



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

July 3, 2018

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Lansing, 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 the maximum internal control possible, including requiring an independent review of bank and utility reconciliations. The City should also ensure the budget is amended 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/1721-0011-BLOF>.

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**CITY OF LANSING**

**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 Lansing**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Brennan	Mayor	Jan 2018
Curtis Snitker (Appointed Jul 2016)	Council Member	Nov 2017
Stephanie Runkel (Appointed Feb 2016)	Council Member	Nov 2017
Rebecca Conway	Council Member/Mayor Pro tem	Jan 2018
Ross Kolsrud	Council Member	Jan 2018
Don Peters	Council Member	(Resigned Jan 2017)
Pat Wagner	Council Member	Jan 2018
Katie Becker	City Clerk/Administrator	Indefinite
Dan Ellefson	Deputy City Clerk	Indefinite
Rick Zahasky	Attorney	Indefinite

**City of Lansing**



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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 Lansing 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 Lansing'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 tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 Lansing 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

May 30, 2018



## **Detailed Recommendations**

City of Lansing

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 – handling, reconciling and recording.
- (2) Investments – investing, recordkeeping and custody.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Journal entries – preparing and recording.
- (8) Long-term debt – maintaining records, recording 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) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual accounts, they were not always reviewed by an independent person.

Recommendation – The bank reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although a reconciliation of utility billings, collections and delinquent accounts is prepared, the reconciliation tested had errors which had not been investigated and resolved. In addition, an independent review of the reconciliations is not performed.

Recommendation – Procedures should be established to ensure reconciliations are accurate and variances are resolved. 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.

(D) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety and capital projects 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.

City of Lansing

Detailed Recommendations

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

- (E) Journal Entries – Journal entries were not reviewed or approved by an independent person.  
Recommendation – Journal entries should be reviewed and approved by an independent person and the approval should be documented by the signature or initials of the reviewer and the date of the review.
- (F) Transfers – The City transfers money to and from various funds periodically. These transfers were not always approved by the City Council prior to the actual transfer.  
Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record.
- (G) City Council Disbursement Approval – Three of thirty disbursements tested totaling \$4,373 were excluded from the monthly claims listing and accordingly, were not approved by the City Council.  
Recommendation – All disbursements should be approved by the City Council.
- (H) Disbursements – The City issued a \$500 check payable to “cash” for umpire services for the City’s summer recreation league. The disbursement was supported by a City generated invoice without a signature of the contractor.  
Recommendation – All disbursements should be supported by an original vendor invoice. The practice of writing checks to “cash” should be discontinued and prohibited.
- (I) City Council Meeting Minutes – For one of four minutes publications tested, total disbursements from each fund were not published as required by Chapter 372.13(6) of the Code of Iowa.  
Recommendation – The published minutes should include total disbursements by fund, as required.
- (J) 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:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Kee High Scholarship Fund	2017 Kee High scholarship donation	\$ 250

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 requirement for proper documentation.

City of Lansing

Detailed Recommendations

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

- (K) Meehan Lansing Memorial Public Library – The Meehan Lansing Memorial Public Library Association (Library Association) is a private non-profit corporation. The Library Association’s bank account is in the City’s name and the City receives copies of the monthly bank statements. However, the City does not maintain control of the account, including approving disbursements from the account, and the account activity is not reflected in the City’s records or reported to the City Council. During the year ended June 30, 2017, the City donated \$20,460 to the account controlled by the Library Association and allowed \$2,787 of state aid payments to be deposited into the account.

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 which show the receipt, use and disposition of all city property.”

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, “... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly.”

We previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

"... I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds,’ subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking."

A 28E agreement, as described in the advice letter does not exist.

Recommendation – We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over its public funds to a separate non-profit organization. The City should take immediate control of the bank account which is in the City’s name and which holds funds belonging to the City. In compliance with Chapter 384.20 of the Code of Iowa, financial activity and balance of this account should be included in the City’s accounting records and reported to the City Council on a monthly basis.

City of Lansing

Detailed Recommendations

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

(L) Lansing Fire Department:

**Background:**

Chapter 364.16 of the Code of Iowa requires the City to provide for the protection of life and property against fire. This section also states in part, “A City has the same governmental immunity outside its corporate limits when providing fire protection as when operating within the corporate limits.” The City has established a City Fire Department under the City’s Code of Ordinances and has appointed a Fire Chief to head this Department.

Chapter 359.42 of the Code of Iowa requires townships to provide fire protection for the township and Chapter 359.43 allows the township trustees to levy an annual tax for the purpose of exercising its fire protection duties. Chapter 359.42 also allows the township trustees to “contract with a public or private agency under Chapter 28E of the Code of Iowa for the purpose of providing any service or system required or authorized under this section.”

The Lansing Fire Department, Inc. (Non-profit Fire Department) is a private non-profit organization whose purpose, as set out in its articles of incorporation, is to “provide for the protection of persons and property from fire; the prevention of fire by the use of precautionary means and methods and by united efforts to educate the inhabitants of the City of Lansing and vicinity to adopt and recognize safety measures to avoid fire; the study of modern ways and means of efficiently combatting and fighting fire; and the operation as a fire company under the control of the corporate authorities of the City of Lansing, Iowa, and the statutes of the State of Iowa.” The City’s Fire Chief has authority over the non-profit organization.

