



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

December 28, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Hedrick, Iowa for the period October 1, 2016 through September 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. The City should also establish procedures to reconcile bank and investment account balances to the City's records monthly, to ensure the Annual Financial Report agrees with the City's records and to ensure the monthly City Clerk's reports are complete and accurate. In addition, the City should comply with the Code of Iowa requirements to obtain and retain images of both the front and back of cancelled checks for all bank accounts.

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/audit-reports/>.

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CITY OF HEDRICK

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
OCTOBER 1, 2016 THROUGH SEPTEMBER 30, 2017

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City of Hedrick

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Robert Crawford	Mayor	Jan 2018	Jan 2020
Jeremy Greiner	Council Member	Jan 2016	Jan 2020
Mike Mefford	Council Member	Jan 2016	Jan 2020
Cory Frye	Council Member	Jan 2016	Jan 2020
Kathryn Cernic	Council Member	Jan 2018	Jan 2022
Travis Bunnell	Council Member	Jan 2018	Jan 2022
Ann Spillman	City Clerk/Treasurer		Indefinite

City of Hedrick



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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 Hedrick for the period October 1, 2016 through September 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Hedrick'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 and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 Hedrick 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

November 19, 2018

Detailed Recommendations

City of Hedrick

Detailed Recommendations

For the period October 1, 2016 through September 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 – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into system, and maintaining detailed accounts receivable and write-off records.
- (6) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Financial Reporting – preparing and reconciling.

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 – There was no evidence the cash and investment balances for the City were reconciled to bank and investment account balances throughout the year. In addition, the outstanding checks were listed on the back side of the bank statement; however, the date the checks were written was not included.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the City’s general ledger monthly. Variances, if any, should be reviewed and resolved timely. The outstanding check list should include the date the checks were written.

(C) Annual Financial Report – The fund balances reported in the City’s Annual Financial Report do not agree with the City’s records. The City is not accurately tracking fund balances in its software system. The total fund balance reported on the City’s AFR agrees to the City’s bank and investment account balances at June 30, 2017.

Recommendation – The City should ensure the fund balances reported on the City’s AFR are supported by the City’s records, including the software system.

City of Hedrick

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (D) 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 as required by Chapter 554D.114 of the Code of Iowa.

- (E) Petty Cash – The petty cash fund on hand is not maintained at an established amount and is not independently counted on a regular basis.

Recommendation – The petty cash fund should be maintained at an established amount. The petty cash account should be independently counted on a regular basis.

- (F) Payroll – City policy requires all City employees to complete time cards. The City Council approves all pay increases for non-library employees. The following were identified:

- Time cards are not maintained for all employees. In addition, there was no indication the time cards which were prepared had been reviewed and approved by supervisory personnel prior to preparation of the payroll.
- Employee compensatory hours accrued and used were not properly reviewed and approved by supervisory personnel.

Recommendation – Time cards should be maintained for all employees and appropriate supervisory personnel should review and approve the time cards prior to preparation of the payroll. Employee compensatory time hours accrued and used should be reviewed and approved by supervisory personnel. The Library Board should properly approve pay increases for library employees.

- (G) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts to be used 100% for infrastructure. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot requirements.

Recommendation – To City should establish procedures to track LOST disbursements and transfers to ensure LOST receipts are used in accordance with the ballot.

- (H) 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. In addition, one of the eight City officials tested was not assessed a penalty for a late utility payment.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. A listing of delinquent accounts should be prepared monthly. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The independent reviews should be documented by the signature or initials of the reviewer and the date of the review. Penalties should be assessed on all late utility payments.

City of Hedrick

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (I) Journal Entries – Supporting documentation was not maintained for journal entries and journal entries were not reviewed and approved by an independent person.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (J) Monthly City Clerk’s Report – The City Clerk’s financial reports to the City Council included total monthly receipts and disbursements; however, they did not include a summary of receipts, disbursements, transfers and balances by fund or a year-to-date comparison of total disbursements for all funds to the certified budget by function.

The City is not accurately tracking fund balances in its software system. The fund balances provided from the system do not reconcile to the City Clerk’s calculated balances.

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. Also, for better financial information, the monthly reports should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund. The City’s software system should be corrected to accurately reflect the fund balances.

- (K) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, health and social services and culture and recreation 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.

- (L) Disbursements – One disbursement tested included a late fee totaling \$4.

Recommendation – The City Council should establish procedures to ensure all payments are made timely to avoid late fees.

- (M) Financial Condition – At June 30, 2017, the City’s Annual Financial Report reported a deficit balance of \$83,926 in the Proprietary Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

- (N) Separately Maintained Records – 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.”

City of Hedrick

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

The City of Hedrick Library maintains bank accounts for activity separate from the City Clerk's accounting records. While this Department is part of the City, 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, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account's receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Library's separate accounts should be integrated with the City's accounting records in the City Clerk's office. The financial activity should be included in the City Clerk's accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of each account's receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (O) Accountability of Checks – Unused checks are not properly safeguarded.

Recommendation – Unused checks should be properly safeguarded.

- (P) 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:

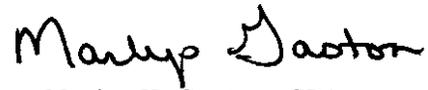
- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Hedrick

Staff

This engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager
Ian N. Judson, Staff Auditor
Cody L. Mathews, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director