

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

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NEWS RELEASE

FOR RELEASE

June 29, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Hamburg, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported nine findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 and 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of complete bank reconciliations, disbursements exceeding budgeted amounts and deficit fund balances. Sand provided the City with recommendations to address each of the findings.

Five of the nine findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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/audit-reports>.

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CITY OF HAMBURG
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Hamburg



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June 10, 2020

Officials of the City of Hamburg
Hamburg, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Hamburg, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Hamburg throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand".

Rob Sand
Auditor of State

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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 |
| Ray Hendrickson | Council Member | Jan 2020 |
| Mary Lou Perry | Council Member | (Deceased Jan 2019) |
| Jimmie Randolph (Appointed Jan 2019) | Council Member | Nov 2019 |
| Russell Stockstell | Council Member | Jan 2022 |
| Willie Thorp | Council Member | Jan 2022 |
| Sheryl Owen | City Clerk | Indefinite |
| G. Rawson Stephensen | Attorney | Indefinite |

City of Hamburg



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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 Hamburg for the period July 1, 2018 through June 30, 2019, 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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

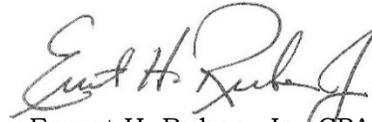
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. We traced selected disbursements to 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.
14. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 findings and 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.



Ernest H. Ruben, Jr., CPA
Director

June 10, 2020

Detailed Findings and Recommendations

City of Hamburg

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or 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) 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, to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and 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 and investments, the reconciliations did not compare the total bank and investment balances to the total cash balance per the general ledger. For the two months observed bank and book balances reconciled. Also, for the City library, bank balances were not reconciled to the book balances.

Recommendation – To improve financial accountability and control, the City should establish procedures to ensure a complete bank reconciliation is performed, including investments, by comparing the bank statement reconciliation to the general ledger monthly, and variances, if any, are investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public works, community and economic development, general government, and business type activities 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.

City of Hamburg

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (D) Long Term Debt –Chapter 384.4 of the Code of Iowa states, in part, “Money’s pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.” During the year ended June 30, 2019, a portion of the general obligation debt payments were paid from the Enterprise, Sewer Fund.

Recommendation – In the future, the City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund to pay the general obligation bond debt.

- (E) Financial Reporting – Total receipts reported in the Annual Financial Report (AFR) were overstated by \$179,908 and disbursements were understated by \$15,943 compared to the City’s records. Also, the total ending fund balance was overstated by \$198,852 when compared to the City’s records. Additionally, total indebtedness reported on the AFR did not agree with current debt outstanding reported in the City’s records.

Recommendation – The City should ensure the AFR is accurate and reconciles to the general ledger and other City records. An independent person should review the AFR for accuracy and the reviews should be documented by the signature or initials of the reviewer and the date of the review.

- (F) Financial Condition – At June 30, 2019, the City had deficit balances of \$1,268, \$2,000 and \$277,477 in the Capital Projects Fund and the Special Revenue, Emergency and Flood 2019 Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

- (G) Journal Entries – There is no evidence journal entries are reviewed and approved by an independent person.

Recommendation – To strengthen controls, an independent person should review and approve journal entries. The approval should be documented by the signature or initials of the independent reviewer and the date of the review.

- (H) Disbursements – The City and the Library each have a credit card for use by employees while on City and Library business. For three of seven credit card transactions observed, supporting documentation, such as the original vendor receipt, was not maintained.

Also, one of five non-credit card disbursements observed for the Library did not have supporting documentation.

Recommendation – All disbursements should be supported by the original vendor invoice or receipt or other supporting documentation.

City of Hamburg

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (I) Transfers – Effective April 17, 2019 Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the affected funds and the dollar amount to be transferred. For the period April 17, 2019 through June 30, 2019, transfers did not comply with this Rule. Also, transfers were not approved by the City Council. Additionally, one transfer totaling \$2,000 was incorrectly transferred from the Special Revenue, Emergency Fund to the General Fund when it should have been transferred from the insurance account.

Recommendation – The City should ensure all transfers are approved by resolution, as required and transfers are correct.

City of Hamburg

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Janet K. Mortvedt, CPA, Manager
Nicholas J. Gassman, Staff Auditor
Jason L. Miller, Staff Auditor
Cody J. Pifer, Staff Auditor
Andrew J. Dunne, Assistant Auditor