



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

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

October 26, 2017

---

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Haverhill, Iowa for the period April 1, 2016 through March 31, 2017. 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 give proper notice of City Council meetings in accordance with Chapter 24 of the Code of Iowa and 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/1622-0607-EPOP>.

###



**CITY OF HAVERHILL**

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

**FOR THE PERIOD  
APRIL 1, 2016 THROUGH MARCH 31, 2017**

## 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
Deposits and Investments	B	8
City Council Meeting Minutes	C	8
Certified Budget	D	9
Questionable Disbursements	E	9
Personal Computer/Internet Usage	F	9
Electronic Check Retention	G	9
Restrictive Endorsement	H	10
Monthly City Clerk’s Report	I	10
IRS Form 1099 MISC	J	10
Timely Deposit of Shelter Receipts	K	10
City Code	L	10
Checks Signed in Advance	M	10
Bidding Procedures	N	10
Annual Financial Report (AFR)	O	11
Payroll	P	11
Disbursement Approval	Q	11
Staff		12

**City of Haverhill**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Madaleine Welton	Mayor	Jan 2016	Jan 2020
Toby Nicholson	Council Member	Jan 2014	Jan 2018
Katie Vogeler	Council Member	Jan 2017	Nov 2017
Vicky Daters	Council Member	Jan 2016	Jan 2020
Larry Hansen	Council Member	Jan 2016	Jan 2020
Diana Schuler	Council Member	Jan 2016	Jan 2020
Marilyn Polley	City Clerk/Treasurer		Indefinite
Jeffry P. Hazen	Attorney		Indefinite

**City of Haverhill**



**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-Up 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 Haverhill for the period April 1, 2016 through March 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Haverhill'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 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 2016 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.

We were not engaged to and did not conduct an examination or review, 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.

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 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 Haverhill 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

October 9, 2017



## **Detailed Recommendations**

City of Haverhill

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

(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, recording, reconciling and posting.
- (3) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (5) Financial reporting – preparing and reconciling.
- (6) Long-term debt – recording, reconciling and debt payment processing.
- (7) Accounting system – all accounting functions and having custody of assets.

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) Deposits and Investments – The City Council has not adopted a resolution naming official depositories as required by Chapter 12C.2 of the Code of Iowa. Also, the City has not adopted a written investment policy as required by Chapter 12B.10B 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. The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

(C) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings, including total disbursements from each fund, be posted within fifteen days of the meeting. Minutes for four meetings tested did not include total disbursements from each fund. In addition, the City Council meeting held during our fieldwork was not preceded by proper notice as required by Chapter 21.4 of the Code of Iowa. Proper notice for a City with a population of less than 200 includes posting the agenda in three public places designated by City ordinance.

Recommendation – The City should comply with the Code of Iowa and provide public notice of meetings by posting the agenda in three public places designated by City ordinance. In addition, the City should ensure the minutes postings include a summary of total disbursements by fund, as required.

City of Haverhill

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (D) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the general government function prior to the budget amendment. 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) Questionable Disbursements – A certain disbursement was noted we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

During the period reviewed, a \$50 Menards gift card was given to the winner of the Christmas lighting contest.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such an item will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City should determine and document the public purpose served by such disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (F) Personal Computer/Internet Usage – The City Council approves and pays \$50 to the City Clerk each month (\$600 annually) for use of the City Clerk’s personal computer and internet access to transact City business, including preparing City financial reports. The City does not require or obtain documentation to support the reimbursements, including documentation of the number of hours the City Clerk’s personal computer and internet are used each month, or specifically what they are used for. It is unclear how the City determined \$50 to be a reasonable, fair reimbursement amount. In addition, there is no evidence the City Clerk utilizes back up procedures to secure City information.

Recommendation – The City should require documentation to support the computer/internet usage reimbursements to the City Clerk. Also, the City should establish polices requiring proper back-ups to secure City information.

- (G) 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.

City of Haverhill

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (H) Restrictive Endorsement – A restrictive endorsement is not placed on the checks upon receipt.

Recommendation – A restrictive endorsement should be placed on all checks when received to help provide protection in case of theft or loss.

- (I) Monthly City Clerk's Report – The monthly City Clerk's report to the City Council included beginning and ending fund balances, receipts, and disbursements, but did not include a year-to-date comparison of total disbursements for all funds to the certified budget by function.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk's monthly financial reports to the City Council should include comparisons of total disbursements for all funds to the certified budget by function.

- (J) IRS Form 1099 MISC – The City did not file IRS forms 1099 MISC for payments to contractors of \$600 or more during a calendar year, as required.

Recommendation – The City should complete and file IRS forms 1099 MISC, as required.

- (K) Timely Deposit of Shelter Receipts – The shelter house receipts are not deposited or recorded in a timely manner.

Recommendation – To safeguard cash and increase funds available for investment, receipts should be deposited intact and timely.

- (L) City Code – The City last had its City Code recodified in 2001. Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a City shall compile a code of ordinances containing all of the City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances vacating streets and alleys."

Recommendation – The City should have its City Code recodified as required by the Code of Iowa.

- (M) Checks Signed in Advance – Certain checks are signed before the check payee and amount are complete.

Recommendation – Checks should not be signed in advance.

- (N) Bidding Procedures – During the City Council meeting held on February 13, 2017, the City Council approved a contract for a ground tiling project for \$59,600 without obtaining competitive bids as required by Chapter 26.3 of the Code of Iowa.

Recommendation – The City should ensure all contracts exceeding the competitive bid threshold are competitively bid as required by Chapter 26.3 of the Code of Iowa.

City of Haverhill

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

(O) 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 2016:

- (1) Long-term debt reported did not include the Heart of Iowa loan beginning and ending balances or payments for the fiscal year.
- (2) The Road Use Tax fund balance was incorrectly report as unassigned fund balance instead of restricted fund balance.
- (3) Commercial and industrial replacement tax receipts were incorrectly reported as taxes levied instead of intergovernmental receipts.
- (4) The Heart of Iowa loan repayments were incorrectly reported as park operating disbursements instead of debt payments.

Recommendation – The City should establish procedures to ensure all financial information, including outstanding debt, is properly reported on the AFR.

(P) Payroll – Salary increases for the City Clerk are approved based on a dollar amount increase and the actual approved wages are not documented in the City Council minutes.

Recommendation – Approval of salaries and wages should be adequately documented in the City Council meeting minutes by recording the new, approved salary or rate, not just the dollar increase.

(Q) Disbursement Approval – While the City Council notes approval of claims in the minutes, the claims list provided to the City Council is not signed to authenticate the record.

Recommendation – The City should establish procedures to authenticate a detailed list of claims or document approval on each invoice.

City of Haverhill

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager  
Karen L. Brustkern, CPA, Senior Auditor II  
Jason J. Miller, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director