



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 20, 2018

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, 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 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 Chapter 12C.2 of the Code of Iowa by approving a resolution naming official depositories. The City should also comply with the USDA loan conditions by establishing the proper amount of funds in a reserve.

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/1722-0103-BLOF>.

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

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City of Farnhamville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frank Morgan	Mayor	Jan 2018
Barbara Gregg	Council Member	Jan 2018
Jeff Kicklighter	Council Member	Jan 2018
Troy Jepsen (Appointed)	Council Member	Nov 2017
Clint VanKley	Council Member	(Resigned Oct 2016)
Alex Farley	Council Member	Jan 2020
Rita Kail	Council Member	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, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Farnhamville'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 2017 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.

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 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

June 7, 2018

Detailed Recommendations

City of Farnhamville

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) 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, recording and reconciling.
- (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, recording and reviewing.

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. Proper documentation of utility activity was not retained for one of twelve months.

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. Proper documentation of utility activity should be retained.

City of Farnhamville

Detailed Recommendations

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

- (D) USDA Loan – The USDA loan letter of conditions requires the City to build a reserve. The letter of conditions requires the reserve be \$35,280 as of June 30, 2017. However the cash balance in the City’s Water Fund is only \$8,100 at that date.

Recommendation – The City should comply with the provisions in the USDA Loan letter of conditions and establish a reserve with the required balance.

- (E) Depository Resolution – 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 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.

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s outstanding debt was not reported in the AFR.

Recommendation – The City should ensure the City’s outstanding debt is included in future AFRs.

- (G) Petty Cash Fund – The City library maintains a petty cash fund for which no authorization or established amount could be located. In addition, the petty cash fund was not included in the City's accounting records.

Recommendation – The petty cash fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund. 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 funds and accounts, including the petty cash fund, should be included in the City’s accounting records and resulting fund balances.

- (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 minute’s publication for one of four meetings tested did not include a summary of receipts and monthly minutes publications reviewed did not include total disbursements from each fund. Also, the minutes for one of four meetings reviewed were not properly signed in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa by ensuring published minutes include a summary of receipts and total disbursements by fund and the minutes record should be properly signed, as required.

City of Farnhamville

Detailed Recommendations

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

- (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.

- (J) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Proper supporting documentation for two transactions tested could not be located.

Recommendation – The City should ensure all disbursements are properly supported by invoices or other supporting documentation.

- (K) Financial Condition – At June 30, 2017, the City had a deficit balance of \$7,029 in the Enterprise, Sewer Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

- (L) 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 approve the City Clerk's report monthly and document the review with the signature or initials of the reviewer and the date of the review.

- (M) Accounting Policies and Procedures Manual – The City does not have written accounting policies and procedures for personnel policies, including policies for regular evaluations of employee performance and travel.

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

Detailed Recommendations

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

- (N) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts be used 100% for the public library, police department and City park. The City has not tracked the use of LOST receipts to ensure compliance with the ballot requirements. Also, during fiscal year 2017, the City transferred \$5,000 from the Special Revenue, LOST Fund to the Enterprise, Sewer Fund which is not in compliance with the ballot.

Recommendation – The City should implement procedures to track LOST disbursements and transfers to ensure LOST receipts are used in accordance with the ballot. The City should transfer \$5,000 from the Enterprise, Sewer Fund to the Special Revenue, LOST Fund to reimburse the Fund for the unallowable transfer.

- (O) Transfers – Transfers between funds were not approved by the City Council.

Recommendation – The City Council should review and approve all transfers.

- (P) Water and Sewer Utility – During fiscal year 2017, the City transferred \$12,000 from the General Fund into both the Enterprise, Water Fund and the Enterprise, Sewer Fund for cash flow purposes. Both of these funds are not generating enough receipts to cover operating and non-operating costs.

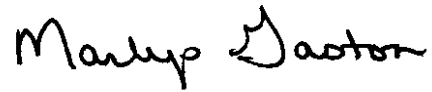
Recommendation – The City should investigate alternatives to bring these two funds into a self-sufficient position, including considering the need to increase user rates.

City of Farnhamville

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Manager
Jenna M. Paysen, Senior Auditor
Erin M. Wittrock, Assistant Auditor



Marlys K. Gaston, CPA
Director