



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

June 10, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on City of Farnhamville, Iowa, for the period July 1, 2022 through June 30, 2023. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported nine findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of an independent review and approval by journal entries, deficit balances, lack of support for disbursements, lack of pay rate approval and noncompliance with revenue debt agreements. Sand provided the City with recommendations to address each of the findings.

Four of the 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 website at [Audit Reports – Auditor of State](#).

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CITY OF FARNHAMVILLE

AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023

City of Farnhamville



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April 30, 2024

Officials of the City of Farnhamville
Farnhamville, 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 Farnhamville, Iowa, for the period July 1, 2022 through June 30, 2023. 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 Farnhamville 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 Farnhamville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Troy Jepsen	Mayor	Jan 2026
Shawna Paulus	Council Member	Jan 2024
Brittney Pearson	Council Member	Jan 2024
Mindy Roper	Council Member	Jan 2024
Chris Adams	Council Member	Jan 2026
Alicia Morrow	Council Member	Jan 2026
Joseph Robertson	City Clerk/Treasurer	Indefinite
Brian Yung	Attorney	Indefinite

City of Farnhamville



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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 Farnhamville for the period July 1, 2022 through June 30, 2023, 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 City of Farnhamville'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, journal entries 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 2023 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 for 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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Farnhamville'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 Farnhamville 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 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.


Pam Bormann, CPA
Director

April 30, 2024

Detailed Findings and Recommendations

City of Farnhamville

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

(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 accounting functions.
- (2) Cash – handling, reconciling and recording.
- (3) Long term debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – recordkeeping, preparing and distributing.
- (8) 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) Journal Entries – Journal entries were not reviewed and approved by an independent person.

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

(C) Financial Condition – The Capital Projects Fund and the Enterprise, Sewer Fund had deficit balances of \$187,160 and \$26,125, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

(D) Disbursements – Disbursements should be properly supported by an invoice or other supporting documentation. One disbursement was not supported by a detailed invoice or contract and two purchases by the Library on a credit card were not supported by original vendor invoices.

Recommendation – All disbursements should be supported by invoices or other adequate supporting documentation. Purchases made with credit cards should be supported by original vendor invoices and the original invoices should be reconciled to the monthly statements.

City of Farnhamville

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (E) Payroll Rates – The hourly rate for one of the four employees tested was not approved by the City Council.

Recommendation – All wage rates should be approved by the City Council and documented in the City Council meeting minutes.

- (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...” We noted the following regarding the City’s 2023 AFR:

- The ending fund balance reported for the City on the AFR does not agree to the ending fund balance per the City’s accounting records. The governmental fund balance was overstated by \$460,100 and the proprietary fund balance was understated by \$451,041.
- The beginning balance of the fiscal year 2023 AFR did not agree to the ending balance on the fiscal year 2022 AFR by \$9,059.

Recommendation – The City should establish procedures to ensure the AFR fund balances and financial activity are properly supported and reported. An independent person should review the AFR for accuracy and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (G) Sewer Revenue Note Sinking Account – The City has not established a sewer revenue note sinking account and has not made monthly transfers as required by the revenue note agreement.

Recommendation – The City should establish a sewer revenue note sinking account and ensure monthly transfers are made to the sewer revenue note sinking account as required by the revenue note agreement.

- (H) 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 and city officer, employee, or other person, and which show the receipt, use and disposition of all city property.”

The City maintained a separate bank account for activity related to the interim financing of the 2021 wastewater treatment facility improvements project. During the fiscal year ending June 30, 2023 the bank account had receipts and disbursements totaling \$215,257 and \$210,044, respectively and a \$5,213 balance at year end. The transactions and the resulting balance were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, the financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in this account should be subject to City Council review and approval and should be included in the City’s budget process.

City of Farnhamville

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (I) Wastewater Project Debt Service Reserves – According to the Amendment to the Letter of Conditions, dated May 30, 2013, from the United States Department of Agriculture (USDA), the City must establish certain reserve funds to maintain the financial viability of operation. While the City has established the required reserve accounts and appropriately transferred the required amounts, the overall fund balance of the Enterprise, Water Fund was less than the required balance in the reserve accounts due to the operating account reporting a deficit balance at June 30, 2023. Therefore, the financial viability of operation has not been demonstrated for the project as required by the Amendment to the Letter of Conditions.

Recommendation – The City should consult legal counsel and review the City's water utility rates to ensure the rates are adequate to produce sufficient receipts to support the total Enterprise, Water Fund and demonstrate financial viability of the project with the required reserve accounts.

City of Farnhamville

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Karen L. Brustkern, CPA, Manager
Mackenzie L. Johnson, Staff Auditor
Stella F. Tsai, Assistant Auditor