



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

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**NEWS RELEASE**

Contact: Brian Brustkern  
515/281-5834

**FOR RELEASE**

**August 10, 2023**

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Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Lacona, Iowa, for the period April 1, 2022 through March 31, 2023. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported nineteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 12 of this report. The findings address issues such as a lack of segregation of duties, lack of bank reconciliations including all funds and unsupported disbursements. 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 website at [Audit Reports – Auditor of State](#).

# # #

**CITY OF LACONA**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**APRIL 1, 2022 THROUGH MARCH 31, 2023**

**City of Lacona**



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July 12, 2023

Officials of the City of Lacona  
Lacona, 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 Lacona, Iowa for the period April 1, 2022 through March 31, 2023. 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 Lacona 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 that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand  
Auditor of State

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**City of Lacona**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Jolene Schurman	Mayor	Jan 2020	Jan 2024
Dennis Kennedy	Council Member	Jan 2020	Jan 2024
Craig Spoon	Council Member	Jan 2020	Jan 2024
Julie Stanley	Council Member	Jan 2020	Jan 2024
Brenda Summerfield	Council Member	Jan 2022	Jan 2026
Rob Myers	Council Member	Jan 2022	Jan 2026
Jackie Squier	City Clerk		Indefinite
Dustin Miller	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 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 Lacona for the period April 1, 2022 through March 31, 2023, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Lacona'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 Lacona'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 2022 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. The City had no voter approved levies.
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. The City had no transfers.
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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Lacona'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 Lacona 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 Lacona 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.



Brian R. Brustkern, CPA  
Director

July 12, 2023



## **Detailed Findings and Recommendations**

City of Lacona

Detailed Findings and Recommendations

For the period April 1, 2022 through March 31, 2023

(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) Debt – recordkeeping and debt payment processing.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Computer system – performing all general accounting functions and controlling all data input and output.
- (7) Financial reporting – preparing and reconciling.

For the Lacona Fire Department accounts, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording, signing and reconciling.
- (3) Cash – handling, reconciling 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 monthly bank reconciliations were prepared, they did not include a listing of outstanding transactions, nor did they include the separately maintained accounts for the Lacona Fire Department. In addition, the bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure outstanding transactions are retained and the separately maintained account balances are included in the monthly bank reconciliations. In addition, an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Lacona

Detailed Findings and Recommendations

For the period April 1, 2022 through March 31, 2023

- (C) Fire Department Bank Reconciliation – The Lacona Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. Reconciliations of the bank balances to the book balances were not prepared.

Recommendation – The Lacona Fire Department should establish procedures to ensure bank account balances are reconciled to the book balance monthly. The reconciliations should be reviewed by an independent person. The independent review should include the signature or initials of the reviewer and the date of the review.

- (D) Petty Cash – Petty cash funds are not maintained on an imprest basis.

Recommendation – Petty cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

- (E) Monthly City Clerk’s Report – The monthly City Clerk’s report to the City Council did not include a summary of beginning balances, receipts, disbursements and ending balances by fund. Additionally, the report did not include comparisons of actual disbursements to the certified budget by function.

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

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) include 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 2022 AFR:

- Prior year ending balances did not trace to current year beginning balances.
- The ending fund balances did not agree to City records. The reported governmental funds ending balance was \$3,704 higher than the City’s records. The reported proprietary funds ending balance reported was \$293 lower than the City’s records.

Recommendation – The City should ensure fund balances reported on the AFR agree with the City’s records and beginning balances trace to prior year annual financial report.

- (G) Financial Condition – At June 30, 2022, the City had deficit balances of \$49,418 and \$54,553 in the Special Revenue, Road Use Tax Fund and Enterprise, Water Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

City of Lacona

Detailed Findings and Recommendations

For the period April 1, 2022 through March 31, 2023

- (H) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, 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 – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. Additionally, a resolution in amounts sufficient to cover anticipated balances at all depositories should be adopted by the City Council as required.

- (I) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting, including total disbursement from each fund, a list of all claims allowed, including the reason for each claim, and a summary of receipts. Minutes for four meetings tested did not include total disbursements from each fund, a list of all claims allowed (including the reason for each claim) or a summary of receipts.

Recommendation – The City should comply with the Chapter 372.13(6) of the Code of Iowa and publish City Council minutes including total disbursement from each fund, a list of claims allowed, including the reason for each claim, and a summary of receipts, as required.

- (J) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts 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 of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (K) Utility Rates – Chapter 384.84 of the Code of Iowa requires utility rates to be established by City ordinance. The City could not provide an ordinance establishing a rate for the water, sewer or garbage utilities.

Recommendation – The City should ensure water, sewer and garbage rates are established by City ordinance and ensure all ordinances are retained, as required.

City of Lacona

Detailed Findings and Recommendations

For the period April 1, 2022 through March 31, 2023

- (L) 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
US Cellular	Cell phone reimbursement	
	City Superintendent	\$ 168
David Ademeit	Food for monthly Fire training	39
David Ademeit	Food for monthly Fire training	165
USA Blue Book	Sales Tax	6
Elctronic Engineering	Sales Tax	14
USA Blue Book	Sales Tax	3
Amazon	Sales Tax	8
Amazon	Sales Tax	7
David Ademeit	Sales Tax	2
David Ademeit	Sales Tax	1

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.

As a governmental entity, the City maintains a tax-exempt status. As a result, the City should not incur any sales tax.

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

- (M) Unsupported Disbursements – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported and cancelled to prevent use. Four of thirty transactions observed were not properly supported. The purpose for the transactions was obtained from City officials. The disbursements were paid to Hy Vee in the amount of \$537 for ambulance medicine.

In addition, for 30 of 30 transactions observed the City Council did not view the invoices nor were they provided an itemized listing of individual claims.

Recommendation – The City should establish policies and procedures to ensure all disbursements are properly supported and approved.

City of Lacona

Detailed Findings and Recommendations

For the period April 1, 2022 through March 31, 2023

- (N) Payroll – Timesheets were maintained for all employees however, hours worked were not reviewed and approved for four of five timesheets observed. In addition, an independent review of wages and withholding rates entered into the system is not performed and an independent person does not test wages and withholdings to ensure proper payroll calculations.

Recommendation – Hours worked by City employees should be reviewed and approved by supervisory personnel prior to the preparation of payroll. An independent person should periodically review wage and withholding rates entered in the system to ensure proper payroll calculation. The independent reviews should be documented by the signature or initials of the reviewer and the date of the review.

- (O) Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amounts budgeted in the public works 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.

- (P) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (Q) Payment of General Obligation Bonds – 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 taxes, must be deposited in the debt service fund.” During the period observed, the general obligation debt payments for a City owned ambulance were paid from the general Fund.

Recommendation – Payments on the debt should be made from the Debt Service Fund as required.

- (R) Separately Maintained Records – The Lacona Fire Department maintains three bank accounts for activity separate from the City Clerk’s accounting records. 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 Report.

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.

City of Lacona

Detailed Findings and Recommendations

For the period April 1, 2022 through March 31, 2023

- (S) Debit Card Purchases – The Lacona Fire Department has a debit card available for use by employees while on City business.

Recommendation – The City should prohibit the use of debit cards. 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. If the City replaces the debit card with a credit card, the City should adopt a formal written policy regulating the use of the credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to substantiate charges.

City of Lacona

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Director  
Ryan J. Pithan, CPA, Manager  
Nichole D. Tucker, Senior Auditor II