



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

January 25, 2022

Contact: Ernest Ruben  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Fredonia, Iowa, for the period July 1, 2020 through June 30, 2021. 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 9 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations, a lack of a monthly City Clerk's report to the City Council showing receipts and disbursements by fund, disbursements exceeding budgeted amounts and not filling vacancies on the City Council and Mayor within sixty days or calling for a special election, as required. 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://www.auditor.iowa.gov/reports/file/67492/embed>.

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**CITY OF FREDONIA**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2020 THROUGH JUNE 30, 2021**

**City of Fredonia**



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December 28, 2021

Officials of the City of Fredonia  
Fredonia, 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 Fredonia, Iowa, for the period July 1, 2020 through June 30, 2021. 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 Fredonia 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". The signature is stylized and cursive.

Rob Sand  
Auditor of State

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**City of Fredonia  
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Penny Morgan	Mayor	(Resigned Nov 2020)
Sue Reid (Appointed Mar 2021)	Mayor	Nov 2021
Marion Reid	Mayor Pro tem	Jan 2022
Robert Bright	Council Member	Jan 2022
Sharron Torres	Council Member	(Resigned Sep 2020)
Sam Braden (Appointed Jan 2021)	Council Member	Nov 2021
Julia Frank	Council Member	Jan 2022
Alexia Frank	Council Member	(Resigned Nov 2020)
Daniel Bausch (Appointed Mar 2021)	Council Member	Nov 2021
Lisa Exline	City Clerk	(Terminated Jun 2020)
Sharron Torres(Appointed Sep 2020)	City Clerk	Indefinite

**City of Fredonia**



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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 Fredonia for the period July 1, 2020 through June 30, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Fredonia'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 City of Fredonia's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, 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 may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

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. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. 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.
14. The City had no transfers.
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.

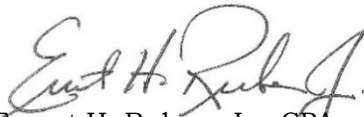
Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Fredonia's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Fredonia and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 Fredonia 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  
Deputy Auditor of State

December 28, 2021

## **Detailed Findings and Recommendations**

City of Fredonia

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

(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) Cash – handling, reconciling and recording.
- (2) Investments – recordkeeping, recording, investing, custody of investments and reconciling earnings.
- (3) Debt – recordkeeping and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – invoice processing, check writing, mailing, reconciling, access to credit card and recording.
- (6) Payroll – recordkeeping, preparing and distributing, entering rates into the system and approval.
- (7) Financial reporting – preparing and recording.
- (8) Journal entries – preparing and recording.
- (9) Utilities – billing, collecting, depositing, posting, maintaining accounts receivable and writeoffs and entering rates into the computer.

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) Book to 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. Utility receipts were recorded when billed rather than when collected. Total receipts reported in the City financial software were \$314,900 while the City’s receipts per the bank statement were \$313,109. In addition, the City did not properly record the State Revolving Loan Fund payment of \$14,130 to the books.

Recommendation – The City should prepare monthly bank reconciliations, including a detailed listing of deposits in transit and outstanding checks, and variances between book and bank balances should be investigated and resolved in a timely manner. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Procedures should be established to ensure receipts are recorded when collected and all receipts and disbursements are properly recorded

City of Fredonia

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (C) 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. The City does not maintain or report fund balances.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Fund balances should be maintained and reported.

- (D) 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.

- (E) Monthly City Clerk's Report – The City Clerk did not provide a monthly report to the City Council that included a summary of beginning balances, receipts, disbursements, transfers and ending balance by fund. In addition, the reports did not include a comparison of total disbursements to the certified budget by function.

Recommendation – The City Clerk should provide monthly reports to the City Council that include comparisons of total disbursements for all funds to the certified budget by function. Also, for better financial information, the monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (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) Disbursements – Invoices or other supporting documentation for purchases were not cancelled to prevent reuse. Also, for two of thirty disbursements traced, the City paid sales tax totaling \$41.

Recommendation – Invoices or other supporting documentation should be cancelled to prevent reuse. The City should develop procedures to ensure sales tax is not paid on purchases.

City of Fredonia

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (H) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, 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.

- (I) City Council Meeting 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, including a summary of receipts. Minutes publications did not include a summary of receipts. In addition, meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation –The City should comply with the Code of Iowa and ensure published minutes include a summary of receipts, as required. Also, all meeting minutes of City Council should be signed, as required.

- (J) Payroll – Timesheets did not include evidence of supervisory review. In addition, the City Clerk’s compensation was not approved by the City Council.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review and approval should be documented by the supervisor’s initials and the date approved. In addition, wage rates and salaries should be approved and documented in the City Council meeting minutes.

- (K) Journal Entries – For two journal entries observed there was no evidence they were reviewed and approved by an independent person.

Recommendation – Journal entries should be reviewed and approved by an independent person. This review should be documented by the signature or initials of the reviewer and date of the approval.

- (L) Utility Rates – Utility rates were not approved by ordinance of the City Council as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The City should approve utility rates by ordinance, as required.

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

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

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

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

City of Fredonia

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

(O) 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...” We noted the following during our observation of the fiscal year 2020 AFR:

- (1) The total ending fund balance exceeded the general ledger balance by \$12,710.
- (2) The City reported bank balances rather than book balances on the financial reports prepared.

Recommendation – The City should ensure the AFR is accurate and supported.

(P) City Council Vacancy – According to Chapter 372.13(2) of the Code of Iowa, when a vacancy occurs on the City Council, the vacancy should be filled one of two ways: The City Council should 1) appoint a member within sixty days after the vacancy or 2) call a special election. If the City Council fails to make an appointment within sixty days, the City Clerk shall give notice of the vacancy to the County Commissioner and the County Commissioner shall call a special election to fill the vacancy at the earliest practicable date.

In September 2020, Sharon Torres resigned from the City Council, in November 2020, Penny Morgan resigned as Mayor and Alexia Frank resigned from the City Council and the City Council did not appoint replacements within sixty days. Since an appointment was not made within sixty days of the vacancy, the City should have notified the County Commissioner and a special election should have been held to fill the position.

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

City of Fredonia

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Deputy  
Katherine L. Rupp CPA, Manager  
William J. Sallen, CPA, Staff Auditor