



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

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NEWS RELEASE

FOR RELEASE

March 27, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Hillsboro, Iowa for the period July 1, 2015 through June 30, 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. The City should also establish procedures to ensure bank and utility reconciliations are performed monthly and the Annual Financial Report is prepared accurately. In addition, the City should implement a financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting.

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/1622-0411-EPOP>.

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CITY OF HILLSBORO
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

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City of Hillsboro

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Jim Tomson	Mayor	Jan 2016	Jan 2020
Chad Brousseau	Council Member	Jan 2014	Jan 2018
Gene Carter	Council Member	Jan 2014	Jan 2018
Dwight Stanley	Council Member	Jan 2014	Jan 2018
Jerry Anderson	Council Member	Jan 2016	Jan 2020
Mallery Ludwig	Council Member	Jan 2016	Jan 2020
Nancy Griffin	City Clerk/Treasurer	Indefinite	Indefinite
Jim Becker	Attorney	Indefinite	Indefinite

City of Hillsboro



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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 Hillsboro for the period July 1, 2015 through June 30, 2016. The City of Hillsboro'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 Hillsboro, 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 Hillsboro and other parties to whom the City of Hillsboro 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 Hillsboro 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

December 22, 2016

Detailed Recommendations

City of Hillsboro

Detailed Recommendations

For the period July 1, 2015 through June 30, 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. 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, check signing for accounts other than the general checking, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, maintaining accounts receivable records, depositing, posting and reconciling.
- (6) Financial reporting – preparing and reconciling.

For the Library and the Fire Department EMT activity, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, check signing, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City, the Library and the Fire Department 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.

(B) City Financial Management Information – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and bond, note and loan proceeds.

The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate preparation of and to support the Annual Financial Report (AFR).

City of Hillsboro

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

Monthly financial reports, including fund balances and comparisons of actual results to budget by function were not compiled from the accounting records and provided to City Council for review and approval. Certain receipts were incorrectly classified on the monthly City Clerk's reports. For two months reviewed, we noted misclassifications of local option sales tax and road use tax receipts.

The City's records, which consist of ledger cards, were not maintained on a current basis during the fiscal year. Not all General and Special Revenue, Road Use Tax Fund receipts and disbursements were posted to the ledger cards and ledger cards were not maintained for water, sewer and senior living housing activity.

The City is required under Chapter 384.20 of the Code of Iowa to ensure public monies are not expended or encumbered except under an annual or continuing appropriation. We were unable to determine whether disbursements during the year were within budgeted amounts since the City does not maintain financial records which facilitate the comparison of disbursements to the certified budget by function.

As a result of the above, we were unable to determine whether the City accounted for all transactions occurring during the period reviewed.

Recommendation – The City should implement a financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. To provide better financial accounting information and control, the recommended COA, or its equivalent, should be followed. Year-to-date totals of receipts by fund and source and disbursements by fund and function should be maintained to facilitate preparation of and to support the AFR. Monthly financial reports provided to the City Council should include fund balances and comparisons of disbursements by function to budgeted disbursements and procedures should be established to ensure receipts are properly classified. Financial reports should be independently reviewed and the review should be documented by the signature or initials of the reviewer and the date reviewed.

- (C) Bank Reconciliations – The City maintains five checking and eight savings accounts. The City does not have an accounting system which tracks cash and investment balances individually by fund or in total. Monthly bank reconciliations were not prepared and listings of outstanding checks are not prepared and retained. Due to the condition of the records, we were unable to prepare a bank to book reconciliation or determine whether the City recorded and accounted for all transactions.

Recommendation – The City should establish procedures to track cash and investment balances individually by fund and in total. Monthly listings of outstanding checks should be prepared and retained and procedures should be established to ensure bank and investment account balances are reconciled to the accounting system monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. The City should reduce the number of bank accounts to facilitate efficient accounting and reconciliation procedures.

City of Hillsboro

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (D) Library Bank Reconciliation – A formal bank reconciliation for the Library is not prepared and reviewed by an independent person.

Recommendation – Bank reconciliations should be performed monthly and an independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (E) Library Payroll – The Library Board is responsible for authorizing the pay for Library employees, but the approved pay rate is not documented in the Library Board minutes.

