

CITY OF BANCROFT, IOWA
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

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

Table of Contents

	<u>Page</u>
Officials	1
Independent Accountant's Examination Report	2-4
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 5
City Council Minutes	B 5
Reconciliation of Utility Billing Collections	C 5
Tax Increment Financing	D 6
Deficit Balance	E 6

City of Bancroft, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas Johnson	Mayor	Jan 2016
Robert Richter	Council Member	Jan 2016
Phil Jaren	Council Member	Jan 2016
Corey Rasch	Council Member	Jan 2018
Jeremy Fraker	Council Member	Jan 2018
Barb Schemmel	Council Member	Jan 2016
Crysti Neuman	City Director	Indefinite
Tim Rowlet	Utility Clerk	Indefinite
Scott Buchanan	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 Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We 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, we have applied certain tests and procedures to selected accounting records and related information of the City of Bancroft for the period July 1, 2014 through June 30, 2015. The City of Bancroft'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 Governmental 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, we 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 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 2015 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 voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Bancroft, 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 Bancroft and other parties to whom the City of Bancroft 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 Bancroft 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 14, 2016

Detailed Recommendations

City of Bancroft, Iowa

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, 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. The City currently has an outside accounting firm assist in preparing the annual financial report, which helps mitigate this risk. Also, during the next fiscal we plan on utilizing the council to review and initial monthly reports to help mitigate this risk.

- (B) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires that the minutes of all City Council proceedings include publication of a summary of receipts and disbursements by fund. It was noted in the prior year that the summary of disbursements was not being published. This has been corrected as of March 2015.
- (C) Reconciliation of Utility Billings and Collections – Although the reconciliations are available in the software, utility billings and collections were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings and collections for each billing period. Also, a person other than the utility clerk should review. The City started this procedure with the February 2016 billing cycle and no problems were noted.

- (D) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax dividend for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City had previously certified debt for a certain rebate agreement in a prior year. Subsequently, the business did not meet its' obligations and is not eligible for this rebate. The City should utilize Form 3 to decertify this debt.

The City has a positive cash balance in its' TIF account of \$341,066 as of June 30, 2015. While this balance is not in excess of the current TIF debt, there is not available cash to repay TIF debt when due in the future because of deficit balances in other funds.

Recommendation – The City should consult legal counsel to determine the disposition of these matters.

- (E) Deficit Balance - As of June 30, 2015, the City's general fund had a deficit balance of \$384,022.

Recommendation – City officials should investigate alternatives to eliminate this deficit to return the fund to a sound financial position. Per inquiry, City officials have hired a new City director who is reviewing every possibility to return the general fund to a sound financial position. This should be investigated in conjunction with the review of TIF cash balances.