

CITY OF FAIRBANK
INDEPENDENT ACCOUNTANT'S
EXAMINATION REPORT

For the Period
July 1, 2013 through June 30, 2014

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City of Fairbank

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
Maurice Welsh	Mayor	January 2014
Ronald Woods	Mayor Pro-Tem	January 2016
Ted Vorwald	Council Member	January 2014
Dean Mangrich	Council Member	January 2014
Justin Sullivan	Council Member	January 2014
Tammy Erickson	Council Member	January 2016
Marlene Strempeke	City Clerk	Indefinite
Mary Lou Fink	Treasurer	Indefinite
David Skilton	Attorney	Indefinite
<u>(After January 2014)</u>		
Bill Cowell	Mayor	January 2018
Ronald Woods	Mayor Pro-Tem	January 2016
Tammy Erickson	Council Member	January 2016
Dean Mangrich	Council Member	January 2018
Justin Sullivan	Council Member	January 2018
Ted Vorwald	Council Member	January 2018
Marlene Stropmke	City Clerk	Indefinite
Maurice Welsh	Treasurer	Indefinite
Carter Stevens & Heather Prendergast	Attorneys	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and
Members of the City Council:

I have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. 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, 2013 through June 30, 2014. The City of Fairbank's management, which agreed to the performance of the procedures performed, is responsible 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 sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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 surety 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 recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I reviewed the City's fiscal year 2014 Annual Financial Report to determine whether it was completed and accurately reflect 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 City's TIF debt certification forms 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 recommended COA.
13. I reviewed and tested selected disbursements for 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. 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 City of Fairbank, the objective of which is the expression of opinions on the City's 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 agreed-upon procedures. 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

December 16, 2014

Detailed Recommendations

City of Fairbank

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

(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 one of two months reviewed, bank and book balances did not properly reconcile. Also, the bank and treasurer’s report balances did not agree. Variances 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) Countersignature of Checks – The City requires checks to be signed by two authorized individuals. I noted checks with only one authorized signature throughout most of the fiscal year.

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, 2013 through June 30, 2014

- (D) 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 \$70.00 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.

- (E) Urban Renewal Annual Report – The City’s annual urban renewal report under reported actual TIF debt by \$22,942. The beginning cash balance, in the fiscal year 2014, differs from the ending cash balance on the fiscal year 2013 report.

Recommendation – The City should amend the annual urban report to report the proper amounts.

- (F) Annual Financial Report – The City prepared the Annual Financial Report (AFR) for the fiscal year ended June 30, 2014 timely. However, total AFR balances were \$2,640,939 when actual cash basis would have been \$2,642,935.

Recommendation – The City should ensure future AFR’s are reported on the cash basis, and that all funds are classified correctly on the AFR.

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the general government 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 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

<u>Name, Title, and Business Connection</u>	<u>Transcription Description</u>	<u>Amount</u>
Ron Woods – Council Member & Owner of Woods Construction	Repairs	\$3,138
Maurice Welsh – Mayor, Son is Owner of Welsh Construction	Repairs	\$769

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

City of Fairbank

Detailed Recommendations

For the period July 1, 2013 through June 30, 2014

(I) 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 for all areas 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.

(J) Payroll – I noted the following during my review and testing of the City's payroll:

- 1) Not all employees were paid at the salary resolution amount.
- 2) Time cards were not used by all employees.
- 3) Time cards were not approved.

Recommendation – Time cards should be used by all employees. They should be reviewed and approved before the payroll is done. An independent person should review the salary amounts in the computer software.