

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

August 24, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of New Hartford, Iowa for the period July 1, 2017 through June 30, 2019. The agreed-upon procedures engagement was performed at the request of petitioners pursuant to Chapter 11.6(3) of the Code of Iowa. The petition submitted requested an audit or examination. In accordance with Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns.

Sand reported seven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as the lack of segregation of duties, ensuring local option sales tax (LOST) receipts are used in accordance with the LOST ballot, unsupported credit card purchases and questionable disbursements. Sand provided the City with recommendations to address each of the findings.

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/reports/audit-reports/>.

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CITY OF NEW HARTFORD
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2019

City of New Hartford



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July 6, 2020

Officials of the City of New Hartford
New Hartford, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures (AUP) report for the City of New Hartford, Iowa, for the period July 1, 2017 to June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6(3) 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 New Hartford 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". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of New Hartford

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Anderson	Mayor	Jan 2018
Larry Bass	Council Member	Jan 2018
Steve Latwesen	Council Member	Jan 2018
Gordy Ballhagen	Council Member	Jan 2020
Raymond Mobley	Council Member	Jan 2020
Reece Ragsdale	Council Member	Jan 2020
Shawna Hagen	City Clerk	Indefinite
Emily Pittenger	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Anderson	Mayor	Jan 2022
Gordy Ballhagen	Council Member	Jan 2020
Wyatt Eden (Appointed Mar 2019)	Council Member	Nov 2019
Raymond Mobley	Council Member	(Resigned Mar 2019)
Larry Bass	Council Member	Jan 2022
Dennis Canfield (Appointed Jul 2019)	Council Member	Nov 2019
Steve Latwesen	Council Member	Jan 2022
Reece Ragsdale	Council Member	(Resigned Jun 2019)
Shawna Hagen	City Clerk	Indefinite
Emily Pittenger	Attorney	Indefinite



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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 received a petition requesting an audit or examination (i.e., agreed-upon procedures) of the City of New Hartford in accordance with Chapter 11.6(3) of the Code of Iowa. Pursuant to Chapter 11.6(3) of the Code of Iowa, the Auditor of State determined an examination was appropriate to address the petitioner's concerns. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of New Hartford for the period July 1, 2017 through June 30, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of New Hartford's management, which agreed to the performance of the procedures performed, is responsible for 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 traced selected fire department receipts to accurate accounting and consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA).
4. We traced selected fire department 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.
5. We observed 28E agreements between the City and townships for fire protection and emergency response service.
6. We traced selected disbursements related to Pumpkinfest 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.
7. We obtained an understanding of the City's use of credit cards and the City's credit card policy and traced selected credit card disbursements to approval, adequate supporting documentation, compliance with City's policy including whether credit card limits were exceeded and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.


8. We observed the City's approved local option sales tax (LOST) ballot to determine if LOST receipts were used in accordance with the approved ballot.
9. We observed City Council meeting minutes and other supporting documentation related to the purchase of the former bank building from a City Council member for propriety.
10. We reviewed certain City Council meeting minutes to determine whether certain property owners were approved for payment of a permanent easement or purchase of land for the berm construction project.
11. We observed the contract for solid waste collection and traced selected invoices to proper recording in the City's records.
12. We recalculated and traced selected utility customer billings to rates established by City ordinance to determine customers were billed properly.
13. We compared receipts for solid waste collections from customers to disbursements made to the solid waste collection vendor to determine whether billed receipts to customers at a minimum covered the City's cost for solid waste collection.
14. We obtained City Council resolutions authorizing pay rates for fiscal years 2018 and 2019 and traced payroll disbursements to the City Clerk to determine if they were accurate and proper.
15. We scanned payroll disbursements to the City Clerk during fiscal years 2018 and 2019 to determine if timesheets and paid time off were properly recorded and were in accordance with City policies.

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 New Hartford 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

July 6, 2020

Detailed Findings and Recommendations

City of New Hartford

Detailed Findings and Recommendations

For the period July 1, 2017 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:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – entering rates into the system, 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) Payroll – Timesheets for the City Clerk did not include evidence of supervisory review and approval.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Supervisory review and approval should be evidenced by the signature or initials of the supervisor and the date approved.

- (C) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires 90% of LOST collections be allocated for infrastructure improvements and maintenance and 10% for community betterment. The City has not properly tracked the use and unspent balance of LOST receipts to demonstrate compliance with the LOST ballot. In addition, a transfer from the Special Revenue, Local Option Sales Tax Fund to the General Fund for tree and stump removal was \$50 more than the amount approved by City Council.

Recommendation – The City should establish procedures to track LOST disbursements and transfers to ensure LOST receipts are used in accordance with the ballot. Actual transfers should agree with City Council approved transfers.

- (D) City Council Meeting Minutes – Chapter 21.5 of the Code of Iowa requires the City Council to publicly announce during open session the specific exemption for going into closed session and to document the reason in the minutes. The City Council went into closed session fifteen times during the period July 1, 2017 through June 30, 2019. For twelve of the City Council meeting minutes the specific exemption under Chapter 21.5 of the Code of Iowa was not identified or documented, as required.

