



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

Mary Mosiman, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ March 11, 2014 \_\_\_\_\_ Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Earlham, Iowa for the period July 1, 2012 through June 30, 2013. The examination 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. The City should also take steps to eliminate the June 30, 2013 deficit balances of \$147,819 and \$5,129 in the Capital Projects and Debt Service Funds, respectively.

A copy of the examination 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 <http://auditor.iowa.gov/reports/1321-0577-BLOF.pdf>.

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**CITY OF EARLHAM**  
**INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT**  
**FOR THE PERIOD**  
**JULY 1, 2012 THROUGH JUNE 30, 2013**

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**City of Earlham**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dusky Terry	Mayor	Jan 2014
Mike Golighty	Council Member	Jan 2014
Dale McNair	Council Member	Jan 2014
Jamie Royster	Council Member	Jan 2014
Jeff Lillie	Council Member	Jan 2016
Heather Stancil	Council Member	Jan 2016
Linette Crouch	City Clerk/Treasurer	Indefinite
Sam Braland	Attorney	Indefinite



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Independent Accountant's Examination Report

To the Honorable Mayor  
and Members of City Council:

We have performed an examination of the City of Earlham pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Earlham for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

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 2013 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. 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.
8. 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.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.


10. 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.
11. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 audit of the City of Earlham, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Earlham, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Earlham and other parties to whom the City of Earlham may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlham during the course of our examination. 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

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 19, 2013

## **Detailed Recommendations**



City of Earlham

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing, with no independent review.

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 evidenced by the signature or initials of the reviewer and the date of the review.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – While utility billings, collections and delinquent accounts were reconciled monthly, a clearing account reserve for one-time utility users has a delinquent balance of \$375,742. This balance is not actually a delinquent account.

Recommendation – The City should establish procedures to ensure the delinquent accounts are accurate and resolve the delinquent balance in the clearing account.

(C) Payroll – Payroll checks are not kept in a secured location before they are distributed to employees. In addition, the review and approval of wage and withholding rates entered into the payroll system are not performed by an independent individual.

Recommendation – The City should secure payroll checks in a locked cabinet before distribution. Someone other than the employee entering the information should review and approve the wage and withholding rates entered in the payroll system.

(D) Utility Rates – The utility rates entered into the system are not reviewed and approved to ensure proper utility calculations and billing.

Recommendation – An independent individual should review and approve the utility rates periodically and when rate changes occur to ensure proper utility billings.

City of Earlham

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported receipts which do not agree with the amounts recorded in the City’s records.

Recommendation – The City should ensure the receipts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.

- (F) Financial Condition – At June 30, 2013, the City had deficit balances of \$147,819 and \$5,129 in the Capital Projects and Debt Service Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (G) Deposits – Four intergovernmental receipts were not deposited in a timely manner.

Recommendation – The City should establish procedures to ensure receipts are deposited in a timely manner.

- (H) Garbage Collection – The City passed an ordinance setting the rate for garbage collection, including the assessment of an administration fee. However, the administration fee is not defined in the ordinance.

Recommendation – The City Council should review the ordinance setting garbage rates and consult legal counsel for clarification on how the administration fee should be assessed.

- (I) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the community and economic development and debt service 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.

- (J) Payment of Water Revenue Bonds – The City’s water revenue bond resolution requires the City to establish a reserve fund of \$68,935 until the bonds are fully paid. The reserve fund has not been established.

Recommendation – The City should comply with the water revenue bond requirements and establish the reserve fund.

- (K) Payment of General Obligation Capital Loan Notes – 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 year ended June 30, 2013, the City paid a portion of the general obligation capital loan note from the Enterprise, Water Fund.

Recommendation – The City should transfer funds to the Debt Service Fund to pay the general obligation capital loan notes in the future.

City of Earlham

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (L) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dale McNair, City Council, owner of A-One Geothermal, Inc.	Services, per bid	\$22,004
Jeff Lillie, City Council, owner of Lillie Plumbing, Heating and Electric	Baseball field lights, light replacements, repair and miscellaneous services	16,093
Mike Golightly, City Council, owner of Golightly Construction	Water main leak, sewer repair and snow removal	2,409

In accordance with Chapter 362.5(d) of the Code of Iowa, the transactions with A-One Geothermal, Inc. do not appear to represent a conflict of interest since the services were competitively bid.

In accordance with Chapter 362.5(k) of the Code of Iowa, the transactions with Lillie Plumbing Heating and Electric may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and some services were not competitively bid.

In accordance with Chapter 362.5(k) of the Code of Iowa, the transactions with Golightly Construction do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

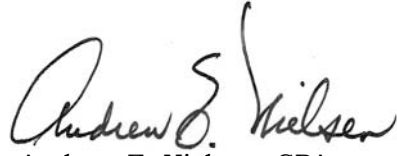
Recommendation – The City should consult legal counsel to determine the disposition of this matter.

City of Earlham

Staff

This examination was performed by:

Pamela J. Bormann, CPA, Manager  
Joshua W. Ostrander, Staff Auditor  
Lucas D Bernhard, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State