



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

February 3, 2025

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Luana, Iowa, for the period July 1, 2023 through June 30, 2024. 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 and disbursements exceeding budgeted amounts. 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](#).

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CITY OF LUANA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2023 THROUGH JUNE 30, 2024

City of Luana



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
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Rob Sand
Auditor of State

January 13, 2025

Officials of the City of Luana
Luana, 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 Luana, Iowa, for the period July 1, 2023 through June 30, 2024. 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 Luana 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

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	5-7
Detailed Findings and Recommendations:	<u>Finding</u>
Segregation of Duties	A 9
Bank Reconciliations	B 9
Chart of Accounts	C 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D 10
Monthly City Clerk's Report	E 10
Certified Budget	F 10
Questionable Disbursement	G 10
Annual Urban Renewal Report	H 11
Donations	I 11
Local Option Sales Tax	J 11
Staff	12

City of Luana

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Jerry Schroeder	Mayor	Jan 2024	Jan 2026
Todd Olson	Council Member	Jan 2022	Jan 2026
Luke Steege	Council Member	Jan 2022	Jan 2026
Lonnie Baade	Council Member	Jan 2024	Jan 2028
Kevin Boddicker	Council Member	Jan 2024	Jan 2028
Jackie Radloff-Schneider	Council Member	Jan 2024	Jan 2028
Tammy Humble	City Administrator		Indefinite
Nathan Moonen	Attorney		Indefinite

City of Luana



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Rob Sand
Auditor of State

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 Luana for the period July 1, 2023 through June 30, 2024, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Luana'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 Luana'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 were in place and incompatible duties, from a control standpoint, were 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, journal entries 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 were properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2023 Annual Financial Report to determine whether it was completed timely and accurately reflected the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We observed 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. We scanned 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 traced selected receipts for 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. 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, no exceptions were noted during the performance of the specific procedures listed above.

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

A handwritten signature in black ink that reads "Pam Bormann". The signature is written in a cursive, flowing style.

Pam Bormann, CPA
Deputy Auditor of State

January 13, 2025

Detailed Findings and Recommendations

City of Luana

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

(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) Investments – investing, record keeping, custody and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates in the system, recordkeeping, preparing and distributing.
- (7) Utilities – entering rates in the system, billing, collecting, depositing, recording, reconciling, posting and maintaining accounts receivable.
- (8) Financial reporting – preparing and reconciling.
- (9) 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 monthly bank reconciliations were prepared for each bank account, a complete reconciliation summarizing all accounts, including investments and reconciling to the City's total fund balance was not prepared.

Recommendation – To improve financial accountability and control, comprehensive bank reconciliation, including investments, should be performed and variances, if any, between book and bank balances should be investigated and resolved timely. An independent person should review the reconciliations and document the review by the signature or initials of the reviewer and the date of the review on the monthly reconciliations.

(C) Chart of Accounts – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

City of Luana

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

- (D) 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 quarterly.

Recommendation – A listing of delinquent accounts should be prepared for each billing period. 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.

- (E) Monthly City Clerk's Report – The monthly City Clerk's report to City Council did not include investments and a comparison of actual disbursements to the certified budget by function.

Recommendation – The monthly City Clerk's report should include the investments by fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the reports should include comparisons of actual disbursements to the certified budget by function. The City Council or a designated member should review and approve the monthly City Clerk's reports and review/approval should be documented by the signature or initials of the reviewer and the date of the review/approval.

- (F) Certified Budget – Disbursements during the year ended June 30, 2024, exceeded the amount budgeted in business type activity function prior to the budget amendment. 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.

- (G) Questionable Disbursement – 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. A certain disbursement was observed 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. The City reimbursed Chris Anderson \$144 for lunch for a firefighter meeting which was not open to the public.

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 this type of disbursement prior to 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.

City of Luana

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

- (H) Annual Urban Renewal Report – The City understated the amount reported as tax increment financing debt outstanding on the fiscal year 2023 Annual Urban Renewal Report (AURR) Levy Authority Summary by the \$58,696 balance held to provide assistance related to housing for low and moderate income families.

Recommendation – The City should ensure the amount of outstanding debt reported on the annual urban renewal report includes the amount held for low and moderate income families and agrees with City records.

- (I) Donations – During the year ended June 30, 2024, the City of Luana donated \$4,000 to the Luana Volunteer Fire Department Association, a 504 nonprofit corporation, \$100 to MFL MarMac After Prom and \$75 to MFL MarMac Athletic Booster.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private nonprofit corporation. Article III, Section 31 of the Iowa Constitution 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.”

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes and performs work which the government could perform directly.” The Opinions further state, “Even if the function of a private nonprofit corporation fits within the scope of activities generally recognized as serving a public purpose a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

“Political subdivisions and municipalities, including cities, counties, schools, and townships are municipal - governmental - entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities.”

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private nonprofit organizations. If the nonprofit organization provides a service to the City, the City may enter into a contract for services. The agreement should detail the services provided and the cost of those services, as well as provide transparency for the City which allows confirmation the funds were spent as agreed and a clawback provision in the event they were not spent as agreed. If the donation is not providing a service to the City, the City should immediately cease making such donations.

- (J) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires 25% of LOST collections be used for property tax relief and 75% of LOST collections to be used for any City improvement. The City has not properly tracked the use and unspent balances of LOST collections to demonstrate compliance with the ballot requirements.

Recommendation – The City should establish procedures to properly track the use of LOST collections and unspent balances to ensure LOST collections are being used in accordance with the ballot.

City of Luana

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Deputy
Gwen D. Fangman, CPA, Manager
William J. Sallen, CPA, Senior Auditor
Brianna M. Denton, Staff Auditor