



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

January 20, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Fremont, Iowa for the period April 1, 2018 through March 31, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported sixteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of including investments in bank reconciliations, questionable disbursements, disbursements exceeding budgeted amounts, a deficit fund balance in the Capital Projects Fund and errors in the Annual Financial Report. 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 web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF FREMONT
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2018 THROUGH MARCH 31, 2019

City of Fremont



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Rob Sand
Auditor of State

January 14, 2021

Officials of the City of Fremont
Fremont, 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 Fremont, Iowa, for the period April 1, 2018 through March 31, 2019. 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 Fremont 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".

Rob Sand
Auditor of State

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City of Fremont

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
John VanZante	Mayor	Jan 2016	Jan 2020
Max Marlin	Council Member	Jan 2016	Jan 2020
Brent Swearingen	Council Member	Jan 2016	Jan 2020
Gabby Evans	Council Member	Jan 2018	Jan 2022
James Howrey	Council Member	Jan 2018	Jan 2022
Ken Long	Council Member	Jan 2018	Jan 2022
Nancy Reed	City Clerk/Treasurer		Indefinite
David Dixon	Attorney		Indefinite



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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 Fremont for the period April 1, 2018 through March 31, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Fremont'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 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 are in place and incompatible duties, from a control standpoint, are 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 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 are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned 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. The City had no debt.

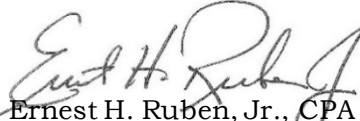
10. The City had no TIF.
11. We traced selected receipts for accurate accounting and consistency with the recommended COA.
12. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
13. We traced selected disbursements for proper approval, adequate 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.
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, 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 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 Fremont 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.


Ernest H. Ruben, Jr., CPA
Director

January 14, 2021

Detailed Findings and Recommendations

City of Fremont

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

(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) 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) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing, signing, distributing and entering rates into the system.
- (7) Financial reporting – preparing and reconciling.

For the Fremont Community Center, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, recording and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Fremont Community Center Board officials should review their 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) Management Financial Information – The City Clerk’s financial reports to the City Council did not include comparisons of actual disbursements to the certified budget.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendment to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons of actual disbursements to the certified budget by function.

City of Fremont

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (C) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The Fremont Community Center maintains a bank account for activity separate from the City Clerk’s accounting records. The transactions of this account were not reported to the City Council and disbursements from this account were not reviewed and approved by the City Council. Also, a summary of receipts, total disbursements and the listing of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In order to comply with these code sections, as well as for better accountability, financial and budgetary control, the financial activity and balances of the Fremont Community Center separate account should be integrated with the City’s accounting records in the City Clerk’s office. The activity in this account should be subject to City Council review and a summary of the receipts, total disbursements and listing of claims allowed each month should be published, as required.

- (D) Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations did not include all City investment account balances and a listing of outstanding checks was not prepared. Investments were not current because of errors in recording interest on certificates of deposit. Bank reconciliations were not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and interest earned on investments is accurately recorded. As part of the reconciliation, a listing of outstanding checks should be prepared and retained.

- (E) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

City of Fremont

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (F) Questionable Disbursements – 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. Certain disbursements were noted 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. These disbursements are detailed as follows:

Paid to	Purpose	Amount
L.I.K.E. (Leaders in Kids Education)	Donation for Fremont Elementary Carnival	\$ 150
Fremont Community Foundation	Fremont Days Celebration	250
Fremont Social Activity Group	Apples, oranges and candy canes for Santa program at the Community Center	100

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 these types 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 documentation of public purpose. Disbursements should not be approved if public purpose is not served.

- (G) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires LOST receipts be used for maintenance, repair, construction and reconstruction of public streets, community betterment, sewer, storm sewer, and wastewater treatment infrastructure, and recreation. During the year ended June 30, 2018, \$67,298 was transferred to the General Fund from the Special Revenue, LOST Fund, however, the City did not document how these transfers meet the provisions of the LOST ballot. In addition, the City has not tracked the use of LOST receipts to demonstrate compliance with the ballot requirements.

Recommendation – The City should track the use of LOST receipts to demonstrate compliance with the LOST ballot.

- (H) Financial Condition – At June 30, 2018, the City had a deficit balance of \$4,806 in the Capital Projects Fund.

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

City of Fremont

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (I) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the culture and recreation function. 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) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements from each fund and a summary of all receipts. The publication of minutes for all meetings observed did not include a list of total disbursements by fund, and one of four meetings observed did not include a summary of receipts.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa.

- (K) Payroll – Hours worked by City employees are not reviewed and approved by supervisory personnel. The City does not have procedures to ensure employees do not receive more than the authorized salary payment.

Recommendation – Hours worked by City employees should be reviewed and approved by a supervisor prior to the preparation of payroll. The City should develop procedures to ensure employees do not receive more than the authorized salary payment.

- (L) Payroll Wage Increases – Wage increases were approved as a percentage increase and the actual approved wages and hourly rates were not documented in the City Council minutes.

Recommendation – Actual approved wages and hourly rates should be documented in the City Council meeting minutes.

- (M) Disbursements – Supporting documentation was not retained for two of thirty disbursements traced. Since support was not retained, we were unable to determine the public purpose for \$160 of the \$231 paid to Casey’s.

Recommendation – Supporting documentation for all disbursements should be retained.

City of Fremont

Detailed Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

(N) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The 2018 annual financial report had the following errors:

- Total receipts and disbursements were \$33,079 and \$37,625 respectively more than the City’s records.
- The total budgeted disbursements amount was \$63,195 less than the certified budget, because the business type activities function disbursements were omitted.
- While the June 30, 2018 total ending fund balance agrees to the City Clerk’s report and the bank balance, the allocation of fund balances between governmental and proprietary activities does not agree to the City’s records.

Recommendation – The City should establish procedures to ensure amounts reported on the AFR are supported by the City’s records.

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

Recommendation – Transfers should be approved by the City Council.

(P) Voter Approved Levy – Chapter 384.12(20) of the Code of Iowa provides for a voter approved maximum levy of \$.27 per \$1,000 of taxable valuation for support of a public library. During fiscal year 2018, the City levied \$.19431 per \$1,000 taxable valuation and collected \$2,700 for support of public libraries. There is no evidence this levy was voter approved.

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

City of Fremont

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director

Brian R. Brustkern, CPA, Director

Suzanne R. Dahlstrom, CPA, Manager

Selina V. Johnson, CPA, Senior Auditor II

Vivian J. Hustad, Assistant Auditor