

**CITY OF CLEARFIELD**

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

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

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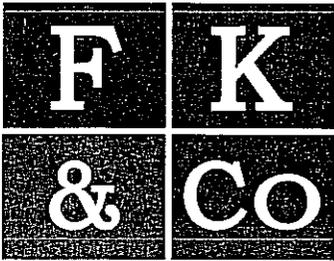
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**City of Clearfield**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term</u> <u>Expires</u>
<u>(Before January 2014)</u>		
Sharon Brown	Mayor	Jan 2014
Linda Anderson	Council Member	Jan 2014
Lance Leonard	Council Member	Jan 2014
Karen Larsen	Council Member	Jan 2014
Chris England	Council Member	Jan 2016
J.D. Mackey	Council Member	Jan 2016
Mike Fisher	City Clerk	Indefinite
<u>(After January 2014)</u>		
Kenny Werner*	Mayor	Jan 2016
Linda Anderson	Council Member	Jan 2018
Lance Leonard	Council Member	Jan 2018
Karen Larsen	Council Member	Jan 2018
Chris England	Council Member	Jan 2016
J.D. Mackey	Council Member	Jan 2016
Mike Fisher	City Clerk	Indefinite

\* - Resigned effective May 30, 2014. The Mayor position was vacant at June 30, 2014.



# FALLER, KINCHELOE & CO, PLC

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## 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 Clearfield 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 Clearfield 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.

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 receipts for accurate accounting and consistency with the recommended COA.
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 transfers between funds for propriety, proper authorization, and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Clearfield, 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 Clearfield, 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 Clearfield and other parties to whom the City of Clearfield 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 Clearfield 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*

Faller, Kincheloe & Co, PLC

September 12, 2014

## CITY OF CLEARFIELD

### 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) Monthly Bank Reconciliations – Although monthly bank reconciliations are prepared, the reconciliations are not compared to the City's general ledger fund balances. For the two months received, the bank and book balances did not properly reconcile for some bank accounts. 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. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initializing and dating the reconciliations.

(C) Clerk's Report – Although monthly Clerks' reports are prepared, in some cases the reports do not agree with the general ledger or bank balances.

Recommendation – The City should establish procedures to ensure the monthly Clerk's reports reconcile to the general ledger and bank balances.

CITY OF CLEARFIELD

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 minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days, and minutes for two meetings tested were not published at all.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.
- Ordinances were not always published as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure the minutes, total disbursements from each fund, summary of all receipts and ordinances are published 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.

CITY OF CLEARFIELD

DETAILED RECOMMENDATIONS

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

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the culture and recreation, community and economic development and the business-type activities 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.”

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) 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 – 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 reviews should be documented by signing or initialing and dating the reconciliations.

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

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

- (J) Sales Tax – The City paid sales tax on an invoice. Iowa governments are not required to pay sales tax on purchases.

Recommendation – The City implement procedures to ensure sales tax is not paid on future purchases.

CITY OF CLEARFIELD

DETAILED RECOMMENDATIONS

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

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

Name, Title, and Business Connection	Transaction Description	Amount
J.D. Mackey, City Council Employee of Feldhacker	Construction services	\$32,601
Chris England, City Council Employee of Briggs Construction	Construction services	\$586
Lance Leonard, City Council Owner of Leonard Construction	Construction services	\$600

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with Chris England and Lance Leonard do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with J.D. Mackey 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.

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

(L) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 100% for infrastructure and community betterment purposes. The local option sales tax receipts are recorded in the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement and balance of all local option sales tax funds to document compliance with the local option sales tax ballot referendum provisions.

CITY OF CLEARFIELD

DETAILED RECOMMENDATIONS

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

- (M) Transfers - The City transferred surplus funds from the Enterprise, Gas Fund to the General Fund during the fiscal year. The City did not make this transfer by resolution of the City Council, as required by the City Finance Committee Administrative Rules, IAC Section 545-2.5(5).

Recommendation – In the future, the City transfer surplus funds by resolution as required.

- (N) 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 current public debt of the City...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records. In addition, the City did not report the debt 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. In addition, the City should ensure that all debt of the City is included on future Annual Financial Reports.

- (O) Payment of General Obligation Notes – Chapter 384.4 of the Code of Iowa states in part, “Monies pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.” During the year ended June 30, 2014, the City paid a portion of the general obligation notes from the Enterprise, Sewer Fund.

Recommendation – The City should transfer funds to the Debt Service Fund to pay the general obligation notes in the future.

- (P) Sewer Revenue Bond – The City has a sewer revenue bond payable to the United States Department of Agriculture (USDA). However, neither the City nor the USDA could locate the debt agreement in relation to this sewer revenue bond. As a result, the City is unable to determine compliance with the sewer revenue bond provisions.

Recommendation – The City work with legal counsel to resolve this issue.

CITY OF CLEARFIELD

DETAILED RECOMMENDATIONS

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

(Q) Payroll – Timesheets tested did not include evidence of supervisory approval. In some cases, timesheets were not kept by employees. We could not locate City Council approval of the wage rates for all employees tested. One employee was paid payroll in advance of the hours the employee worked.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Timesheets should be required to be kept for all City personnel. The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. In addition, City employees should not be paid in advance of the related hours worked.