

CITY OF FAIRBANK
INDEPENDENT AUDITOR'S
EXAMINATION REPORT
For the Period
July 1, 2012 through June 30, 2013

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City of Fairbank

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Maurice Welsh	Mayor	December 31, 2013
Ronald Woods	Mayor Pro-Tem	December 31, 2015
Ted Vorwald	Council Member	December 31, 2013
Dean Mangrich	Council Member	December 31, 2013
Justin Sullivan	Council Member	December 31, 2013
Tammy Erickson	Council Member	December 31, 2015
Marlene Strempeke	City Clerk	December 31, 2013
Mary Lou Fink	Treasurer	December 31, 2013
Carter Stevens & Heather Prendergast	Attorneys	December 31, 2013

Independent Accountant's Examination Report

To the Honorable Mayor and
Members of the City Council:

I have performed an examination of the City of Fairbank pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, I have applied certain tests and procedures to selected accounting records and related information of the City of Fairbank for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures I performed are summarized as follows:

1. I reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I reviewed 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. I reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances are properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. I reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. I reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. I reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property of the State of Iowa.
9. I reviewed 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. I reviewed and tested 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. I reviewed the City's TIF debt certification forms and 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. I reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. I reviewed the annual certified budget for proper authorization, certification and timely amendment.

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

I was not engaged to and did not conduct an audit of the operations of the City of Fairbank, the objective of which is the expression of opinions on financial statements. Accordingly, I do not express opinions on the City's financial statements. Had I performed additional procedures, or had I performed an audit of the City of Fairbank, additional matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairbank and other parties to whom the City of Fairbank may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Fairbank during the course of my examination. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Keith Oltrogge
Certified Public Accountant

March 20, 2014

Detailed Recommendations

City of Fairbank

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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, journalizing, reconciling and posting.
- 3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- 4) Payroll – recordkeeping, preparation and distribution.
- 5) Utilities – billing, collecting, depositing and posting.
- 6) Financial reporting – preparing and reconciling.
- 7) Journal entries – preparing and journalizing.

Recommendation – I 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 evidenced by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – The cash and investment balances in the City’s general ledger were reconciled to bank and investment account balances throughout the year. However, for the one month reviewed, bank and book balances did not properly reconcile. Variances of \$1,859.99 were not resolved. In addition, the bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

(C) Deposit Resolution – A current 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 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.

(D) Countersignature of Checks – The City requires checks to be signed by two authorized individuals. I noted checks with only one authorized signature.

Recommendation – Checks should be prepared and signed by one authorized individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

City of Fairbank

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (E) 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 that 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.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility Billings, collections and delinquent accounts were not reconciled throughout the year. Water and Sewer billing for the months of August and September appear to be incorrectly billed due to employee turnover.

Recommendation – 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.

- (G) Supporting Documentation – Supporting documentation was not available to support 1 of 40 disbursements tested in the amount of \$170.00.

Recommendation – The City should maintain supporting documentation for all disbursements.

- (H) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

I noted other expenditures totaling \$9,835.72 were paid from the TIF Fund. With few exceptions, the City must use TIF revenue for the payment of TIF indebtedness. The City may not use TIF Funds for the direct payment of project costs.

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

- (I) Urban Renewal Annual Report – The urban renewal annual report for the fiscal year 2012 was not certified to the Iowa Department of Management on or before December 1, 2012. The City's annual urban renewal report over reported actual TIF debt by \$17,990.

Recommendation – The City should file the annual report in a timely manner. The City should amend the annual urban report to report the proper amount.

- (J) Credit Card Policy – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the type of supporting documentation required to substantiate charges.

City of Fairbank

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (K) Receipts – Property tax electronic deposits for the twelve months did not agree with the general ledger, there was a \$1,161.00 difference, due to special assessment revenue posted to the wrong accounts.

Recommendation – The City should implement procedures to ensure all receipts are properly recorded in the accounting records.

- (L) Annual Financial Reporting – The City prepared the Annual Financial Report (AFR) for the fiscal year ended June 30, 2013. However, total AFR balances report were \$2,331,526 when actual cash basis would have been \$2,360,883.03. Also Part V Debt Outstanding Issued and Retired was reported incorrectly. Actual TIF Debt at June 30, 2013 was \$456,510 and SFR – Sewer Revenue Note of \$24,010 was not recorded.

Recommendation – The Annual Financial Report should be completed and filed as required by Chapter 384.22 of the Code of Iowa. In addition, the City should ensure future AFR's are reported on the cash basis, and that all funds are classified correctly on the AFR.

- (M) Payment of General Obligation Bonds – Principal and interest on the City's general obligation bonds were paid from the Capital Projects and TIF Funds. Chapter 384.4 of the Code of Iowa states, In part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should transfer from the general fund to the Debt Service Fund for future funding contributions. Payment on the bonds should be made from the Debt Service Fund as required.

- (N) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the debt service 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 384.184 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (O) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title & Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Woods – Council Member & Owner of Woods Construction	Repairs	<u>\$2,465</u>

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

- (P) Transfer and Journal Entry Documentation – Supporting documentation was not maintained for interfund transfers and journal entries. Additionally, transfers and journal entries are not approved.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers and journal entries. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable. Journal entries should be approved by an independent person and evidence of the approval should be documented.

- (Q) Deposit Slips – I noticed there were no cash or coin deposits recorded separately on the pool deposit slips for the summer.

Recommendation – The City should investigate and monitor all deposit slips. All deposit slips should include details of the amount of cash, coin and checks deposited.

City of Fairbank

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(R) City Council Minutes – The City Council went into closed session on September 23, 2013. The meeting was not closed in accordance to Chapter 21.5 of the Code of Iowa because the minutes did not state the purpose for the closed meeting by reference to a specific code section and the vote for each Council Member to go into closed session was not recorded.

Recommendation – Closed meetings should be held in compliance with Chapter 21.5 of the Code of Iowa. The minutes should state the purpose for which the meeting is being closed by reference to a specific code section and the vote of each individual Council Member should be recorded.

(S) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- 1) Aid in training additional or replacement staff.
- 2) Help achieve uniformity in accounting and in application of policies and procedures.
- 3) Save supervisory time by recording decisions so that they will not have to be made each time the same, or a similar, situation arises.