

CITY OF ORCHARD

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

CITY OF ORCHARD

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City of Orchard

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark McGivern	Mayor	January 2016
Jen Adams	Council Member	January 2018
Todd Adams	Council Member	January 2016
Kyle Hobbs	Council Member	January 2016
Ron Muhlenbruck	Council Member	January 2016
Andrew Block	Council Member	January 2016
Sarah Hobbs	City Clerk	Indefinite
Mark Walk	City Attorney	Indefinite



Gardiner Thomsen
Certified Public Accountants

Independent Accountant's Report on Applying Agree-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Orchard 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 Orchard 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 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 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 receipts for accurate accounting and consistency with the recommended chart of accounts.

10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Orchard, 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 Orchard, 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 Orchard and other parties to whom the City of Orchard 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 Orchard 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.

Gardiner Thomsen, P.C.

Charles City, Iowa

September 18, 2014

Detailed Recommendations

City of Orchard

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

Recommendation – To provide better financial information and control, the recommended Uniform Chart of Accounts, or its equivalent, should be followed.

(C) Fund Accounting – The City has not fully implemented Fund Accounting.

Recommendation – To provide better financial information and control, Fund Accounting should be implemented.

(D) City Council Minutes – Chapter 21.4 of the Code of Iowa requires notice of the time, date and place of each meeting to be posted at least twenty-four hours prior to the commencement of the meeting. It appears the City posts agendas for meetings, but there is no documentation available to support this. Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. For cities of two hundred population or less, posting in three public places in the city which have been permanently designated by ordinance is sufficient. The proper posting of the Council minutes was not able to be verified for the meetings selected for testing.

It was noted that City Council Minutes were not signed as required by Chapter 380.7 of the Code of Iowa.

It was noted that Council minutes did not show sufficient information to indicate the vote of each member as required by Chapter 21.3 of the Code of Iowa for a vote on April 7, 2014.

City of Orchard

Detailed Recommendations

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

Recommendation – The City should comply with the Code of Iowa for proper posting of notices and City Council minutes. Posted City Council minutes should include total disbursements for each fund, a list of claims allowed (including reason), a summary of all receipts and a summary of ordinances adopted. Proper documentation should be maintained to verify these postings.

City Council minutes should be signed to comply with Chapter 380.7 of the Code of Iowa.

City Council minutes should contain sufficient information to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.

- (E) Payroll Documentation – It was noted that the gross pay or hourly rate is not properly authorized for City employees, including Council members per Resolution. The accuracy of the number of hours paid could not be determined as the City does not maintain timesheets, support for authorized deductions, documentation showing the gross pay of employees or a payroll journal.

Recommendation – Gross pay or hourly rates of City employees, including Council members should be properly authorized by the City Council per Resolution. Procedures should be implemented to keep track of the hours worked and to document the approval of hours. Authorized deductions should be kept on file for all City employees.

- (F) 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 several 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.

- (G) Certified Budget – Disbursements during the year exceeded the amounts budgeted in the public works, culture & recreation and community & economic development functional areas as well as for Business Type activities. 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) Monthly Clerk’s Report – Financial information provided to the City Council monthly should include a City Clerk’s report showing receipts, disbursements, transfers and balances for each fund as well as a comparison of actual disbursements to budget by function. The only financial information submitted monthly to the City Council is a list of bills paid by the City.

Recommendation – The City should review and implement procedures to ensure adequate financial information is submitted monthly to the City Council.

- (I) Quarterly Federal Tax Return – Quarterly federal tax returns are required to be filed with the Internal Revenue Service by the last day of the month that follows the end of the quarter. The city’s 2013 fourth quarter Form 944 was not filed timely.

Recommendation – The City should review its procedures to ensure that quarterly federal tax returns are filed timely with the Internal Revenue Service.

City of Orchard

Detailed Recommendations

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

- (J) Authorization of Claims – It was noted that not all claims are properly approved by the City Council.

Recommendation – The City should review and implement procedures to ensure that all claims are approved by the City Council.

- (K) 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 was not prepared monthly.

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. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (L) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, 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 – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. 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.

NEWS RELEASE

FOR RELEASE

Gardiner Thomsen, P.C. today released an agreed-upon procedures report on the City of Orchard, Iowa for the period July 1, 2013 through June 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Gardiner Thomsen, P.C. made recommendations including a recommendation that the City review its control procedures to obtain the maximum internal control possible.

A copy of the examination report is available for review in the City Clerk's Office, in the Office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.