



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

March 14, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Farnhamville, Iowa for the period July 1, 2015 through June 30, 2016. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its internal controls to obtain the maximum internal control possible. The City should establish procedures to ensure bank and utility reconciliations are completed monthly and are independently reviewed. In addition, the City should comply with Chapters 12B.10B and 12C.2 of the Code of Iowa by establishing a written investment policy and approving a resolution naming official depositories. The City should also comply with Chapter 384.18 of the Code of Iowa by amending its budget before disbursements are allowed to exceed the budget.

A copy of the agreed-upon procedures 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 <https://auditor.iowa.gov/reports/1622-0103-EPOP>.

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CITY OF FARNHAMVILLE
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

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City of Farnhamville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Frank Morgan	Mayor	Jan 2014	Jan 2018
Barbara Gregg	Council Member	Jan 2014	Jan 2018
Jeff Kicklighter	Council Member	Jan 2014	Jan 2018
Clint VanKley	Council Member	Jan 2014	Jan 2018
Alex Farley	Council Member	Jan 2016	Jan 2020
Rita Kail	Council Member	Jan 2016	Jan 2020
Emily Bendickson	City Clerk		Indefinite
James Kramer	Attorney		Indefinite

City of Farnhamville



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Farnhamville for the period July 1, 2015 through June 30, 2016. The City of Farnhamville's management, which agreed to the performance of the procedures performed, is responsible 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 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 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 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. 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.

9. 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.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Farnhamville, 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 Farnhamville and other parties to whom the City of Farnhamville 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 Farnhamville 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.


MARY MOSIMAN, CPA
Auditor of State

August 17, 2016

Detailed Recommendations

City of Farnhamville

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

(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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash - handling, reconciling and recording.
- (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (9) Journal entries – preparing and journalizing.
- (10) Financial Reporting – preparing and reconciling.

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 and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year.

Recommendation – The City should establish procedures to ensure bank and investment 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 delinquent account listings were not reviewed by the City Council.

Recommendation – 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, document their review and monitor delinquent accounts.

City of Farnhamville

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (D) 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. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

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

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

- (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...” Receipts and disbursements reported on the fiscal year 2015 AFR did not agree with the City’s financial records. We were unable to determine the accuracy of disbursements reported on the AFR as the City’s financial records do not classify disbursements by function and information supporting the amounts reported was not retained.

Recommendation – The City should ensure the receipts and disbursements included in future AFRs are supported by the City’s records.

- (G) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the public works, culture and recreation and business type 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.

- (H) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the minutes publications for all City Council proceedings include a summary of receipts and total disbursements from each fund. The minutes publications for all meetings tested did not include a summary of receipts. Also, two of four monthly minutes publications reviewed did not include total disbursements from each fund.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa by ensuring the minutes published include a summary of receipts and total disbursements by fund.

- (I) Payroll – Salary increases are approved as percentage increases and the actual salaries or wages are not documented in the City Council meeting minutes.

Recommendation – Procedures should be established to ensure all pay increases are adequately documented in the City Council meeting minutes by recording the new, approved rate or salary, not just the percentage increase.

City of Farnhamville

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (J) Receipt to Deposit – The total deposits for November 2015 per the bank statements did not reconcile to the City’s total receipts per the monthly revenue report. The deposits were \$1,205 higher than the receipts.

Recommendation – The City should ensure that total deposits per the bank statements for the City’s bank accounts reconcile to the total receipts per the City’s revenue report.

- (K) Monthly City Clerk’s Report – A monthly City Clerk’s report, including a comparison of actual disbursements to budgeted disbursements by function, was not prepared throughout the year.

Recommendation – The City should establish procedures to ensure a monthly City Clerk’s report which includes a comparison of actual disbursements to budgeted disbursements by function is prepared each month. The City Council should review and approved the City Clerk’s report monthly and document the review with the signature or initials of the reviewer and the date of the review.

- (L) Accounting Policies and Procedures Manual – The City does not have written accounting policies and procedures for the following:

- Investments and investment transactions.
- Write-offs of uncollectable accounts.
- Personnel policies, including policies for vacation accrual, regular evaluations of employee performance and travel.
- Credit card usage.

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

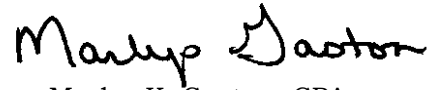
- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Farnhamville

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Manager
Premnarayan Gobin, Staff Auditor
Christopher M. Anderson, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director