



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

June 29, 2022

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Farmington, 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 thirteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 12 of this report. The findings address a lack of segregation of duties, a lack of utility reconciliations and disbursements exceeding the amount budgeted prior to the budget amendment. 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 [Audit Reports - Auditor of State](#).

#

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

City of Farmington



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

June 1, 2022

Officials of the City of Farmington
Farmington, 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 Farmington, 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 Farmington 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

| | <u>Page</u> |
|--|----------------|
| Officials | 3 |
| Auditor of State's Independent Report on Applying Agreed-Upon Procedures | 5-7 |
| Detailed Findings and Recommendations: | <u>Finding</u> |
| Segregation of Duties | A 9 |
| Reconciliation of Utility Billings, Collections and Delinquent Accounts | B 9 |
| City Council Meeting Minutes | C 9 |
| Restrictive Endorsement | D 9 |
| Change and Petty Cash Fund | E 10 |
| Certified Budget | F 10 |
| Bank Reconciliations | G 10 |
| Payroll | H 10 |
| Cash and Investments | I 11 |
| Monthly City Clerk's Report | J 11 |
| Journal Entries | K 11 |
| Questionable Donations | L 11-12 |
| Business Transactions | M 12 |
| Staff | 13 |

City of Farmington

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|----------------|---------------------|
| Kevin Denly | Mayor | Jan 2024 |
| William Cline | Council Member | Jan 2022 |
| Robert Radosevich | Council Member | Jan 2022 |
| Dillon Smith | Council Member | Jan 2022 |
| Timothy Halbbrook | Council Member | Jan 2024 |
| Kenneth Mercer | Council Member | Jan 2024 |
| Becky Fry | City Clerk | Indefinite |

City of Farmington



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

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 Farmington 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 Farmington'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 Farmington'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. The City had no investments.
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. 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 engaged by the City of Farmington'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 and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Farmington 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 Farmington 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.


Michelle B. Meyer, CPA
Director

June 1, 2022

Detailed Findings and Recommendations

City of Farmington

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) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Payroll – recordkeeping, preparing and distributing.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Financial reporting – preparing and reconciling.
- (6) Journal entries – preparing and recording.

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) 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.

(C) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within fifteen days of the meeting. Minutes for two of four meetings observed were not published within fifteen days.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required.

(D) Restrictive Endorsement – Checks were not restrictively immediately upon receipt.

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

City of Farmington

Detailed Findings and Recommendations

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

- (E) Change and Petty Cash Fund – The petty cash and change fund was not approved by the City Council and was not maintained on an imprest basis. In addition, the City’s change and petty cash fund was not included in the City’s balance sheet.

Recommendation – The petty cash and change fund should be approved by the City Council and should be maintained on an imprest basis to provide additional control over the fund. An imprest system is one in which petty cash is maintained at a fixed, authorized amount and all distributions from the petty cash fund are supported/documented with a vendor receipt. Imprest systems improve the accountability for cash and enhance the reconciliation of receipts and deposits. For better accountability, financial and budgetary control, the financial activity and balances of all City funds and accounts, including the change and petty cash fund, should be included in the City’s balance sheet.

- (F) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amount budgeted in the business type activities function, prior to the budget amendment. 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.

- (G) Bank Reconciliations – The cash balances in the City’s general ledger were not reconciled to bank balances throughout the year and a detailed listing of outstanding items is not prepared and reviewed for propriety.

Recommendation – The City should establish procedures to ensure all bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. A detailed listing of outstanding items should be prepared and reviewed for propriety. An independent person should review the reconciliations, including the listing of outstanding items, and document the review by signing or initialing and dating the monthly reconciliations.

- (H) Payroll – The following were noted:

- The City Council authorized a combined total annual salary for the caretakes of Indian Lake Park which consisted of a full time and a part time employee. Although both employees are considered salaried employees, the City Council did not approve the salaries on an individual basis, providing support for the amount to be paid to each employee. In addition, the full time caretaker’s vacation earned and used is not formally tracked in the City’s records.
- The City was unable to locate documentation approving the hourly rate for the Public Works employee.

Recommendation – All wage rates and salaries should be approved by the City Council on an individual basis and documented in the minutes record. Vacation hours earned and used should be formally tracked in the City’s records.

City of Farmington

Detailed Findings and Recommendations

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

- (I) Cash and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, although a resolution naming official depositories was approved by the City, the maximum deposit amount for each approved bank was not included in the depository resolution as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt an investment policy in accordance with 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.

- (J) Monthly City Clerk's Report – The City Clerk's monthly reports to the City Council did not include a comparison of actual disbursements to the certified budget by function or a summary of beginning balances, receipts, disbursements and ending balances by fund.

Recommendation – To provide better financial information and control over budgeted disbursements and to provide the opportunity for timely amendments to the certified budget, the monthly City Clerk's reports should include a comparison of actual disbursements to the certified budget by function and a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund.

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

Recommendation – An independent person should review and approve all journal entries. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (L) Questionable Donations – The City donated \$100 to the Villages of Van Buren, Inc., a non-profit organization, for advertising related to the City of Farmington and Indian Lake Park in publications of the Scenic Drive Festival. In addition, the City donated a \$100 Indian Lake Park gift certificate for a fund-raising event for the Farmington Strawberry Festival sponsored by the Farmington Arts Council, a non-profit organization.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private, non-profit corporations. Article III, Section 31 of the Constitution of the State of Iowa states "...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly."

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that "a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which the government could perform directly." The Opinions further state, "Even if the function of a private non-profit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes."

City of Farmington

Detailed Findings and Recommendations

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

“Political subdivisions and municipalities, including cities, counties, schools and townships are municipal – governmental – entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities.”

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private non-profit organizations. The City should immediately cease making such future donations.

- (M) Business Transaction – The City Council approved the purchase of a 750lb Heavy Duty ATV/Mower High Lift Jack from the Mayor for \$100. The City did not document the reasonableness of the amount paid or include a comparison of the amount paid to the market value of the item purchased.

Recommendation – The City Council ensure all transactions are made in the public’s best interest. In addition, if the City is not purchasing an item from a vendor with an established market price, the City should document the reasonableness of the amount paid.

City of Farmington

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Gwen D. Fangman, CPA, Manager
Joseph G. Timmons, Staff Auditor
Brett A. Logsdon, Assistant Auditor