Recommendation – Pay rates approved for Library employees should be documented in the Library Board minutes.

- (F) Separately Maintained Records – The Library and the Fire Department maintain separate accounting records for certain Library and EMT operations. These transactions and resulting balances are not included in the City’s accounting records.

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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly. Utility receipt and billing records are not complete and, accordingly, are not sufficient to support amounts billed or collected. As a result, we were unable to determine whether all amounts billed were properly collected and deposited.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. Sufficient receipt and billing records should be maintained and should support the amounts in the reconciliations, including reconciling items. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (H) Utility Payments - For one month reviewed, March 2016, there was no evidence the City Clerk was billed for utility usage and there was no evidence the City Clerk, the Mayor and two City Council members paid for usage for that month. Due to incomplete utility records, we were unable to determine whether these individuals were properly billed for and remitted payment for their utility usage during the period reviewed.

Recommendation – The City Council should review utility records to ensure all utility system users were properly charged for and have paid for their usage. Procedures should be established to ensure all utility customers are billed for utility usage and all payments are received and are properly posted and supported.

City of Hillsboro

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (I) Prenumbered Receipts – Prenumbered receipts are not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections to provide additional control over the proper collection and recording of all money. The receipts should document the receipt date, payer name and whether the payment was made by cash or check.

- (J) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, 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 should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. 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.

- (K) Credit Card Policy – The City has a credit card for use by City employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of the City's credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to substantiate charges.

- (L) City Council Meeting Minutes – The following conditions related to City Council meeting minutes were noted:

(1) Chapter 21.3 of the Code of Iowa requires the minutes show information sufficient to indicate the vote of each member present. In addition, Chapter 380.4 of the Code of Iowa requires the passage of ordinances, amendments or resolutions be by a majority vote of the City Council members, not by a majority vote of the quorum of the City Council. The City Council meeting minutes record each passed vote as "motion carried" which is insufficient to indicate the vote of each member present. In addition, we were unable to determine whether the actions on ordinances, amendments or resolutions were passed by a majority vote of the City Council Members when one or more members were absent.

(2) Chapter 372.13(6) of the Code of Iowa requires minutes of City Council proceedings in cities with a population less than 200 to be posted within 15 days of the meeting and the postings are to include: a) total disbursements from each fund, b) a list of all claims allowed, including the reason for the claim, and c) a summary of all receipts. This information was not included in the posted minutes.

(3) The April 2016 City Council meeting minutes were not posted within 15 days of the meeting.

(4) A monthly City Clerk's report was not presented to the City Council at the April 2016 City Council meeting and there was no evidence the April 2016 listing of claims allowed was reviewed or approved.

City of Hillsboro

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

Recommendation – The City should comply with the Code of Iowa and document information sufficient to indicate the vote of each member present and to indicate the passage of ordinances, amendments and resolutions are by a majority vote of the members. Posted minutes should include total disbursements from each fund, a list of claims allowed, including the reason for the claims, and a summary of all receipts. The City should ensure all minutes are posted timely and ensure all monthly City Clerk reports and listings of claims are presented to the City Council for approval.

- (M) Disbursements – Chapter 372.13(6) of the Code of Iowa requires listings of claims allowed include “the name of the person or firm making the claim, the reason for the claim and the amount of the claim. If the reason for the claims is the same, two or more claims made by the same vendor, supplier or claimant may be consolidated if the number of claims consolidated and the total consolidated claim amount are listed.” The claims listings provided to the City Council for approval include claims consolidated by vendor, when the purpose of the consolidated claims are not the same, and by description, when the vendor for the consolidated claims is not the same, in violation of Chapter 372.13(6) of the Code of Iowa. For example, payments to the Mayor’s company were consolidated with total payroll claims rather than being listed separately by the vendor, amount and purpose.

In addition, certain disbursements are paid prior to City Council approval and supporting documents are not properly cancelled to prevent reuse.

Recommendation – Monthly claims listings should list claims in a manner which complies with Chapter 372.13(6) of the Code of Iowa. In addition, the City should adopt a written disbursement policy allowing payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the Council at the next City Council meeting for review and approval. Also, invoices should be properly cancelled at the time of payment to prevent reuse.

