

CITY OF ELLSWORTH, IOWA
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

Table of Contents

	<u>Page</u>
Officials	1
Independent Accountant's Examination Report	2-3
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 4
Business Transactions	B 4
Deficit Balances	C 5
Investments	D 5
Questionable Disbursements	E 5

City of Ellsworth, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gregory Campbell	Mayor	Jan 2015
Marvin Norem	Council Member	Jan 2015
Steve Holt	Council Member	Jan 2015
Marty Jensen	Council Member	Jan 2017
Kris Groth	Council Member	Jan 2017
Dewaine Zimmerman	Council Member	Jan 2015
Kathy Eittreim	Clerk/Treasurer	Indefinite
Danny Anderson	Utility Supervisor	Indefinite
Jason Hyland	Attorney	Indefinite

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

Independent Accountant's Examination Report

To the Honorable Mayor
and Members of City Council:

We have performed an examination of the City of Ellsworth 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 of Ellsworth 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.

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 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 are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. 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.
8. 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.

9. 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.
10. We reviewed the 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.
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 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 operations of the City of Ellsworth, the objective of which is the expression of opinions on 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 Ellsworth, 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 Ellsworth and other parties to whom the City of Ellsworth 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 Ellsworth 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.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

March 30, 2015

Detailed Recommendations

City of Ellsworth, Iowa

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

Name, Title, and Business Connection	Transaction Description	Amount
Bruce Thompson, Fire Chief, owner of Thompson Construction & Sons LLC	Snow removal, fixing leaks	\$ 5,320
Steve Holt, Councilman, owner of Holt Plumbing, Heating, & Refrigeration	Air conditioner/heat pump for Community Center	10,262

City of Ellsworth, Iowa

Detailed Recommendations

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

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.

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

- (C) Deficit Balances – The Water Fund had a deficit balance at June 30, 2014.

Recommendation – The City should continue to investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition. It was noted that rates were increased effective June 2014 to help eliminate this deficit.

- (D) Investments – The City has a written investment policy established per Chapter 452 of the Code of Iowa and should be established per Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

- (E) Questionable Disbursements – Certain disbursements 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Babe’s Steak House	Firemen’s annual meeting & supper	\$ 1,401
Kathy Eittreim	Employee appreciation	150

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items 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 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, with help of legal counsel.