supported.

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

**Current Status – Not Corrected. The total fund balance of \$361,207 reported in the fiscal year 2017 AFR was \$3,179 less than the City's general ledger balance plus the value of certificates of deposit held on June 30, 2017. The fund balance allocation between governmental and proprietary funds reported in the AFR could not be supported. In addition, the reported budget for several revenue categories did not agree with the amended fiscal year 2017 budget. The recommendation is repeated.**

- (I) Management Financial Information – The City Clerk's financial reports to the City Council included year-to-date receipts and disbursements but did not include cash and investment balances, comparisons to the certified budget by function or a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund.

City of Lost Nation

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2017 through December 31, 2017

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendment of the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, the monthly reports should include the cash and investment balances and beginning balances, receipts, disbursements, transfers and ending balances for each fund.

**Current Status – Partially corrected. During the period reviewed, beginning in July 2017, the City Clerk’s monthly financial reports to the City Council included comparisons to the certified budget by function and included receipts and disbursements. However, the beginning and ending balances do not include the investment balances. The recommendation is partially repeated.**

- (J) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – 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 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.**

- (K) Local Option Sales Tax (LOST) – The City’s LOST ballot requires LOST receipts be used 50% for property tax relief, 40% for capital improvements and 10% for economic development. No documentation is maintained to support how the funds were used or the unspent balances held for the specified purposes.

Recommendation – The City should establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

**Current Status – Partially corrected. During the period reviewed, documentation was maintained to support how LOST funds were used for the period July 1, 2017 through December 31, 2017. However, no documentation was maintained to track the unspent balances held prior to July 1, 2017 for the specified purposes. The recommendation is partially repeated.**

- (L) Payroll – The following were identified during our payroll testing:

- (1) Timesheets did not include evidence of supervisory review.
- (2) Compensatory time hours and balances are not adequately tracked, properly approved or reviewed.
- (3) There was no evidence of approval by the City Council for the salary of the City Clerk or the wage rate for two employees tested.
- (4) An independent person does not test wages and withholdings to ensure proper payroll calculations.

City of Lost Nation

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2017 through December 31, 2017

Recommendation – All timesheets and accrual or usage of compensatory time should be reviewed and approved by supervisory personnel prior to processing payroll. The City Council should approve pay rates for City employees at the time of hiring and when raises occur. Salary and wage rate approval should be documented in the minutes record. An independent person should periodically review and test wage and withholding rates entered in the system for proper calculations. Evidence of testing should be retained.

**Current Status – Partially corrected. During the period reviewed, timesheets tested included evidence of supervisory review and there was evidence of approval by the City Council for pay rates for City employees. However, compensatory time hours and balances were not sufficiently tracked, reviewed or properly approved and an independent person did not test wages and withholding rates entered in the system for proper calculations. The recommendation is partially repeated.**

- (M) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the public safety function. 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 – Corrected. Disbursements during the year ended June 30, 2017 did not exceed the amounts budgeted.**

- (N) City Council Meeting Minutes – Minutes of City Council meetings are not signed as required by Chapter 380.7 of the Code of Iowa.

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

**Current Status – Corrected. During the period reviewed, minutes of City Council meetings were signed by the City Clerk and Mayor.**

- (O) 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. The recommendation is repeated.**

- (P) 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 retain electronic images of the back of cancelled checks.

Recommendation – The City should retain images of both the front and back of cancelled checks, as required.

City of Lost Nation

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2017 through December 31, 2017

**Current Status – Partially corrected. During the period reviewed, the City retained images of both the front and back of the cancelled checks for the City’s checking account. However, the Library Board does not retain electronic images of the back of cancelled checks for the Library Board checking account. The recommendation is partially repeated.**

- (Q) Separately Maintained Records – The bookkeeping and custody of the Library checking account, savings accounts and certificates of deposit were under the control of the Library Board and maintained separately from the City’s Clerk’s accounting records.

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.**

- (R) Questionable Disbursements – During the period reviewed, \$100 was donated to the Lost Nation Booster Club and \$50 was donated to Midland Post Prom. These disbursements may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

**Current Status – Not corrected. During the period reviewed, no purpose was documented to show the requirements of public purpose were met for reimbursement of the Clerk’s mileage to Dubuque for \$43. The recommendation is repeated.**

- (S) Disbursements – The City Council approves disbursements at each monthly meeting. Two disbursements tested were not included in the listing provided to the City Council for approval. One disbursement tested was not properly supported.

Recommendation – All City disbursements should be approved by the City Council and adequate supporting documentation should be maintained.

**Current Status – Corrected. Disbursements selected for testing during the period reviewed were approved by the City Council and adequately supported.**

City of Lost Nation

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2017 through December 31, 2017

- (T) Library Board Disbursements – No documentation was available to support one disbursement tested. In addition, paid invoices or other supporting documentation are not properly cancelled to prevent reuse.

Recommendation – Supporting documentation should be maintained for all disbursements. Paid invoices or other supporting documentation should be cancelled to prevent reuse.

**Current Status – Not corrected. During the period reviewed, one of three disbursements tested did not have documentation available to support the transaction. The recommendation is repeated.**

**Additional Findings as a Result of Follow-up Procedures:**

- (U) Journal Entry Documentation – The accounting system does not leave an audit trail for journal entries made. Supporting documentation was not maintained for journal entries and journal entries are not reviewed and approved by an independent person.

Recommendation – Supporting documentation should be maintained for all journal entries. An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (V) Utility Collections and Delinquent Accounts – Utility records do not include information sufficient to document deposit dates for individual payments on account. Also, the City does not have policies and procedures addressing collection and write-off procedures for delinquent accounts. In addition, no written record is maintained for customers whose water has been shut off.

Recommendation – The City Clerk should document and maintain a record of the date utility payments are collected from the customer for use in the reconciliation of utility billings, collections and delinquent accounts. Also, the City should develop policies and procedures addressing collection and write-off procedures for delinquent accounts. A written record should be maintained for customers whose water has been shut off.

City of Lost Nation

Staff

This engagement was performed by:

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Deputy Auditor of State