

Mary Sue Hibbs, City Clerk
City of Earlham
P.O. Box 518
Earlham, IA 50072

Dear Mary Sue:

Enclosed are the following:

- 1) A sample news release. A copy should be sent to the newspaper and radio station.
- 2) Nine copies of your agreed-upon procedures report for the year ended June 30, 2023.

We will send the required copies of your report to the State Auditor.

If you have any questions, please contact our office.

Thank you for everything!

Very truly yours,

FALLER, KINCHELOE & CO., PLC

Steve Gerdes

DRAFT
SUBJECT TO CHANGE

NEWS RELEASE

For Release 

Faller, Kincheloe & Co, PLC today released an agreed-upon procedures report on the City of Earlham, Iowa, for the period July 1, 2022 through June 30, 2023. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Faller, Kincheloe & Co, PLC reported five findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of reconciliations of cash and investment balances to bank and investment account balances and being overbudget in two budget functions. Faller, Kincheloe & Co, PLC provided the City with recommendation to address each of the findings.

Four of the five findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at [Audit Reports – Auditor of State](#).

CITY OF EARLHAM
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023

Table of Contents

	<u>Page</u>
Officials	4
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-7
Detailed Findings and Recommendations:	<u>Finding</u>
Segregation of Duties	A 9
Bank Reconciliations	B 9
Business Transactions	C 9-10
Certified Budget	D 10
Payroll	E 10

City of Earlham

DRAFT
SUBJECT TO CHANGE

City of Earlham

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Lillie	Mayor	Jan 2024
Andrew Baskin	Council Member	Jan 2024
Brock Fredericksen	Council Member	Jan 2024
Chris Swalla	Council Member	Jan 2026
Deeanna Mudge	Council Member	Jan 2026
Tim Nelsen	Council Member	Jan 2026
Mary Sue Hibbs	Clerk	Indefinite
Sam Braland	Attorney	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Earlham for the period July 1, 2022 through June 30, 2023, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Earlham's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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 City of Earlham's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa recommendations. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.

4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2023 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned 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 scanned 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 observed 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 traced selected receipts to accurate accounting and consistency with the recommended COA.
13. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. We traced selected disbursements to 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.

17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Earlham's management to perform this agreed-upon procedures engagement and conducted our engagement 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. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Earlham and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlham during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DRAFT
SUBJECT TO CHANGE
Faller, Kincheloe & Co, PLC

Detailed Findings and Recommendations

DRAFT
SUBJECT TO CHANGE

CITY OF EARLHAM
 DETAILED FINDINGS AND RECOMMENDATIONS
 For the period July 1, 2022 through June 30, 2023

(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 or two individuals have control over each of the following areas for the City of Earlham (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their 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) Bank Reconciliations – The savings and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

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.

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

Name, Title, and Business Connection	Transaction Description	Amount
Jeff Lillie, Mayor Owner of Lillie Plumbing	Repairs and maintenance	\$27,502

CITY OF EARLHAM
DETAILED FINDINGS AND RECOMMENDATIONS
For the period July 1, 2022 through June 30, 2023

In accordance with Chapter 362.5 of the Code of Iowa, the above transactions with Lillie Plumbing may represent a conflict of interest since the total transactions were more than \$6,000 and the transactions were not competitively bid.

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

- (D) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the general government and debt service 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) Payroll – Our review of payroll noted the following concerns:

1. Instances were noted where the City Council did not pass a salary resolution documenting pay rates for some employee compensation.
2. An instance was noted where a timesheet was not maintained for some hours worked by a City employee.

Recommendation – The City should implement procedures to ensure that salary resolutions exist for all employee compensation. The City should also implement procedures to ensure timesheets are maintained for all hours worked by City employees.

[REDACTED]

Faller, Kincheloe & Co., PLC
2721 SW 30TH Street
Des Moines, IA 50321

This representation letter is provided in connection with your engagement to apply agreed-upon procedures on the City of Earlham for the year ended June 30, 2023, which has been conducted for the purpose of performing an annual examination pursuant to Chapter 11.6 of the Code of Iowa. We understand the annual examination is designed to focus on the financial processes of the City and compliance with certain Code of Iowa requirements to help ensure accountability and compliance and minimize the opportunity for fraud and to review selected City records for propriety and determine whether adequate records are maintained by the City.

Certain representations in this letter are described as being limited to matters which are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement which is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of [REDACTED] the following representations made to you during your engagement.

1. We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated August 15, 2023.
2. We have provided you with:
 - a. Financial records and related data and all audit, agreed-upon procedures or relevant monitoring reports, if any, received from funding sources or others.
 - b. Access to all information and have disclosed all matters we are aware of which you determined are relevant to the agreed-upon procedures engagement, such as records, documentation and other matters.
 - c. Additional information you have requested from us for the purpose of the engagement.
 - d. Unrestricted access to City officials and employees from whom you determined it was necessary to obtain documentation or information.
 - e. Minutes of meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - f. Response to all inquiries made to us by you during your engagement.
3. There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5. Section 11.6.7 of the Code of Iowa requires the City of Earlham to immediately notify the Auditor of State regarding any suspected embezzlement, theft or other significant financial irregularities. We have no knowledge of any fraud or suspected fraud affecting the City involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the financial data significant to the engagement objectives.
6. We acknowledge we are responsible for the subject matter and the assertion.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the City communicated by employees, former employees, analysts, regulators or others.
8. There are no violations or possible violations of budget ordinances, laws and regulations, including those pertaining to adopting, approving and amending budgets, provisions of contracts and grant agreements, tax or debt limits and related debt covenants whose effects should be considered for reporting on noncompliance.
9. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements or abuse you have reported to us.
10. We have a process to track the status of findings and recommendations.
11. We have identified to you previous audits, attestation engagements and other studies and whether related recommendations have been implemented.
12. The findings, conclusions and recommendations to be reported have been communicated to us for our review.
13. We have complied with all aspects of contractual agreements that would have a material effect on the financial data significant to the engagement objectives in the event of noncompliance.
14. We are responsible for compliance with laws, regulations and provisions of contracts and grant agreements applicable to the City, including tax or debt limits and debt covenants, and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements we believe have a direct and material effect on the financial data significant to the engagement objectives.
15. We have followed all applicable laws and regulations in adopting, approving and amending budgets.
16. We have disclosed to you all known events noncompliance, including noncompliance occurring subsequent to the period covered by your report, which could have a material effect on the engagement.
17. We are not aware of any material misstatement in the City's financial records.

Very truly yours,

Mayor

City Clerk