

**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE _____ August 5, 2016 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Hartford, Iowa for the period January 1, 2015 through December 31, 2015. The agreed-upon procedures engagement 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. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

A copy of the agreed-upon procedures 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 <https://auditor.iowa.gov/reports/1521-0872-EPOP>.

###

CITY OF HARTFORD

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Bank Reconciliations	B 8
Monthly Balance Sheet Report	C 8
Payroll	D 8-9
Fire and Rescue Compensation	E 9
Certified Budget	F 9
Change/Petty Cash Fund	G 9
Financial Reporting	H 10
Official Depositories	I 10
Unclaimed Property	J 10
Restrictive Endorsement	K 10
Electronic Check Retention	L 10
City Council Meeting Minutes	M 10
Computer System	N 11
Financial Condition	O 11
Staff	12

City of Hartford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry Bohlen	Mayor	(Resigned Feb 2015)
Michael Rodman (Appointed April 2015)	Mayor	Jan 2016
Kim Dingeman	Council Member	Jan 2016
Mark Goldsberry	Council Member	Jan 2016
William Hammond	Council Member	Jan 2016
Stefanie Johnson	Council Member	Jan 2018
Amanda Peterson	Council Member	Jan 2018
Bradley Herrold	City Clerk/Treasurer	Indefinite
Robert Benton	Attorney	Indefinite

City of Hartford



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the 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 Hartford for the period January 1, 2015 through December 31, 2015. The City of Hartford'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 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 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 2015 Annual Financial Report 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 receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Hartford, 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 Hartford and other parties to whom the City of Hartford 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 Hartford 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 24, 2016

Detailed Recommendations

City of Hartford

Detailed Recommendations

For the period January 1, 2015 through December 31, 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) Long-term debt – recording and reconciling.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.
- (8) Data processing - operating, inputting, initiating transactions, preparing source documents and correcting errors.

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 – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, no independent review of the bank reconciliations was performed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Monthly Balance Sheet Report – Although the total fund balance reported on the City’s June 30, 2015 Annual Financial Report (AFR) agrees with the June 30, 2015 Balance Sheet Report generated by the City’s accounting system and the June 2015 bank reconciliation, the fund balances by individual fund do not agree between the AFR and Balance Sheet Report.

Recommendation – The City should establish procedures to ensure computer generated reports are accurate. The City should work with its software provider to determine the cause for the report errors and take immediate action to correct the reports.

(D) Payroll - The following were noted regarding payroll:

- Although time cards are maintained for all employees, there was no indication the time cards are reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll. In addition, employees do not sign their own time cards.
- Vacation is not consistently accrued in accordance with the City’s policy or employment contracts and vacation and sick leave accruals are not recorded in the City’s accounting system timely. Also, vacation, sick leave and compensatory time is not adequately tracked and reviewed by an independent person.

City of Hartford

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- Approval of salary and wages for City employees is not documented in the City Council meeting minutes. In addition, annual salary increases for City employees were approved based upon a percentage increase and the actual approved wages were not documented.

Recommendation – Time cards and vacation, sick leave and compensatory time should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. Vacation, sick leave and compensatory time should be properly tracked and recorded in the accounting system timely. The City should adhere to its policy for vacation accruals. Approval of salaries for employees should be adequately documented in the City Council meeting minutes.

- (E) Fire and Rescue Compensation – In accordance with Chapter 35 of the City Code of ordinances, “the Fire Chief shall be paid five hundred dollars per year, payable every six months”. The Fire Chief was paid a total of \$1,000 for the year, which is not in accordance with the City’s ordinance.

Recommendation – Compensation should be paid in accordance with the City ordinance. The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$500 improperly paid to the Fire Chief.

- (F) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works and debt service functions prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the public safety, public works, 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.”

In addition, per Chapter 384.16(3) of the Code of Iowa, the City shall publish notice of the public hearing on the budget not less than ten nor more than twenty days before the hearing. Notice of public hearing for both the original and amended budget were not published in accordance with the Code of Iowa.

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. In addition, public notice and the budget amendments should be published in accordance with the Code of Iowa.

- (G) Change/Petty Cash Fund – The City maintains a change/petty cash fund for which no authorization could be located. In addition, the City’s change/petty cash fund was not included in the City’s accounting records and resulting fund balances.

Recommendation – The change/petty cash fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund. 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 funds and accounts, including the change/petty cash fund, should be included in the City’s accounting records and resulting fund balances.

City of Hartford

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

- (H) Financial Reporting – We identified a material amount of receipts posted to an incorrect fund in the City’s accounting system. Adjustments were subsequently made by the City to properly report these amounts in the Annual Financial Report.
- Recommendation – The City should implement procedures to ensure all receipts are properly classified and recorded in the City’s accounting system.
- (I) Official Depositories – A resolution naming the official depositories has been approved by the City. However, the maximum deposit amount stated in the resolution was exceeded during the period January 1, 2015 through December 31, 2015.
- Recommendation – A new resolution with amounts sufficient to cover anticipated balances should be adopted by the City Council.
- (J) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.
- Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.
- (K) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.
- Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.
- (L) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.
- Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.
- (M) City Council Meeting 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. Minutes for four meetings tested were not published within fifteen days. In addition, the City did not publish annual gross salaries for the year ended December 31, 2014 as required by Chapter 372.13(6) of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978.
- Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. In addition, the City should publish annual gross salaries as required by the Code of Iowa and the Attorney General’s opinion.

City of Hartford

Detailed Recommendations

For the period January 1, 2015 through December 31, 2015

(N) Computer System - The following weaknesses in the City's computer system were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change logins/passwords periodically.
- Requiring computers to have a log off function when not in use.
- Requiring system back-ups to be stored offsite.
- Requiring backups to include all programs and files.

Also, the City does not have a written disaster recovery plan.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over its computer system. Also, a written disaster recovery plan should be developed.

(O) Financial Condition - The June 30, 2015 AFR reported the City had deficit balances of \$11,473 and \$1,723 in the Capital Projects and Debt Service Funds, respectively.

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

City of Hartford

Staff

This agreed-upon procedures engagement was performed by:

Michelle B. Meyer, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Lucas P. Mullen, Assistant Auditor


Marlys K. Gaston, CPA
Director