



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

February 8, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Hastings, Iowa for the period April 1, 2015 through March 31, 2016. 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 develop procedures to ensure utility billings and collections are accurate and complete.

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/1522-0618-EPOP>.

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CITY OF HASTINGS

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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City of Hastings

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Mike Coates	Mayor	Jan 2016	Jan 2018
Alita Jones	Council Member	Jan 2016	Jan 2018
Susan Perkins	Council Member	Jan 2016	Jan 2018
Luk Miller	Council Member	Jan 2016	Jan 2018
Hannah Reif	Council Member	Jan 2016	Jan 2018
Shirley Moorman	City Clerk/Treasurer		Indefinite
Matthew Woods	Attorney		Indefinite

City of Hastings



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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 Hastings for the period April 1, 2015 through March 31, 2016. The City of Hastings'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 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.

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 Hastings, 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 Hastings and other parties to whom the City of Hastings 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 Hastings 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

May 5, 2016

Detailed Recommendations

City of Hastings

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

(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. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions, including journal entries and having custody of City assets.
- (2) Cash and petty cash – reconciling bank accounts, initiating and recording cash receipt and disbursement transactions. Bank reconciliations were not reviewed by an independent person.
- (3) Investments – investing, recording and custody.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – recordkeeping, preparing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing, reconciling and distributing.

For the Hastings Cemetery Association, one person has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Cash and investments – handling and recording cash and investing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Cemetery Association 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 documented by the signature or initials of the reviewer and the date of the review.

City of Hastings

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts are performed by a third party service provider. The City does not have procedures in place to monitor monthly reports received from the service provider to ensure billings, collections remitted to the City and delinquent accounts are accurate.

Recommendation – The City should develop procedures to ensure billings, collections remitted to the City and delinquent accounts are accurate.

- (C) Accounting Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (D) Hastings Volunteer Fire Department and Hastings Cemetery Association – Bank reconciliations are not reviewed by an independent person. Also, two Fire Department transactions tested lacked supporting documentation and two were not approved by the City Council.

Recommendation – The Hastings Volunteer Fire Department and the Hastings Cemetery Association should ensure monthly bank reconciliations are reviewed by an independent person. The reviews should be documented by the signature or initials of the reviewer and the date of the review. All disbursements should be supported by original invoices or other supporting documentation and should be approved by the City Council.

- (E) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies for:

- (1) Requiring time out/log off or screen saver passwords to protect computer terminals when not in use.
- (2) Requiring use of passwords and requiring passwords to be changed at least every 60 to 90 days.
- (3) Maintaining password privacy and confidentiality.
- (4) Requiring the use of anti-virus programs on computers.
- (5) Ensuring only software licensed to the City is installed on computers.
- (6) Usage of the internet.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system.

City of Hastings

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (F) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the general government function. 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.

- (G) Depository Resolution – A resolution naming official depositories has been approved by the City. However, maximum deposit amounts for each bank were not included in the depository resolution as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - The City should adopt a depository resolution which establishes maximum deposit amounts for each bank in accordance with Chapter 12C.2 of the Code of Iowa.

- (H) Revenue Notes – The City’s water and sewer revenue note resolutions require all users of the systems, including the City, be charged for usage. The City is not being charged for usage.

Recommendation – The City should comply with the note resolutions and charge all users of the systems, including the City.

- (I) Separately Maintained Records – The Hastings Cemetery Association maintains bank accounts for donation and cemetery perpetual care activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget 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 annual budget and should be reported to the City Council on a monthly basis.

- (J) Hastings Cemetery Association – The following instances of non-compliance by the Cemetery were noted:

- (1) An annual report for the Hasting Cemetery Association perpetual care cemetery was not filed with the Insurance Commissioner as required by Chapter 523I813 of the Code of Iowa.
- (2) The Cemetery did not maintain a registry of individuals who have purchased items subject to the perpetual care requirements of Iowa law, including the amount deposited in trust for each individual. The registry is to include all transactions made on or after July 1, 1995.

Recommendation – The Hastings Cemetery Association should submit the required annual reports to the Insurance Commissioner and should comply with the registry requirements.

City of Hastings

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (K) Financial Condition – The General and Debt Service Funds had deficit balances of \$8,096 and \$5,093, respectively at March 31, 2016.

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

- (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 Hastings Volunteer Fire Department and the Hastings Cemetery Association did not receive an image of the back of each cancelled check.

Recommendation – The Hastings Volunteer Fire Department and the Hastings Cemetery Association should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

City of Hastings

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Manager
Mark D. Newhall, Assistant Auditor


Marlys K. Gaston, CPA
Director