



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 7, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Hamburg, Iowa for the period July 1, 2016 through June 30, 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. Also, the City should establish procedures to ensure bank reconciliations are completed monthly, including all investment accounts, and variances between bank and book balances are resolved timely.

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/1721-0339-BLOF>.

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CITY OF HAMBURG

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

**FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017**

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City of Hamburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cathy E. Crain	Mayor	Jan 2020
Kent Benefiel	Mayor Pro tem	Jan 2020
Jimmie Randolph	Council Member	Jan 2018
Willie Thorp	Council Member	Jan 2018
Ray Hendrickson	Council Member	Jan 2020
Mary Lou Perry	Council Member	Jan 2020
Sheryl Owen	City Clerk	Indefinite
G. Rawson Stephensen	Attorney	Indefinite

City of Hamburg



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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 Hamburg for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Hamburg'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 2017 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 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 Hamburg 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

July 26, 2018

Detailed Recommendations

City of Hamburg

Detailed Recommendations

For the period July 1, 2016 through June 30, 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 and investments – handling, reconciling and recording.
- (2) Long-term debt – recordkeeping, compliance and debt payment processing.
- (3) Receipts – collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Journal entries – preparing and recording.

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 bank accounts, the reconciliations did not include investments or compare the total bank and investment balances to the total cash balance per the general ledger. Additionally, the City's reconciled bank balance per the bank reconciliation did not match the book balance. This was determined to be due to a software error in the City's books and the City Clerk subsequently resolved the issue.

Recommendation – To improve financial accountability and control, total reconciled bank balances, including investments, should be compared to the general ledger monthly and variances between book and bank balances should be investigated and resolved timely.

(C) Deposits and Investments – The resolution naming official depositories adopted by the City Council on April 10, 2017 set a deposit limit of \$500,000 for the depository used by the City. At June 30, 2017, the City had \$1,106,527 of deposits held in bank accounts and certificates of deposit at the approved depository.

Recommendation – The City Council, by resolution, should revise the deposit limit to an amount sufficient to cover anticipated balances at the approved depository as required by Chapter 12C.2 of the Code of Iowa.

(D) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the minutes publication to include a summary of all receipts. Three of four published minutes tested did not include a summary of all receipts.

Recommendation – The City should comply with the Code of Iowa and include a summary of all receipts in the publication of minutes.

City of Hamburg

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (E) Management Financial Information – The City Clerk’s financial reports to the City Council included a balance sheet and a year-to-date receipts and disbursements report for the City as a whole, not by fund. Also the information provided did not include a comparison of the certified budget by function to actual disbursements.

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 actual disbursements to the certified budget by function. Also, for better financial information, the monthly reports should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (F) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, public works and general government 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.

- (G) 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.

- (H) Library Bank Reconciliations – The balance in the Library’s separately maintained general ledger was not reconciled to bank and investment balances throughout the year. The June 30, 2017 bank and book balances did not properly reconcile, with the bank balance being \$8,551 more than the book balance.

Recommendation – The Library should establish procedures to reconcile the Library’s general ledger to the bank accounts and investments monthly. Variances, if any, should be investigated and resolved timely.

City of Hamburg

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (I) Credit Cards – The City and the Library each have a credit card for use by employees while on City and Library business. The City Council and Library Board of Trustees have not adopted a formal policy to regulate the use of these credit cards. Supporting documentation was not available for 49 of the 55 individual charges tested on 5 Library credit card statements.

Recommendation – The City Council and Library Board of Trustees should adopt a formal written policy regulating the use of the City and Library credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. In addition, all disbursements should be properly supported by an original vendor invoice.

- (J) Library Board of Trustees Meeting Minutes – The Library Board of Trustees approves bills monthly. However, the list of approved bills is not included in the minutes.

Recommendation – The Library Board of Trustees should include a list of bills approved for payment in the meeting minutes.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported receipts, disbursements and fund balances that agree in total by source/function, but amounts by fund do not agree with the City’s records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

- (L) Financial Condition – The Special Revenue, FEMA Fund had a deficit balance of \$648,037 at June 30, 2017. It appears this deficit is due to FEMA project costs paid from the FEMA Fund while the corresponding FEMA reimbursements were recorded in the General Fund and the Special Revenue, Road Use Tax Fund.

Recommendation – The City should determine the amounts owed from the General Fund and the Special Revenue, Road Use Tax Fund to the Special Revenue, FEMA Fund and make corrective transfers.

- (M) Overtime – The fiscal year 2017 salaries for the City Clerk and two other employees tested were approved at the July 11, 2016 Council meeting. These employees were paid overtime in addition to their approved annual salary. There is no evidence the City Council approved the overtime pay.

Recommendation – The City Council should approve overtime paid to employees.

- (N) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries.

City of Hamburg

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (O) Change Fund – The City maintains a change fund for which no authorization could be located.

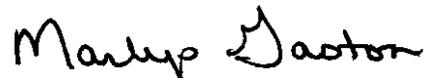
Recommendation – The change fund should be formally authorized by the City Council.

City of Hamburg

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Manager
Jacob N. Bennett, Staff Auditor
Elin M. Landgren, Assistant Auditor


Marlys K. Gaston, CPA
Director