

CITY OF CORYDON

**INDEPENDENT ACCOUNTANT'S
EXAMINATION REPORT
For the Period
July 1, 2012 through June 30, 2013**

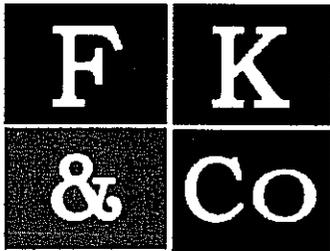
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City of Corydon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rodney Parham	Mayor	Jan 2014
Cheri Nessen	Council Member	Jan 2014
Daren Relph	Council Member	Jan 2014
Clint Carpenter	Council Member	Jan 2014
Kenneth Holmes	Council Member	Jan 2016
Eric Jaeckel	Council Member	Jan 2016
Ann Stevens	Clerk	Jan 2014
Verle Norris	Attorney	Jan 2014



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Examination Report

To the Honorable Mayor
and Members of City Council:

We have performed an examination of the City of Corydon (City) pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City 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 we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed 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 reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We 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. We 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 were properly maintained and accurately accounted for.
6. We 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. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We 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 to the State of Iowa.

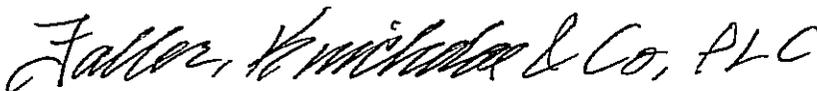
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed 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. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
12. We 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.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget to determine if disbursements by function were within the amended budget.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our 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.

We were not engaged to and did not conduct an audit of the operations of the City of Corydon, the objective of which would be the expression of opinions on the financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City, additional matters might have come to our 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 and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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


Faller, Kincheloe & Co, PLC

December 6, 2013

Detailed Recommendations

CITY OF CORYDON
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 or two individuals have control over each of the following areas for the City of Corydon (City), the Corydon Fire Department and the Corydon Public Library:

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 – We realize segregation of duties is difficult with a limited number of employees. However, the City, the Corydon Fire Department and the Corydon Public Library should review their 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) 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 that the publication shall include a list of all claims allowed. Minutes for one meeting tested were not published within fifteen days. In addition, the claims paid by the Corydon Fire Department and the Corydon Public Library were not published in the newspaper or approved by the City Council.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. In addition, all claims should be published in the newspaper and approved by the City Council, as required by the Code of Iowa.

(C) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety and debt service 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.”

CITY OF CORYDON
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

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.

- (D) 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. For the two months reviewed, the bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (E) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (CFC) on September 25, 2002.

Recommendation – To provide better financial information and control, the CFC chart of accounts, or equivalent, should be followed.

- (F) Monthly Clerk’s Report – The book balances on the monthly Clerk’s report generated by the City Clerk does not agree to the reconciled bank balances. For June 2013, the book balances on the monthly Clerk’s report were \$1,330 less than the reconciled bank balances. For October 2012, the book balances on the monthly Clerk’s report were \$273 less than the reconciled bank balances.

Recommendation – The City should establish procedures to ensure the monthly book balances on the monthly Clerk’s report agree to the reconciled bank balances.

- (G) Deposits – A resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa. However, at times during the fiscal year, the depository amount was insufficient for one depository, and another depository used by the City was not on the depository resolution.

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. In addition, all depositories used by the City should be included on the City’s depository resolution.

CITY OF CORYDON
 DETAILED RECOMMENDATIONS
 For the period July 1, 2012 through June 30, 2013

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

Name, Title and Business Connection	Transaction Description	Amount
Rodney Parham, Mayor Owner of Rod's Auto, Inc.	Tires, parts, service on vehicles	\$2,111
Dave Cusic, City Supervisor Owner of Coates Manufacturing	Parts, repairs	424

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since total transactions with each business were less than \$2,500 during the fiscal year.

