

**CITY OF ELLSWORTH, 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**

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## City of Ellsworth, Iowa

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gregory Campbell	Mayor	Jan 2017
Marvin Norem	Council Member	Jan 2019
Steve Holt	Council Member	Jan 2019
Marty Jensen	Council Member	Jan 2017
Kris Groth	Council Member	Jan 2017
Dewaine Zimmerman	Council Member	Jan 2019
Kathy Eittreim	Clerk/Treasurer	Indefinite
Danny Anderson	Utility Supervisor	Indefinite
Jason Hyland	Attorney	Indefinite

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

## Certified Public Accountants

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### Independent Accountant's Examination 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 Ellsworth for the period July 1, 2014 through June 30, 2015. The City of Ellsworth'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, we make no representation regarding the sufficiency of the procedure 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 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 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.
11. 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.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
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 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 23, 2016

## **Detailed Recommendations**

City of Ellsworth, 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) 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. Management has suggested that a review procedure be implemented.

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Thompson, Fire Chief, owner of Thompson Construction & Sons LLC	Repairs	\$ 14,373
Steve Holt, Councilman, owner of Holt Plumbing, Heating & Refrigeration	Repairs	819

City of Ellsworth, Iowa

Detailed Recommendations

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

In accordance with Chapter 362.5(k) of the Code of Iowa, the transaction with the fire chief 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 if this is a conflict of interest.

(C) Deficit Balances – The Water Fund had a deficit balance at June 30, 2015.

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 and December 2015 to help eliminate this deficit.

(D) 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:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Babe’s Steak House	Firemen’s annual meeting & supper	\$ 1,940
Kathy Eittreim	Employee appreciation	200

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. Management would like to emphasize that the firemen’s annual meeting is paid from donations and not from tax dollars.

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.

City of Ellsworth, Iowa

Detailed Recommendations

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

(E) Delinquent Utilities – It was noted that the policies for posting delinquent utility payments was not uniformly followed. However, it should be noted that the proper penalties were assessed.

Recommendation – The City should review its policy for posting delinquent utility payments and uniformly apply it to all customers.