



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

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NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

June 29, 2022

Auditor of State Rob Sand today released an agreed-upon procedures report to the City of Lorimor, Iowa. The report covers the City of Lorimor Fire Department's separately maintained accounts for the period July 1, 2019 through June 30, 2020.

Sand reported ten findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of independent review of bank reconciliations, questionable disbursements and the use of debit cards. 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 [Audit Reports - Auditor of State](#).

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CITY OF LORIMOR
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Lorimor



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April 13, 2022

Officials of the City of Lorimor
Lorimor, 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 Lorimor, Iowa, Fire Department's separately maintained accounts for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed 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 Lorimor 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

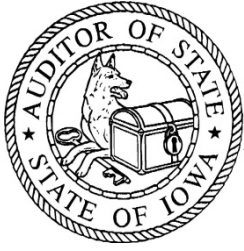
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City of Lorimor

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tim Sly	Mayor	Jan 2022
Merrill Cornelison	Council Member	Jan 2022
Karen Tucker	Council Member	(Resigned Jul 2019)
Shauna Wethington	Council Member	(Resigned Oct 2019)
Suzzie Weibel (Appointed Nov 2019)	Council Member	Sep 2020*
Jeanette Schwabe	Council Member	(Resigned Mar 2020)
Tim O'Neil	Council Member	(Resigned Jul 2020)*
Stacy Tucker	Council Member	(Resigned Jul 2020)*
<i>*A Special Election was held September 15, 2020.</i>		
Paula Hess	City Clerk/Treasurer	(Resigned Jul 2019)
Doris Loy	City Clerk/Treasurer	Indefinite
Meggen Weeks	Attorney	(Resigned Jan 2020)
Eddie Fishman	Attorney	Indefinite



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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 agreed to by the City of Lorimor solely to assist the City in evaluating the City of Lorimor Fire Department's separately maintained accounts for the period July 1, 2019 through June 30, 2020. 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 financial 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 obtained an understanding of the Fire Department'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.
2. We obtained selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances.
3. We scanned the revenue sources within the Fire Department's separately maintained accounts and traced selected receipts to adequate supporting documentation and observed for timely deposit.
4. We traced selected Fire Department separately maintained accounts disbursements to proper approval, adequate supporting documentation and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.

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 Lorimor'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, 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 certain agreed-upon procedures and the resulting findings and recommendations pertaining to the City of Lorimor Fire Department's separately maintained accounts. 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.



Michelle B. Meyer, CPA
Director

April 13, 2022

Detailed Findings and Recommendations

City of Lorimor

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (A) 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.

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.

- (B) 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:

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

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Fire Department should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available City 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.

- (C) Financial Reporting – Accounting records for the Fire Department do not facilitate the proper classification of receipts or disbursements in accordance with the Uniform Chart of Accounts.

Recommendation – The Department should properly classify receipts and disbursements in the accounting records in accordance with the Uniform Chart of Accounts.

City of Lorimor

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (D) 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.

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.

- (E) Bank Reconciliations – Although monthly bank reconciliations were prepared, there is no evidence an independent review of the bank reconciliation was performed.

Recommendation – An independent person should review the bank reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (F) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (G) Untimely Deposits – One deposit observed was not deposited in a timely manner. This receipt was deposited forty-seven days after the fundraising event. In addition, one deposit was not properly supported and timeliness of the deposit could not be observed.

Recommendation – The Fire Department should establish procedures to ensure all receipts are properly supported and deposited in a timely manner.

- (H) Disbursements – The following were noted:

- (1) Supporting documentation was not provided to the City Council during their monthly review and approval of disbursements.
- (2) Invoices or other supporting documentation are not cancelled to prevent reuse.
- (3) Supporting documentation was not maintained for two of twenty-two disbursements observed.
- (4) Checks were not written in numerical order.

Recommendation – Supporting documentation should be maintained by the Fire Department for all disbursements. The supporting documentation along with the claims for payment should be provided to the City Council for review and approval. Supporting documentation should be cancelled to prevent duplicate payments. In addition, the Department should ensure checks are issued sequentially and the sequence is properly accounted for. Gaps in the numerical sequence should be identified and resolved to help prevent potential misuse.

City of Lorimor

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (I) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Whistle Stop USA	Pizzas for day of servicing fire department vehicles	\$ 51
Amazon	Amazon Prime monthly fee	14

According to the opinion, it is possible for certain 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 types of disbursements prior to 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.

- (J) Debit Cards – The Fire Department has a debit card available for use. Sixteen of twenty two transactions tested were made using the Fire Departments debit card.

Recommendation – The Fire Department should discontinue the use of debit cards. Debit cards provide immediate access to the Fire Department’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

City of Lorimor Fire Department

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Jennifer L. Wall, CPA, Manager
Luke M. Bormann, CPA, Senior II Auditor