



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

March 24, 2022

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Lakota, Iowa, for the period April 1, 2020 through March 31, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported ten findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts, transfers not being approved by resolution, deficit balances, and separately maintained records not included in the City's accounting records, annual budget, or monthly financial reports. Sand provided the City with recommendations to address each of the findings.

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.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF LAKOTA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2020 THROUGH MARCH 31, 2021

City of Lakota



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February 23, 2022

Officials of the City of Lakota
Lakota, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Lakota, Iowa, for the period April 1, 2020 through March 31, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Lakota throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Lakota

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Nathan Heidecker	Mayor	Jan 2020	Jan 2024
Royce Janssen	Mayor Pro Tem	Jan 2020	Jan 2024
Paul Hagedorn	Council Member	Jan 2018	Jan 2022
Brittany Price (Appointed)	Council Member	Dec 2019	Nov 2021
Debra Steven	Council Member	Jan 2018	Jan 2022
Rick Meyer	Council Member	Jan 2020	Jan 2024
Pamela Robb	City Clerk/Treasurer		Indefinite
Susan Kearney	Deputy City Clerk		Indefinite

City of Lakota



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Lakota for the period April 1, 2020 through March 31, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Lakota'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 City of Lakota's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, 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 may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City had no investments.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

9. We scanned 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. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
13. We traced selected disbursements to 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 traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Lakota's management to perform this agreed-upon procedures engagement and conducted our engagement 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. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Lakota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 findings and 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 Lakota 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.


Michelle B. Meyer, CPA
Director

February 23, 2022

Detailed Findings and Recommendations

City of Lakota

Detailed Findings and Recommendations

For the period April 1, 2020 through March 31, 2021

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Utilities – preparing and mailing billings, collecting, depositing and posting to customer accounts.
- (4) Debt – record keeping and performing other cash functions.
- (5) Disbursements – purchasing, invoice processing, check writing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.

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 cash balances in the City's general ledger were not reconciled to bank balances throughout the year. For the two months observed, the book balance exceeded the bank balance by \$123.

Recommendation – The City should establish procedures to ensure all bank 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 – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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.

City of Lakota

Detailed Findings and Recommendations

For the period April 1, 2020 through March 31, 2021

- (D) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public safety, public works and business type activity 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.

- (E) Interfund Transfers – Section 545-2 of the City Finance Committee Rules states “A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred. Transfers were not approved by the City Council by resolution.

Recommendation – Transfers should be approved by resolution and the resolutions approving all fund transfers should include the information required by Section 545-2 of the City Finance Committee rules.

- (F) Deficit Fund Balance – At June 30, 2020 the Enterprise, Sanitation Fund had a deficit balance of \$27,767.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

- (G) 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 purposes.”

A checking account is maintained by the City’s Library. The transactions and resulting balances of the Library’s separate bank account were not included in the City’s accounting records, annual budget, or monthly financial reports.

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 Library’s separate checking account 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, the Annual Financial Report and the City’s budget process.

- (H) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

- (I) Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

City of Lakota

Detailed Findings and Recommendations

For the period April 1, 2020 through March 31, 2021

- (J) Journal Entries – Journal entries were not properly supported and were not approved by an independent person.

Recommendation – Supporting documentation should be maintained for all journal entries. Journal entries should be approved by an independent person and evidence of the approval should be documented.

City of Lakota

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Lesley R. Geary, CPA, Manager
Molly N. Kalkwarf, Staff Auditor