



**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

NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

January 15, 2025

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Franklin, Iowa, for the period July 1, 2023 through June 30, 2024. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported ten 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 bank reconciliations, disbursements exceeding budgeted amounts and the City not fully implementing the Uniform Chart of Accounts. 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 website at [Audit Reports – Auditor of State](#).

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CITY OF FRANKLIN
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2023 THROUGH JUNE 30, 2024

City of Franklin



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

December 20, 2024

Officials of the City of Franklin
Franklin, 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 Franklin, Iowa, for the period July 1, 2023 through June 30, 2024. 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 Franklin 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", written in a cursive style.

Rob Sand
Auditor of State

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City of Franklin

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Trenton Burgess	Mayor	Jan 2024	Jan 2026
Angela Bell	Council Member	Jan 2024	Jan 2026
Delbert Kramer	Council Member	Jan 2024	Jan 2026
Melanie Kramer	Council Member	Jan 2024	Jan 2026
Alex Meierotto	Council Member	Jan 2024	Jan 2026
Jerry Sanders	Council Member	Jan 2024	Jan 2026
Rhonda Jordan	City Clerk		Indefinite
Jeff McCoy	Treasurer		Indefinite
Elaine Fehseke Gray	City Attorney		Indefinite

City of Franklin



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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 Franklin for the period July 1, 2023 through June 30, 2024, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Franklin'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 Franklin'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 were in place and incompatible duties, from a control standpoint, were 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 were properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2023 Annual Financial Report to determine whether it was completed timely and accurately reflected 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. 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. 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 Franklin'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 Franklin 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 Franklin 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
Deputy Auditor of State

December 20, 2024

Detailed Findings and Recommendations

City of Franklin

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

(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) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Financial reporting – preparing and reconciling.

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) Bank Reconciliations – The cash balances in the City's general ledger were not reconciled to bank account balances throughout the year. In addition, a list of outstanding checks and electronic withdrawals were not prepared each month and retained.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. A listing of outstanding checks and electronic withdrawals should be prepared each month and retained. An independent person should review the reconciliations and document the review by the signature or initials of the reviewer and the date of the review on the monthly reconciliations.

(C) Prenumbered Receipts – Prenumbered receipts were not issued for all collections received.

Recommendation – Prenumbered receipts should be issued for all collections. An independent person should account for the numerical sequence of the prenumbered receipts and compare these collections to the bank deposit and the accounting records, and the evidence of review should be documented with the signature or initials of the reviewer and the date of the review.

(D) Deposits and Investments – The City had not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories had 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.

City of Franklin

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

- (E) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the public works, culture and recreation and general government 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.

- (F) Disbursements – Certain recurring electronic payments were made prior to City Council approval.

Recommendation – The City should develop policies and procedures to ensure disbursements are only made after City Council approval and documented in the City Council minutes. However, if the City Council determines certain disbursements should be paid in advance of City Council approval, the City Council should pass a resolution authorizing the City Clerk to pay certain bills prior to the City Council's approval. These bills should then be provided to the City Council at the next City Council meeting.

- (G) Interfund Transfers – Section 545-2 of the City Finance Committee Rules requires "A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred." A transfer from the General Fund to the Special Revenue, Road Use Tax Fund was made in advance of approval by the City Council. In addition, the transfer was not approved by City Council resolution.

Recommendation – Transfers should be approved in advance by resolution and the resolutions approving all fund transfers should include the information required by Section 545-2 of the City Finance Committee Rules.

- (H) Annual Financial Report (AFR) – Chapter 384.22 of the Code of Iowa states in part, "a city shall publish an annual financial report as provided in Section 362.3 containing a summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The following were noted regarding the City's fiscal year 2023 AFR:

- The reported governmental ending fund balance was \$1,716 higher than the City's records.
- A transfer from the General Fund to the Special Revenue, Road Use Tax Fund was not reported as an other financing source and use in the respective fund.
- A \$30,017 disbursement from the Special Revenue, Road Use Tax Fund was reported in the General Fund.

Recommendation – The City should establish procedures to ensure all financial information is properly reported on the AFR and is supported by City records. 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.

City of Franklin

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

- (I) Chart of Accounts – The City had not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, disbursements were not classified by function in accordance with the Uniform Chart of Accounts.

Recommendation – To provide better financial information, control and accurate financial reporting, the recommended COA, or its equivalent, should be followed.

- (J) Monthly City Treasurer’s Report – The City Treasurer's monthly financial reports to the City Council included ending balances by fund and monthly receipts and disbursements. However, the reports did not include the beginning balance by fund, a total of receipts by fund or a comparison of total disbursements to the certified budget by function.

Recommendation – The City Treasurer should prepare the monthly financial reports which include the beginning balance by fund and total receipts by fund. In addition to provide better control over budgeted disbursements and the opportunity for timely budget amendments to the certified budget, the City Treasurer’s monthly financial reports to the City Council should include comparisons of total disbursements to the certified budget by function. The City Council or a designated member should review and approve the monthly City Treasurer’s reports and the review/approval should be documented by the reviewer’s signature or initials and the date approved.

City of Franklin

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Deputy
Gwen D. Fangman, CPA, Manager
William J. Sallen, CPA, Senior Auditor
Brianna M. Denton, Staff Auditor