



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

June 19, 2014

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an examination report on the City of Hamburg, Iowa for the period July 1, 2012 through June 30, 2013. The examination was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. The City should establish procedures to ensure bank and utility reconciliations are completed monthly and are independently reviewed and the Annual Financial Report is prepared accurately.

A copy of the examination report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1321-0339-BL0F.pdf>.

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CITY OF HAMBURG
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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City of Hamburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cathy E. Crain	Mayor	Jan 2016
Kent Benefiel	Mayor Pro tem	Jan 2016
Jimmie Randolph	Council Member	Jan 2014
Willie Thorp	Council Member	Jan 2014
Earl Hendrickson	Council Member	Jan 2016
Mary Lou Perry	Council Member	Jan 2016
Sheryl Owen	City Clerk	Indefinite
T.J. Pattermann	Attorney	Indefinite



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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Hamburg pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Hamburg for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

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 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 Hamburg, 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 Hamburg, 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 Hamburg and other parties to whom the City of Hamburg 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 Hamburg 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 8, 2014

Detailed Recommendations

City of Hamburg

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (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 and investments – 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) 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 documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual accounts, they were not always reviewed by an independent person. Also, the reconciliation did not include investments.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled at June 2013.

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. The review should be documented by the signature or initials of the reviewer and the date of review.

- (D) Annual Financial Report – The City prepared the Annual Financial Report for the fiscal year ended June 30, 2013. However, the receipts, disbursements and cash basis fund balances by fund/fund type were materially misstated although, in total, receipts, disbursements and the cash basis fund balances were materially correct.

Recommendation – The City should develop procedures to ensure the Annual Financial Report is accurate by fund/fund type as well as in total. The errors in the Annual Financial Report should be corrected and the report should be resubmitted.

City of Hamburg

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

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

Name, Title and Business Connection	Transaction Description	Amount
Toby Crain, Mayor's niece	Mowing, per bid	\$ 8,500
Kerry Crain, Mayor's brother	Weed spraying	120
Benefiel Truck Repair and Towing, owned by City Council Member Kent Benefiel	Towing and auto repair	1,220

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with the City Council Member and the Mayor's brother do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year. The transaction with the Mayor's niece does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- (F) Separately Maintained Records - The bookkeeping and custody of the Library checking and savings accounts and CD investments were under the control of the Library Board in a location separate from the City Clerk's office. These material accounts were not reflected in the City's accounting system and have not been included in the City's annual budget, Annual Financial Reports or monthly financial reports.

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, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (G) Computer Systems – The following weaknesses in the City's computer systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords and/or prevent the reuse of the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.
- Requiring timeout or logoff functions be utilized when terminals are left unattended.
- Requiring computer journal entries be reviewed and approved by an independent individual.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City's control over its computer systems.

City of Hamburg

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (H) Employee Evaluations – Annual evaluations are not completed by the City Council for all city employees.

Recommendation - The City should complete annual evaluations for all city employees to ensure adequate tracking of job performance is maintained.

- (I) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for three transactions tested could not be located.

Recommendation - All disbursements should be supported by invoices or other supporting documentation.

- (J) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, public works, community and economic development, general government and capital projects 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.

- (K) Debt Service Levy – The City’s debt service levy included \$13,361 for the Ford F350 lease, but the actual payment due on the lease was only \$8,896.

Recommendation – The City should only include actual payments due in the next year when calculating its debt service levy. The City should consult legal counsel regarding the excess debt service levy.

- (L) Employee Benefits Levy – For fiscal years 2010, 2011, 2012 and 2013, the City inadvertently certified the entire employee benefits levy on the “FICA & IPERS” line of the Certification of City Taxes rather than certifying a portion as “Other Employee Benefits”. Pursuant to the Iowa Department of Management and Iowa Administrative Code [545], Ch. 4, the taxes collected in each of these years can only be used to cover FICA and IPERS disbursements for General Fund and Special Revenue, Road Use Tax Fund employees.

The tax collections discussed above were receipted into the Special Revenue, Employee Benefits Fund, but there have been no disbursements or transfers to reimburse the General or Special Revenue, Road Use Tax Funds for the FICA and IPERS disbursements related to employee salaries paid from those funds.

In addition, it appears the City included employee benefits related to employee salaries paid from the Enterprise, Water and Sewer Funds in its property tax levy. Per Iowa Administrative Code [545], Ch. 4, the employee benefits levy is only for employee benefits related to employee salaries paid from the General Fund and the Special Revenue, Road Use Tax Fund.

City of Hamburg

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

Recommendation – The City should determine the amount of FICA and IPERS attributable to General Fund and Special Revenue, Road Use Tax Fund employees for fiscal years 2010, 2011, 2012 and 2013 and make a transfer to these funds from the Special Revenue, Employee Benefits Fund. In addition, the City should not levy an employee benefits levy for FICA and IPERS until the tax collections receipted in fiscal years 2010, 2011, 2012 and 2013 have been disbursed for FICA and IPERS attributable to employees of the General Fund and the Special Revenue, Road Use Tax Fund. When calculating the employee benefits levy, the City should exclude employee benefits related to salaries paid from the Enterprise, Water and Sewer Funds.

- (M) City Council Minutes – Chapter 372.13(b) 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.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required.

- (N) Public Hearing for Loan Agreement – Notice was not given and a public hearing was not held on the issuance of a \$625,000 general obligation levee demolition loan agreement as required by Chapter 384.24A of the Code of Iowa.

Recommendation – Before entering into any loan agreement, the City Council should set a date for a public hearing in accordance with Chapter 384.25(2) of the Code of Iowa and give notice not less than four nor more than twenty days before the date of the hearing in accordance with Chapter 362.3 of the Code of Iowa.

- (O) Timesheets – Although timesheets were prepared for all employees, there was no indication the timesheets were reviewed and approved for one employee, one department head and the City Clerk.

Recommendation – The City should review and update payroll policies to ensure all employees submit detailed timesheets and timesheets are reviewed and approved.

- (P) Deposits and Investments - 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 – The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (Q) Financial Condition – The Special Revenue, Road Use Tax and the Enterprise, Water and Sewer Funds had deficit balances at June 30, 2013.

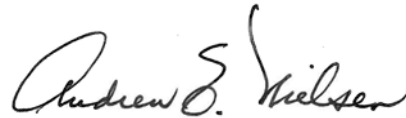
Recommendation – The City should continue to investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

City of Hamburg

Staff

This examination was performed by:

Brian R. Brustkern, CPA, Manager
Justin M. Scherrman, Senior Auditor
Luke D. Bernhard, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State