

CITY OF FREDERICKSBURG

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

**For the Period
July 1, 2014 through June 30, 2015**

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City of Fredericksburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bryan O'Day	Mayor	January 2016
Ralph Schultz	Mayor Pro-Tem	January 2016
Stephanie Boecker	Council Member	January 2018
Tim Harnisch	Council Member	January 2016
Larry Kuecker*	Council Member	January 2018
Brad Schoonover	Council Member	January 2018
Randy Leach**	Council Member	January 2018
Cindy Lantow	City Clerk/Treasurer	Indefinite
David Skilton	Attorney	Indefinite

*Resigned 9/30/2014

**Appointed 1/5/2015

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 Fredericksburg for the period July 1, 2014 through June 30, 2015. The City of Fredericksburg'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 2015 Annual Financial Report to determine whether it was completed and accurately reflects 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 to 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 receipts for accurate accounting and consistency with the recommended COA.
- 11 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.
- 12 I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
- 13 I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
- 14 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 Fredericksburg, 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 Fredericksburg, 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 Fredericksburg and other parties to whom the City of Fredericksburg 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 Fredericksburg 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 CPA PE

Denver, Iowa
January 11, 2016

Detailed Recommendations

City of Fredericksburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

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 – 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 documented by the signature or initials of the reviewer and the date of review.

B. Bank Reconciliations – The cash and investment balances in the City’s general ledger and Clerk’s reports were reconciled to the bank and investment account balances. For the two months reviewed, bank and book balances did not properly reconcile because the payroll checking account balance was not included.

Recommendation – The City should establish procedures to ensure all bank and investment account balances are reconciled to the general ledger and Clerk’s reports monthly. Variances, if any, should be reviewed and resolved timely.

C. Outstanding Checks – I determined the City does not report unclaimed property to the State Treasurer annually. Outstanding checks over one year old are still being carried on the bank reconciliation.

Recommendation – I recommend the City report unclaimed property per Chapter 556.1(12) to the State Treasurer on an annual basis.

- D. Certified Budget - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the community and economic development, culture and recreation 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."

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.

- E. Credit Card Policy – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the type of supporting documentation required to substantiate charges.

- F. Computer Software – The City uses an accounting software program that does not provide enough detail to adequately safeguard the City from misappropriation of assets.

Recommendation – The City should consider changing software programs.

- G. Separately Maintained Records – The Parks and Recreation Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control and financial activity the balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- H. Financial Condition – At June 30, 2015, the City had deficit balances in the sewer and capital projects funds of \$21,614 and \$1,426 respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition.

- I. Annual Urban Renewal Report (AURR) – The AURR was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1.

Recommendation – The City should approve and file the AURR timely.

- J. City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. One of four monthly minutes reviewed were not published within fifteen days. I also noted the City Council had closed sessions without roll call votes to go into and come out of those closed sessions. The specific exemption under Chapter 21.5 of the Code of Iowa was not identified or documented as required.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days as required. The City should ensure all of the required elements are included in the minutes.

- K. Disbursements – I noted many checks were hand-written with the information being added to the general ledger after the fact. This is not efficient and provides you with the opportunity for recording errors.

Recommendation – All checks should be written through the accounting software at the time the bills are paid.

- L. Financial Reporting – Property taxes were incorrectly coded all as general property tax receipts instead of being spread to utility, C&I and military credit. I also noted transfers recorded as revenues and expenditures. Debt payments were not divided between principal and interest.

Recommendation – The City should implement procedures to ensure all receipts and expenditures are properly coded.

- M. Payroll – Time sheets were not maintained by each employee. The City Clerk made one time sheet that included all of the full-time employees. There was no indication the time sheets had been reviewed and approved by appropriate supervisory personnel prior to the preparation of the payroll.

Recommendation – Time sheets should be kept by each employee and be reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review.

- N. Annual Financial Report – The debt section of the Annual Financial Report was not fully completed and debt was overstated by \$1,711 because the principal and interest payments weren't divided correctly in the general ledger.

Recommendation – The City should ensure the Annual Financial Report is complete and accurate.