

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

January 25, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Hartwick, Iowa for the period January 1, 2017 through December 31, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain the maximum internal control possible, including requiring independent reviews of bank reconciliations, and establish procedures to reconcile utility billings, collections and delinquent accounts. In addition, the City should comply with the recommended Uniform Chart of Accounts and ensure City Council meeting minutes are properly signed.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

###

CITY OF HARTWICK
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Monthly City Clerk's Report	B 8
Bank Reconciliations	C 8
Annual Financial Report	D 8
Financial Reporting	E 9
Deposits and Investments	F 9
Separately Maintained Records	G 9
Electronic Check Retention	H 10
Reconciliation of Utility Billings, Collections and Delinquent Accounts	I 10
Surety Bond Coverage	J 10
Disbursements	K 10
Certified Budget	L 10
Accountability of Checks	M 11
City Council Meeting Minutes	N 11
Staff	12

City of Hartwick

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Karla Robison	Mayor	Jan 2016	Jan 2018
Carolyn Allee	Council Member	Jan 2016	Jan 2018
Chuck Baetsle	Council Member	Jan 2016	Jan 2018
Derik Parker	Council Member	Jan 2016	Jan 2018
Kyle Gray	Council Member	Jan 2016	Jan 2018
Brett Waterbeck	Council Member	Jan 2016	Jan 2018
Teri Neuhaus	Treasurer	Jan 2016	Jan 2018
Audrey Waterbeck	City Clerk		Indefinite

City of Hartwick



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6 to provide oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Hartwick for the period January 1, 2017 through December 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Hartwick'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 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 Hartwick 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.



ROB SAND
Auditor of State

December 18, 2018

Detailed Recommendations

City of Hartwick

Detailed Recommendations

For the period January 1, 2017 through December 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. This segregation of duties helps prevent losses from employee error and dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (2) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (3) Payroll – recordkeeping, preparing and distributing.

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) Monthly City Clerk’s Report – The monthly City Clerk’s Report presented to the City Council for approval does not include a comparison of actual disbursements to the certified budget by function or a breakdown by fund of beginning balances, receipts, disbursements and ending balances.

Recommendation – The City should ensure the monthly City Clerk’s Reports presented to the City Council for approval include a comparison of actual disbursements to the certified budget by function and a breakdown by fund of beginning balances, receipts, disbursements and ending balances.

(C) Bank Reconciliations – The Fire Department’s separately maintained cash and investment book balances were not reconciled to bank and investment account balances throughout the year. In addition, bank reconciliations for the City’s accounts were not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances for all City departments are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(D) Annual Financial Report – The beginning balance amounts in the City’s Annual Financial Report (AFR) for the General and Special Revenue Funds do not agree to the prior year’s AFR ending balances for those funds.

Recommendation – The City should ensure the beginning balances for the current year AFR match the ending balances from the prior year AFR.

City of Hartwick

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (E) Financial Reporting – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. In addition, 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, but not limited to, road use tax and local option sales tax.

Recommendation – The City should review the current 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 information and control, the recommended COA, or its equivalent, should be followed.

- (F) 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.

- (G) 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.”

The City Fire Department 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 Fire Department 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.

City of Hartwick

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (H) 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 for several bank accounts.

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.

- (I) 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.

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. 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.

- (J) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

- (K) Disbursements – Invoices and other supporting documentation was not available for twelve disbursements tested from the City’s bank account and nine of the disbursements tested were not approved by the City Council. Also, supporting documentation for disbursements is not cancelled to prevent reuse.

Recommendation – All disbursements should be supported by invoices or other supporting documentation and all disbursements should be properly approved by the City Council. Also, supporting documentation should be cancelled to prevent reuse.

- (L) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, public works, culture and recreation, 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.” In addition, the notice of public hearing on the fiscal year 2017 budget was not available to support compliance with Chapter 384.16(3) of the Code of Iowa.

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. Also, the notice of public hearing for authorization of the budget should have been posted and retained to support compliance with Chapter 384.16(3) of the Code of Iowa.

City of Hartwick

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (M) Accountability of Checks – Voided checks were not always retained, making it difficult to account for all checks. In addition, unused checks are not properly safeguarded.

Recommendation – Voided checks should be retained to provide accountability and unused checks should be properly safeguarded.

- (N) City Council Meeting Minutes – Minutes of the City Council meetings were not signed as required by Chapter 380.7(4) of the Code of Iowa.

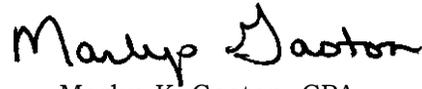
Recommendation – The City should ensure City Council meeting minutes are signed.

City of Hartwick

Staff

This engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager
Ian N. Judson, Staff 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
Deputy Auditor of State