- (N) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jim Tomson, Mayor owner of Tomson Services	Water and sewer meter reading, water testing and maintenance work	\$ 8,129

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions 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 the disposition of this matter.

City of Hillsboro

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (O) Cash Payments – The City has hired an individual to perform maintenance work at an approved rate of \$10 per hour. The individual was paid in cash rather than by check. The payments were not processed through payroll and a W-2 was not issued. Accordingly, the proper tax withholdings and the City’s share of payroll taxes were not applied. During the period reviewed, a total of \$425 was paid to the individual.

Recommendation – The City Council should immediately discontinue all payments made in the form of cash, including wages, and establish procedures to ensure all City payments are made by check. All wages should be processed through payroll and the proper tax withholdings and City share of payroll taxes should be applied.

- (P) Unsupported Transfer of Funds – During the period reviewed, the City Clerk transferred \$2,642 from the general checking account to the water and sewer checking accounts to correct deposits incorrectly made to the general account. Supporting documentation was not maintained for the transfer amount and the transfer was not approved by the City Council.

Recommendation – Transfers between bank accounts and funds should be properly supported and approved by the City Council.

- (Q) Payment of General Obligation Debt – The City has two outstanding general obligation capital loan notes. The City has not properly established a Debt Service Fund for the payment of principal and interest on the notes. Payments on the notes have been made from the General Fund, Senior Living Housing Account. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund.”

Recommendation – The City should establish a Debt Service Fund and transfer from the General Fund, Senior Living Housing Account to the Debt Service Fund for future funding contributions.

- (R) Payroll – The City Clerk does not prepare or maintain time sheets to support hours worked. The City Clerk is paid weekly, but the payments are not according to a consistent schedule. For two months reviewed, the City Clerk was paid at a City Council approved rate of \$10 per hour and at a City Council approved maximum hours per week of 20 hours. However, the City Clerk’s pay is not listed separately on the monthly claims listings provided to the City Council and accordingly, the City Council is not aware of the amount paid to the City Clerk each month and the amount paid is not separately approved.

Recommendation – Time sheets should be required by all City employees to support hours worked. The time sheets should be reviewed and approved by supervisory personnel prior to the preparation of payroll. The City Council should establish the week day on which each pay period is to end and payroll should be run each week consistent with the established pay period end date. The monthly claims listings provided to the City Council for approval should appropriately identify the payee, amount and purpose of each claim. See finding (M) above.

City of Hillsboro

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (S) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) include a “summary for the preceding year of all collections and receipts, all accounts due the city, and all expenditures...” We noted the following during our review of the AFR submitted for fiscal year 2015:
- (1) There was no documented review of the AFR by a responsible City Official independent of preparation of the report.
 - (2) The June 30, 2013 cash balance was incorrectly carried forward from the fiscal year 2014 AFR rather than the June 30, 2014 balance, understating the beginning balance on the fiscal year 2015 AFR by \$46,932.
 - (3) The ending balance on the fiscal year 2015 AFR exceeds the bank balance by \$93,744.
 - (4) Receipts and disbursements per the AFR do not agree to City records.
 - (5) Several receipts and disbursements were incorrectly classified on the AFR including:
 - a) Local option sales tax receipts were reported in the General Fund rather than Special Revenue Fund.
 - b) The City bills for garbage collections and receipts the collections into the General Fund. However, garbage receipts and disbursements are budgeted as part of the Proprietary Funds and are reported on the AFR in the Proprietary Fund column.
 - c) Certain water and sewer receipts were budgeted and reported on the AFR in the Debt Service Fund rather than in the Proprietary Fund column.
 - d) All Senior Living Housing rental receipts are budgeted and reported on the AFR in the Debt Service Fund column rather than the General Fund, while Senior Housing Living disbursements are budgeted and reported on the AFR in the Proprietary Fund column.

Recommendation – The City should establish procedures to ensure all activity is properly reported on the AFR in accordance with the budget, accounting records and proper fund accounting.

City of Hillsboro

Staff

This engagement was performed by:

Deborah J. Moser CPA, Audit Manager
Gwen D. Fangman, CPA, Senior Auditor II
Deborah M. Copeland, Assistant Auditor
Ian N. Judson, Assistant Auditor


Marlys K. Gaston, CPA
Director