On July 2, 1962, the City entered into a Fire Protection Agreement with the Rural Fire Protection District. This agreement indicates the Rural Fire Protection District was formed with authority to levy taxes and provide for the purchase of fire equipment and fire protection whereas the City of Lansing has organized and established the Volunteer Fire Department with trained personnel available to operate firefighting equipment and possess established facilities for the housing and care of fire protection.

We noted the following regarding the City’s fire protection services:

- (1) Based on a review of the activity of the Non-profit Fire Department bank account, it appears fire protection services are being provided by the Non-profit Fire Department and costs associated with the service run primarily through that account. According to City personnel, most of the fire equipment and the building housing the equipment and the Non-profit Fire Department are owned by the City (however, see (4) below) and the City pays the utilities for the building and related expenses such as gas and insurance for the trucks. However, the Non-profit Fire Department invoices the City for the cost of equipment and other items purchased and for training salaries of the Non-profit Fire Department members. There is no formal, written agreement between the City and Non-profit Fire Department identifying the terms and conditions under which the Non-profit Fire Department is to provide service or the City’s responsibilities under the arrangement. It is also unclear whether the City provides oversight to ensure the funds (i.e., public funds) provided to the Non-profit Fire Department are properly used to accomplish the intended purposes. In accordance with a letter of advice our office received from the Iowa Attorney General (see item (K) above), the funds provided to the Non-profit Fire Department continue to be “public funds” subject to the deposit and investment

City of Lansing

Detailed Recommendations

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

standards of the Iowa Code and subject to the public purpose criteria set out in Article III, Section 31 of the Iowa Constitution.

- (2) Organizations established as 501(c)(3) non-profit corporations are typically created to further charitable pursuits, not to provide a service or act as a vendor in providing a service such as fire protection. Legally separate non-profit organizations typically exist to support a City government in carrying out its responsibility to provide fire protection. These non-profit organizations provide this support by holding various fund raisers and collecting donations to help provide funds to purchase equipment and other items needed by the City to carry out its duties. Funds in these situations flow from the non-profit organization to the City in compliance with the Iowa Constitution which prohibits public funds from being provided to private, non-profit organizations.

The arrangement the City has with the Non-profit Fire Department to provide fire protection services, and not just to support the City in providing that service, is unusual. It is unclear whether a non-profit organization can be established for the noted purpose or whether the non-profit organization is afforded the same immunities in providing the service as a government is. In addition, the City's Fire Chief is in charge of the Non-profit Fire Department, making the lines of authority and responsibilities of the Non-profit Fire Department and the City unclear.

- (3) The City was unable to provide documentation as to how the Rural Fire Protection District was established. The District does not appear to be organized as a non-profit organization and no documents could be located by the Townships or the City to indicate its establishment as a 28E organization or a benefited fire district. Also, the City's agreement with the District states "The title to all wheeled equipment will be held by and be in the name of the Lansing Rural Fire Protection District." This is inconsistent with our discussions with City personnel who indicated the City owns most of the fire equipment, including the fire trucks, and pays the insurance to cover them. It is unclear what the District's role is in providing fire services for the City.
- (4) The area Townships levy property tax in accordance with Chapter 359.43 of the Code of Iowa to provide for fire service within the Townships. According to City personnel and based on a review of the activity in the Non-profit Fire Department bank account, the Township Trustees remit the property tax dollars to the Lansing Rural Fire Protection District. The Rural Fire Protection District then remits the tax dollars over to the Non-profit Fire Department. Again, we were unable to determine how the Lansing Rural Fire Protection District was established or its intended role in providing fire protection. There appears to be no statutory authority under which the Townships are allowed to provide public funds to this organization.

Recommendation – The City should consult legal counsel to determine the validity of the City's arrangement with the Non-profit Fire Department, a 501(c)(3) non-profit organization, to provide fire protection services, including whether the organization has the proper legal immunities for providing that service, i.e., those same immunities afforded a government providing fire protection services, and under what authority the City provides funding to a private non-profit organization. If the arrangement is proper, the City should enter into a formal, written agreement with the Non-profit Fire Department to clearly identify the roles and responsibilities of each party to the agreement.

City of Lansing

Detailed Recommendations

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

Since the City has joined with the Lansing Rural Fire Protection District, the City should determine how the District was established, including whether a separate entity exists and under what authority the Townships provide public funds to the District.

The City should also establish procedures to provide oversight over the Non-profit Fire Department financial activity and review Non-profit Fire Department records to ensure public funds provided to the non-profit organization are properly used to accomplish fire protection and in a manner consistent with public purpose criteria.

- (M) Employee Benefits Fund – The Special Revenue, Employee Benefits Fund had a balance of approximately \$189,089 at June 30, 2017, more than double the amount of disbursements during the fiscal year.

Recommendation – The City should evaluate their annual needs and consider lowering the Employee Benefits Levy in future years to reduce the excess balance in this fund.

- (N) Monthly City Clerk’s Report – The monthly City Clerk’s Report presented to the City Council for approval does not include transfers by fund.

Recommendation – Transfers by fund should be included in the monthly reports presented to the City Council for approval.

City of Lansing

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager  
Jesse J. Probasco, CPA, Senior Auditor  
Andrew J. Salwolke, Assistant Auditor

  
Marlys K. Gaston, CPA  
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