Recommendation – The City should comply with Chapter 21.5 of the Code of Iowa and document the specific exemption when going into closed session.

City of New Hartford

Detailed Findings and Recommendations

For the period July 1, 2017 through June 30, 2019

- (E) Building Purchase – We observed a real estate transaction that occurred prior to the period of July 1, 2017 through June 30, 2019. We understand from City Officials the City wanted to purchase a former bank building; however, the City could not complete the financing in the timeframe established by the bank. A member of the City Council offered to purchase the building and sell it to the City when the City’s financing was approved. The City Council Member purchased the building from the bank in September 2013. The City purchased the building from the City Council Member in May 2015. A written agreement between the City and the City Council Member detailing the arrangement could not be located.

Chapter 21.3 of the Code of Iowa requires meeting minutes to include information sufficient to indicate the vote of each member. The May 20, 2014 City Council meeting minutes approving the purchase of the building from the City Council Member did not clearly document the vote of each member including the member abstaining from voting. Information obtained from the City indicates the purchase price was the total of the Council member’s purchase price plus costs incurred until the sale to the City as documented below:

Amount paid for the property by the City Council Member per the HUD settlement statement Sept 30, 2013	\$ 97,000
Closing costs paid by the City Council Member per the HUD settlement statement	560
Mortgage release fee per the loan payoff statement dated Feb 3, 2014	7
Accrued interest through Feb 5, 2014 per the loan payoff statement	1,859
Additional accrued interest after Feb 5, 2014 until the City’s purchase on May 22, 2014 - calculated as \$14.75 per day per the loan payoff statement	1,578
Flood insurance premium paid by the City Council Member per memo from State Bank	1,293
Casualty insurance premium paid by the City Council Member per memo from State Bank	1,050
Utilities paid by the City Council Member per MidAmerican utility bill and account activity statement	968
Amount paid to the City Council Member on May 22, 2014	<u>\$ 104,315</u>

Property taxes totaling \$893 and paid by the bank to the City Council Member per the HUD settlement statement were paid to the City by the City Council Member and deposited in the City’s bank account on June 2, 2014.

An appraisal of the bank building was not obtained prior to the purchase by the City Council Member in order to ensure the purchase price represented the fair market value of the building.

Finally, Chapter 362.5(1) of the Code of Iowa states, in part, “...contract means any claim, account, or demand against or agreement with a city, express or implied.” Further, Chapter 362.5(2) of the Code of Iowa states, “A City officer or employee shall not have an interest, direct or indirect, in any contract or job of work or material or the profits thereof or services to be furnished or performed for the officer’s or employee’s city.” The purchase by the City from the City Council Member appears to be in violation of Chapter 362.5(2) of the Code of Iowa.

City of New Hartford

Detailed Findings and Recommendations

For the period July 1, 2017 through June 30, 2019

Recommendation – The City should consult legal counsel to resolve this matter. The City should ensure minutes are sufficient to indicate the vote of each member, including members who abstain from voting. Also, the City should ensure all future agreements are reduced to writing and approved by the City Council. Additionally, in the future the City should obtain an independent appraisal to ensure the City pays a fair price for real property.

(F) Credit Card Disbursements – On January 2, 2019, the City adopted a credit card policy for use by various employees while on City business. The following were noted regarding credit cards charges:

- For twenty-eight of seventy-one credit card transactions observed, original vendor receipts were not available to support the credit card charges.
- The purpose of the purchase was not always documented as part of the supporting documentation for the credit card purchase.
- Late fees totaling \$286 and interest totaling \$486 were paid.

Recommendation – The City should establish procedures to ensure employees comply with the City’s credit card policy requiring all vendor credit card receipts be provided to the City Clerk. Original vendor receipts should be required to support all charges and should be reconciled to the credit card statement each month. All charges should be reviewed and scrutinized prior to payment. For items which are unusual in nature, the public purpose should be clearly documented prior to payment. Also, procedures should be established to ensure timely payment of credit card bills to avoid late fees and interest charges.

(G) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
The Wild Rose	Mum plant for memorial	\$ 60
Hy-Vee	Flowers for memorial	47
Hy-Vee	Flowers for memorial	39
Printthis	T-shirts and hoodies for EMS crew	1,362
Flowerama	Flowers for annual community banquet	27
Ivy Garth Seeds and Plants	Pumpkin seeds for Pumpkinfest	24

Also, the Hy-Vee disbursement for \$39, the Flowerama disbursement for \$27 and the Ivy Garth Seeds and Plants disbursement for \$34 were not properly supported. The City Clerk provided explanations for those purchases.

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

City of New Hartford

Detailed Findings and Recommendations

For the period July 1, 2017 through June 30, 2019

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

- (H) Petition for Examination – Except as noted above, all items in the petition for examination have been resolved.

City of New Hartford

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Gwen D. Fangman, CPA, Manager
Cole L. Hocker, CPA, Senior Auditor II
Micaela A. Tintjer, CPA, Staff Auditor