(I) Questionable Disbursement – A certain disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented was noted. This disbursement is detailed as follows:

Paid to	Purpose	Amount
Flower Hutch	Sympathy flower arrangement	\$ 96

According to the opinion, it is possible for such a disbursement to meet the test of serving a public purpose under certain circumstances, although such an item will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these types of disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

CITY OF CORYDON
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

- (J) 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.

The City has tax increment financing (TIF) debt of \$0 outstanding at June 30, 2013. The City had cash on hand of \$54,503 at June 30, 2013 in the Special Revenue, Urban Renewal Tax Increment Fund to pay for the TIF debt outstanding. Therefore, the City had \$54,503 more cash on hand than needed to pay the TIF debt outstanding.

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

- (K) Urban Renewal Annual Report – The urban renewal report was approved and certified by December 1. However, the City's beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's general ledger.

Recommendation – The City should ensure the cash balances and debt amounts reported on the Levy Authority Summary agree with the City's records.

- (L) Separately Maintained Records – The Corydon Fire Department and the Corydon Public Library each maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – 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." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

CITY OF CORYDON
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

(M) Electronic Check Retention – Chapter 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 one bank account.

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

(N) Annual Financial Report – The City prepared the Annual Financial Report (AFR) for the fiscal year ended June 30, 2013. However, the report did not include the separately maintained records for the Corydon Fire Department and the Corydon Public Library for the fiscal year as required by Chapter 384.22 of the Code of Iowa.

The City's AFR reported disbursements and fund balances do not agree to the City's accounting records by an immaterial amount.

The Enterprise, Rural Fire Protection Fund and the Enterprise, Child Care Fund were reported on the AFR as part of the General Fund. However, since these two funds are used to account for activities that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of those activities, these two funds meet the definition of Enterprise Funds.

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 supported by the City's accounting records, and that all funds are classified correctly on the AFR.

(O) Receipts – We noted one receipt which was not recorded on the accounting records, and other receipts which were not recorded on the accounting records in the month received.

Recommendation – The City should implement procedures to ensure all receipts are recorded on the accounting records, and that all receipts are recorded on the accounting records in the month received.

CITY OF CORYDON
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

(P) Public Works Department – Chapter 23A of the Code of Iowa discusses noncompetition by government. Specifically, Chapter 23A.2 states, in part, “A state agency or political subdivision shall not, unless specifically authorized by statute, rule, ordinance, or regulation:

- (a) Engage in the manufacturing, processing, sale, offering for sale, rental, leasing, delivery, dispensing, distributing, or advertising of goods or services to the public which are also offered by private enterprise unless such goods or services are for use or consumption exclusively by the state agency or political subdivision.
- (b) Offer to provide goods or services to the public for or through another state agency or political subdivision, by intergovernmental agreement or otherwise, in violation of this chapter.”

The City’s public works department provided painting services for parking lots, using City equipment, to private non-profit organizations at no charge. This may violate the noncompetition provisions of Chapter 23A of the Code of Iowa. The City has no policies covering the private use of City property.

Recommendation – The City should consult legal counsel to determine the disposition of this matter. The City should establish policies governing the use of City equipment.

(Q) Fire Chief Pay – The fire chief is paid \$500 a year for his services provided to the City. The fire chief is currently paid as an independent contractor, with no payroll taxes withheld. Based on guidance from the Internal Revenue Service, it would appear that the fire chief is an employee, and that applicable taxes were not withheld from his paycheck.

Recommendation – The City should ensure all employees are paid as employees, with all applicable taxes withheld from the employees’ paychecks.

(R) Financial Condition – At June 30, 2013, the City had a deficit balance of \$149,671 in the Capital Project, Swimming Pool Project Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

CITY OF CORYDON
DETAILED RECOMMENDATIONS
For the period July 1, 2012 through June 30, 2013

(S) Library Deposit Timeliness – Library receipts are deposited once per month.

Recommendation – The Library should implement procedures to ensure all receipts are deposited on a timely basis. For better control purposes, Library receipts should be deposited more timely, preferably daily or when cash and checks on hand exceed \$100.