

CITY OF FREDERICKSBURG

INDEPENDENT AUDITOR'S
EXAMINATION REPORT

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

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City of Fredericksburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bryan O'Day	Mayor	January 2016
Brent Johns	Mayor Pro-Tem	January 2014
Tim Harnisch	Council Member	January 2016
Chad Brandenburg	Council Member	January 2014
Ralph Schultz	Council Member	January 2016
Mike Quigley	Council Member	January 2014
Cindy Lantow	Clerk/ Treasurer	Indefinite
David Skilton	Attorney	Indefinite

Independent Accountant's Examination Report

To the Honorable Mayor and
Members of the City Council:

I have performed an examination of the City of Fredericksburg 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 Fredericksburg 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 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.

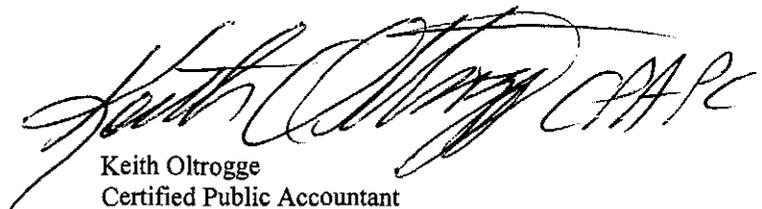
12. I reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of 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 Fredericksburg, 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 Fredericksburg, 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 Fredericksburg and other parties to whom the City of Fredericksburg 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 Fredericksburg during the course of my examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Keith Oltrogge
Certified Public Accountant

March 20, 2014

Detailed Recommendations

City of Fredericksburg

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 not reconciled to bank and investment account balances throughout the year. 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) Investments – An accounting record/register is not maintained for each investment.

Recommendation – An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained. Also, all investment documents should be under the control of a responsible official.

(D) Outstanding Checks – I determined the City does not report unclaimed property to the State Treasurer annually. Outstanding checks over one year are still being carried on the bank reconciliation.

Recommendation – We recommend the City report unclaimed property per Chapter 556.1(12) to the State Treasurer on an annual basis per Chapter 556.11 of the Code of Iowa.

(E) City Council 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 and include a summary of all receipts. The minutes for one meeting tested did not include a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and publish a summary of receipts in the City Council minutes, as required.

City of Fredericksburg

Detailed Recommendations

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

- (F) 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 has some very large past due and credit balances.

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.

- (G) Supporting Documentation – Supporting documentation was not available to support 3 of 30 disbursements tested in the amounts of \$100, \$58,160.65 and \$863.46.

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

- (H) Disbursements – Certain invoices were not approved by the City Council.

Recommendation – All invoices should be approved by the City Council.

- (I) 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.

- (J) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the community and economic development and culture and recreation 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.

- (K) Payroll – Timesheets did not include evidence of supervisory review. Additionally, the wage of one employee tested was not paid the approved rate by the City Council, as required.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, procedures should be established to ensure approved payroll rates are entered and reviewed by an independent person, with the approval being documented.

- (L) 1099 Filings – The City has not been filing form 1099 with the IRS for independent contractor work as required.

Recommendation – The City should begin filing 1099 forms with the IRS annually, beginning with the year 2014.

- (M) 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>
Ralph Schulz – Council Member	Repairs	<u>\$1,040</u>

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

City of Fredericksburg

Detailed Recommendations

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

- (N) Electronic Check Retention – Section 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for the bank accounts.

Recommendation – The City should obtain and retain an image of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (O) 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.

- (P) Computer Program – The City uses a computer program that does not provide enough details to adequately safe guard the City from misappropriation of assets.

Recommendation – The City should look into different software.

- (Q) Audit Report – The City's audit report for the year ended June 30, 2011, issued in March 2012, included several findings and recommendations pertaining to internal control and statutory compliance. Some, but not all, unresolved issues from the 2011 audit have been addressed in this examination report.

Recommendation – The status of all findings and recommendations from the June 30, 2011 audit report should be reviewed by the City Council. Unresolved findings and recommendations should be addressed and resolved by the City Council. Additionally, the City Council should continue to review the findings from the audit report and this examination report to ensure all findings have been satisfactorily resolved, consistent with the recommendations and the City's response to take corrective action.

- (R) 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.