



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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NEWS RELEASE

FOR RELEASE

June 28, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Farley, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported seven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 and 8 of this report. The findings address issues such as a lack of segregation of duties, an overstatement and misclassification of amounts reported on the annual financial report, disbursements exceeding budgeted amounts, business transactions that may represent conflicts of interest and the lack of an independent review of the bank reconciliations. Sand provided the City with recommendations to address each of the findings.

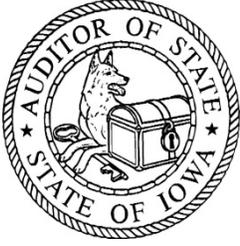
Four of the seven findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its 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/audit-reports>.

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CITY OF FARLEY
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Farley



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June 23, 2021

Officials of the City of Farley
Farley, 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 Farley, Iowa, for the period of July 1, 2019 through June 30, 2020. 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 Farley 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 Farley

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeffrey Simon	Mayor	Jan 2022
Marty Benda	Council Member	Jan 2020
Joe Erion	Council Member	Jan 2020
Dave Kluesner	Council Member	Jan 2020
Joyce Jarding	Council Member	(Resigned Oct 2019)
Justin Philipp	Council Member	Jan 2022
Ashley Jasper	City Clerk/Treasurer	Indefinite
Ted Huinker	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeffrey Simon	Mayor	Jan 2022
Corey Birkel (Elected)	Council Member	Jan 2022
Justin Philipp	Council Member	Jan 2022
Marty Benda	Council Member	Jan 2024
Joe Erion	Council Member	Jan 2024
Jay Hefel	Council Member	Jan 2024
Ashley Jasper	City Clerk/Treasurer	(Resigned Feb 2020)
Kathy Goerdts (Appointed Mar 2020)	City Clerk/Treasurer	Indefinite
Ted Huinker	Attorney	Indefinite



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Rob Sand
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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 Farley for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Farley'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 2020 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.

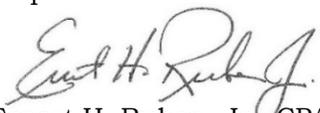
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements to 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. 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 Farley 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

June 23, 2021

Detailed Findings and Recommendations

City of Farley

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(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, and controlling all data input and output.
- (2) Cash – handling, reconciling and recording.
- (3) Investing – recordkeeping, investing, and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, journalizing, reconciling and posting.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Journal entries – preparing and journalizing.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.

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) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary of the preceding fiscal year of all collections and receipts, all accounts due the City and all expenditures...” The June 30, 2020 AFR ending total governmental fund balance was overstated by \$23,344. Also, although total receipts and disbursements agree to the general ledger, they were not properly classified by General, Special Revenue, Debt Service, Capital Projects and Proprietary Fund types.

Recommendation – The City should establish procedures to ensure the AFR is accurate and agrees with City records.

City of Farley

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (C) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public safety 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.

- (D) Bank Signature Card – The bank signature card included former employees as authorized signers for one bank account observed.

Recommendation – The City should ensure the bank signature card is accurate and updated timely.

- (E) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Kluesner, City Council Member, son owns Kluesner Construction	Street repairs	\$ 8,742

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$6,000 during the fiscal year and the transactions were not competitively bid.

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

- (F) 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.

- (G) Bank Reconciliations – Although the City’s general ledger is reconciled to the bank account monthly, an independent review of the bank reconciliation was not performed for one of two months observed.

Recommendation – An independent person should review the City’s bank reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Farley

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Suzanne R. Dahlstrom, CPA, Manager
Alex N. Kawamura, CPA, Senior Auditor II
Carina I. Rios, Assistant Auditor