



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

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

July 2, 2018

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the Leon, Iowa for the period July 1, 2016 through June 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 maximum internal control possible and establish procedures to reconcile utility billings, collections and delinquent accounts. The City should also amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget. In addition, the City should ensure bank reconciliations are completed monthly and are independently reviewed.

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/1721-0251-BLOF>.

# # #



**CITY OF LEON**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2016 THROUGH JUNE 30, 2017**

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**City of Leon**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Allen Simmonds	Mayor	Jan 2020
Joe Stephens	Mayor Pro-Tem	Jan 2020
Troy Armstrong	Council Member	(Resigned Sept 2016)
Jon Erb (Appointed Oct 2016)	Council Member	Nov 2017
Elmer Easton	Council Member	Jan 2018
Sue Kelly	Council Member	Jan 2018
Darlene Fuller	Council Member	Jan 2020
Denise Simmons	City Administrator	Indefinite
Hugh Cain	Attorney	Indefinite

**City of Leon**



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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 Leon for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Leon'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 Leon 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

June 22, 2018



## **Detailed Recommendations**

City of Leon

Detailed Recommendations

For the period July 1, 2016 through June 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 and Investments – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing 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 should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Although computer generated bank reconciliations are prepared and presented to the City Council for review, for one of two bank reconciliations tested (December 2016) the computer generated outstanding check listing total did not agree to the reconciliation report. The outstanding checks listing totaled \$1,815 more than outstanding checks on the reconciliation report. The June 2017 reconciliation we reviewed included no such variance. In addition, there is no evidence a thorough review of the bank reconciliation is 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.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although the City's utility software generates a monthly reconciliation of utility billings, collections and delinquent accounts, the amounts in the reconciliation are not compared to supporting records. Also, certain reconciling items were not supported and the "report beginning balance" on the reconciliations did not agree to the prior report ending balances. In addition, the monthly reconciliations are not reviewed by an independent person.

Recommendation – The City should ensure all amounts on the reconciliations of utility billings, collections and delinquent accounts are properly supported. The City Council or other independent person designated by the City Council should review the reconciliations and document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

City of Leon

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

(D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” We noted the following regarding the City’s 2017 AFR:

- The City’s ending fund balance is under reported by \$106,516.
- Adjusting journal entries to make corrections to various funds for fiscal year 2016 were not completed as recommended. Accordingly, fund balances for the General Fund, the Capital Projects Fund and the Debt Service Fund were incorrectly reported.
- Five of the seven line items tested included incorrect amounts.
- Total receipts were under reported by \$18,602.
- Total disbursements were over reported by \$290,541.
- Disbursements for the community and economic development function were not reported.
- The City coded certain transfers as negative receipts, resulting in an under reporting of LOST receipts by \$125,354.

Recommendation – The City should establish procedures to ensure the AFR is properly completed and agrees to the City’s records.

(E) Transfers – Approval of transfers is not documented in the City Council minutes record. Also, transfers in did not agree to transfers out by \$125,354. See Finding (D) above.

Recommendation – Interfund transfers should be balanced monthly to ensure transfers in agree to transfers out and transfers should be reviewed to ensure transfers are posted to the proper account codes. The City Council should approve all interfund transfers and document the approval as part of the City Council meeting minutes. The approval should include the amount, date, explanation, and the funds the funds are moving to and from.

(F) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the debt service 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.

City of Leon

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (G) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
DEMCO	Keurig coffee K-cup pods	\$ 351
All Flags LLC	Keurig coffee K-cup pods	45
Dollar General	Keurig coffee K-cup pods	125
Amazon	Keurig coffee K-cup pods	350

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 documentation.

- (H) General Obligation Bonds – Principal and interest on a portion of the City’s general obligation sanitary sewer bonds were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required.

- (I) Financial Condition– The Debt Service and Capital Project Funds had deficit balances at June 30, 2017 of \$3,503 and \$921, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficit balances in order to return the funds to a sound financial position.

City of Leon

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (J) Dual Compensation– Section 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office, but may be reimbursed for actual expenses incurred.” During the period July 1, 2016 through June 30, 2017, Elmer Easton, a City Council member, acted as a part time reserve police officer while also serving as a member of the City Council. Mr. Easton’s compensation as an employee totaled \$3,192 from July 1, 2016 through June 30, 2017.

Recommendation – The City should consult legal counsel to determine the proper disposition of this matter, including seeking reimbursement for the unallowable payments to City Council Member Easton.

- (K) Revenue Bonds and Notes – The City has not established a short lived asset account as required by the sewer revenue note resolution.

Recommendation – The City should establish a short lived asset account and make the required annual deposits to the account.

- (L) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires a listing of each claim approved for payment, the total disbursements from each City fund and a summary of all receipts be published. For all months of the fiscal year ended June 30, 2017, the listing of total disbursements from each City fund and a summary of all receipts was not published. For two of 12 months tested, the minutes were not signed.

Recommendation – The City should comply with the Code of Iowa and should publish the total disbursements from each City fund and a summary of all receipts, as required. In addition, all minutes should be signed to authenticate the actions taken.

- (M) Local Option Sales Tax – Prior to July 1 2010, Local Option Sales Tax (LOST) receipts were collected for the construction and maintenance of the swimming pool. On June 30, 2010, the City had \$352,928 of local option sales tax receipts available for pool maintenance. On July 1, 2010, a revised LOST ballot measure was approved changing the allowable use of LOST funds to the construction and maintenance of street improvements, including necessary equipment and the acquisition, demolition and restoration of dangerous and dilapidated properties.

Since July 1, 2010, when the allowable use of LOST receipts changed, the City has pooled LOST receipts and balances into one fund and has not properly tracked the use of LOST receipts or unspent balances for the purposes specified in the LOST ballots. .

Recommendation – The City should consult legal counsel to determine whether LOST receipts collected for pool maintenance can be used for the more recent ballot language use of construction and maintenance of street improvements, including necessary equipment and the acquisition, demolition and restoration of dangerous and dilapidated properties.

City of Leon

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (N) 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.

- (O) Disaster Recovery Plan – The City has not adopted a written disaster recovery plan. Lack of a disaster recovery plan could result in the City's inability to function in the event of a disaster or continue business without interruption. A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manuals be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

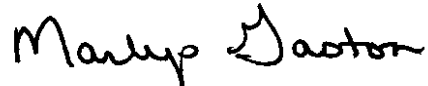
Recommendation – A written disaster recovery plan should be developed.

City of Leon

Staff

This engagement was performed by:

Donna K. Kruger, CPA, Manager  
Dorothy O. Stover, Senior Auditor II  
Taylor N. Kivell, Assistant Auditor

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