

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

February 27, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Frederika, Iowa for the period July 1, 2016 through June 30, 2017. The agreed-upon procedures engagement 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. In addition, the City should establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. The City should also ensure all interfund transfers are approved by the City Council.

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/1722-0065-EPOP>.

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CITY OF FREDERIKA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017

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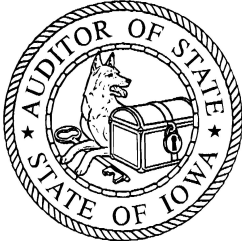
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City of Frederika

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Neil Whitney	Mayor	Jan 2016	Jan 2018
Tamara Rosol	Council Member	Nov 2015	Nov 2017
Jody Meyer	Council Member	Jan 2014	Jan 2018
Duane Meihost	Council Member	Apr 2016	Nov 2017
Amber Johnson	Council Member	Jan 2016	Jan 2020
Elaine Johnson	Council Member	Jan 2016	Jan 2020
Lucinda Asmus	City Clerk/Treasurer		Indefinite
Heather Prendergast	City Attorney		Indefinite

City of Frederika



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Independent Accountant's Report on Applying Agreed-Up 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 Frederika for the period July 1, 2016 to June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Frederika'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 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 2016 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 and tested selected receipts for accurate accounting and consistency with the recommended COA.
9. 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.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. 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 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, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting 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 Frederika 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

January 10, 2018

Detailed Recommendations

City of Frederika

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

(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, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing and recording.
- (4) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining accounts receivable and write-off records.
- (6) 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 should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – We could not determine if bank and investments balances were reconciled to the book balances recorded in the City’s accounting system for all months because reconciliations for all accounts could not be located. For two months reviewed, the City’s main checking account was reconciled, but not the other checking accounts. In addition, a list of outstanding checks was not maintained throughout the year.

Recommendation – The City should establish procedures to ensure all bank and investment account balances are reconciled to book balances monthly and variances, if any, are reviewed and resolved timely. All reconciliations and a list of outstanding checks should be retained.

(C) 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 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 should be documented by the signature or initials of the reviewer and the date of the review.

(D) Annual Financial Report – The total fund balance reported on the fiscal year 2016 Annual Financial Report (AFR) was \$1,261 greater than the City’s general ledger. The fiscal year 2016 receipts on the AFR were \$30 less than the City’s general ledger.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded and reported.

City of Frederika

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (E) Chart of Accounts – The City has not fully 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.

- (F) 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.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council meeting minutes include a summary of all receipts. The minutes publications for four meeting tested did not include a summary of all receipts, as required. In addition, Chapter 380.7 of the Code of Iowa requires minutes of the City Council meetings be properly signed. Minutes for the meetings tested were not properly signed.

Recommendation – The City should comply with the Code of Iowa by publishing a summary of receipts and signing minutes, as required.

- (H) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City 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 City does not receive an image of the back of each cancelled check for all bank accounts.

Recommendation – The City 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.

- (I) Payroll – Timesheets were not maintained for all employees and there is no evidence hours worked were reviewed and approved. In addition, authorized pay rates could not be located in the City Council meeting minutes.

Recommendation – Timesheets should be prepared and retained to support time worked and time taken as leave by all employees. Timesheets should be reviewed and approved by supervisory personnel before payroll checks are prepared. In addition, authorized pay rates should be documented in the City Council meeting minutes.

- (J) Monthly City Clerk's Reports – The monthly City Clerk's reports provided to the City Council do not include a comparison of actual disbursements to the certified budget by function. In addition, the fund balances included in the monthly reports are the bank balances, not the amounts reported in the City's general ledger.

City of Frederika

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk’s reports provided to the City Council should include a comparison of actual disbursements to the certified budget by function. In addition, the monthly reports should include fund balances reported in the City’s general ledger, not the bank balances.

- (K) Disaster Recovery Plan – The City does not have a written disaster recovery plan.

Recommendation – A written disaster recovery plan should be developed and tested periodically.

- (L) Checks Signed in Advance – Certain checks are signed before the check payee and amounts are completed.

Recommendation – Checks should not be signed in advance.

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

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. Collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (N) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

- (O) Transfers – One transfer selected for testing was not approved by the City Council.

Recommendation – The City Council should approve all interfund transfers prior to the actual transfer.

- (P) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the health and social services and business type activities 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.”

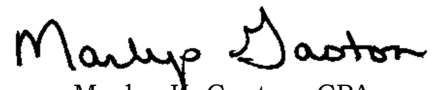
Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Frederika

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Kelly L. Hilton, Senior 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