

CITY OF CARBON

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014**

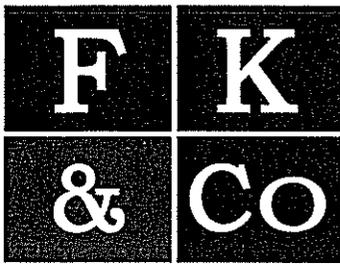
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City of Carbon

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|----------------|---------------------|
| <u>(Before January 2014)</u> | | |
| Dwight Sunderman | Mayor | Jan 2014 |
| Jerry Anderson | Council Member | Jan 2014 |
| Larry Johnson | Council Member | Jan 2014 |
| Cathy Jones | Council Member | Jan 2014 |
| Daryl Magnuson | Council Member | Jan 2014 |
| Donna Rochau | Council Member | Jan 2014 |
| Lori Shires | City Clerk | Indefinite |
| <u>(After January 2014)</u> | | |
| Dwight Sunderman | Mayor | Jan 2016 |
| Jerry Anderson | Council Member | Jan 2016 |
| Larry Johnson | Council Member | Jan 2016 |
| Cathy Jones | Council Member | Jan 2016 |
| Daryl Magnuson | Council Member | Jan 2016 |
| Donna Rochau | Council Member | Jan 2016 |
| Lori Shires | City Clerk | Indefinite |



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Carbon pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Carbon for the period July 1, 2013 through June 30, 2014. 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 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 are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety 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 recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are 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.

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Joel C. Faller, CPA

Alan Kincheloe, CPA

Ryan Roof, CPA

2721 SW 30th Street
(515) 362-5672

Des Moines, Iowa
CPA@FKCcpa.com

50321-1409
Fax (515) 362-5674

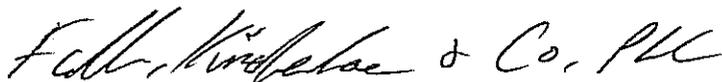
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
11. We 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.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

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 City of Carbon, the objective of which is the expression of opinions on the City's 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 of Carbon, 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 of Carbon and other parties to whom the City of Carbon 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 of Carbon during the course of our agreed-upon procedures. 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

September 19, 2014

CITY OF CARBON
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. Financial reporting – preparing and reconciling.
6. Journal entries – preparing and journalizing.

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 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 balances throughout the year. For two months reviewed, the City was not keeping track of its book balances.

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

(C) Clerk’s Report – A monthly Clerk’s report, including a summary of receipts, disbursements, beginning balances and ending balances by fund, is not prepared.

Recommendation – The City Clerk should prepare a monthly Clerk’s report which includes a summary of receipts, disbursements, beginning balances and ending balances by fund. The City Council should review and approve of the Clerk’s report monthly.

CITY OF CARBON
DETAILED RECOMMENDATIONS
For the period July 1, 2013 through June 30, 2014

(D) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires the posting of the City Council minutes include the total disbursements from each city fund, a summary of all receipts and the reason for the claims. We noted that this requirement was not met by the City for all four meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure all minutes are signed and that the posting of the City Council minutes include total disbursements from each city fund, a summary of all receipts and the reason for the claims, as required.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B 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.

(F) Official Depositories – 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 – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

(G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works 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.”

The City’s budget documents did not list the City’s long-term debt on the budget’s long-term debt schedule filed with the State of Iowa. The listing of the City’s debt on the long-term debt schedule in the budget is required by the State of Iowa.

CITY OF CARBON
DETAILED RECOMMENDATIONS
For the period July 1, 2013 through June 30, 2014

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. In addition, the City should ensure the City’s long-term debt is listed on the long-term debt schedule in the budget as required by the State of Iowa.

- (H) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records. We also noted that the long-term debt was not listed on the City’s Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records including any debt.

- (I) Payroll – The Mayor and City Council members are being treated as independent contractors, instead of through payroll as employees.

Recommendation – The City should ensure that the Mayor and City Council members are treated as employees and paid through payroll, with all applicable taxes withheld.

- (J) 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 its bank accounts.

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.

- (K) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance at June 30, 2014 of \$2,087.

Recommendation – The City should investigate alternatives to eliminate the deficit to return the fund to sound financial condition.