



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 15, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Halbur, 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.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible and establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period. In addition, the City should establish procedures to ensure local option sales tax receipts are used in accordance with ballot provisions.

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/1722-0120-EPOP>.

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CITY OF HALBUR

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

**FOR THE PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 31, 2017**

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City of Halbur

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|----------------|----------------------|-----------------------|-------------------------|
| Randy Theulen | Mayor | Jan 2016 | Jan 2018 |
| Ryan Borkowski | Council Member | Jan 2014 | Jan 2018 |
| Andy Snyder | Council Member | Jan 2014 | Jan 2018 |
| Dan Drake | Council Member | Jan 2016 | Jan 2020 |
| Kim Riesselman | Council Member | Jan 2016 | Jan 2020 |
| Jack Rotert | Council Member | Jan 2016 | Jan 2020 |
| Susan Hoffman | City Clerk/Treasurer | | Indefinite |
| Barry Bruner | Attorney | | Indefinite |

City of Halbur



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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 Halbur 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 Halbur'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 Halbur 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

May 15, 2018

Detailed Recommendations

City of Halbur

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. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Long-term debt – recordkeeping, reconciling, compliance and debt payment processing.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (7) Financial reporting – preparing and reconciling.
- (8) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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 – The bank reconciliation reports generated by the City include the City's checking account, but did not include the savings account and certificates of deposit totaling \$101,221 at June 30, 2017. Also, there was no evidence an independent review of the bank reconciliation was performed. In addition, the City does not retain voided checks.

Recommendation – The City should establish procedures to ensure all bank and investment account balances 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. In addition, the City should retain voided checks.

(C) Unrecorded Interest – The City did not record interest earned of \$353 on certificates of deposit (CDs) in the City's general ledger.

Recommendation – Interest earned on CDs should be recorded in the City's general ledger.

City of Halbur

Detailed Recommendations

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

- (D) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|---|----------|
| Kim Riesselman, City Council Member Owner of Halbur Hardware | Replacement fire hydrants, maintenance and supplies | \$ 6,522 |

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since the total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of the matter.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year. In addition, 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.

- (F) Monthly City Clerk’s Report – The monthly City Clerk’s reports to the City Council do not include a summary of beginning balances, receipts, transfers and ending balances by fund. In addition, the disbursements reported for the community and economic development function on the City Clerk’s report for the month of December 2017, did not agree with the City’s general ledger by \$4,543.

Recommendation – To provide better financial accountability, the City should establish procedures to ensure monthly City Clerk’s reports include receipts, transfers and balances for each fund. Procedures should be established to ensure receipts, disbursements and account balances agree to the general ledger.

- (G) 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.

City of Halbur

Detailed Recommendations

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

- (H) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published (or posted if City population is less than 200) within fifteen days of the meeting and include total disbursements from each fund, a list of all claims allowed and a summary of all receipts. Minutes postings for four of four meeting minutes tested did not include total disbursement for each fund, a list of all claims allowed or a summary of all receipts.

In addition, Chapter 21.3 of the Code of Iowa requires meeting minutes of all City Council proceedings to show information sufficient to indicate the vote of each member present. Four of four meeting minutes tested did not show information sufficient to indicate the vote of each member present.

Recommendation – The City should comply with Chapters 372.13(6) and 21.3 of the Code of Iowa and post total disbursement for each fund, a list of all claims allowed and a summary of all receipts. In addition, the City should ensure all City Council meeting minutes show information sufficient to indicate the vote of each member present.

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

- (J) Financial Condition – At June 30, 2017, the City had a deficit balance of \$43,495 in the Enterprise, Water Fund.

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

- (K) Investments – An accounting record/register is not maintained for certificates of deposits which includes cost, description and maturity date. In addition, there is no reconciliation or verification of investment earnings/income.

Recommendation – An accounting record/register should be maintained for each CD which includes cost, description, date purchased, interest rate, maturity date and identifying number. Interest earned on investments should be verified and reconciled to interest recorded in the general ledger by someone independent of recording investments and related earnings.

- (L) Disbursements – Two of thirty disbursements tested were not properly supported.

Recommendation – The City should ensure all disbursements are properly supported.

City of Halbur

Detailed Recommendations

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

- (M) Journal Entries – Supporting documentation was not maintained for journal entries and journal entries were not approved.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Journal entries should be approved by an independent person and the approval should be documented by signing or initialing and dating the journal entries.

- (N) General Obligation Debt – Principal and interest on the City’s general obligation water improvement bonds, series 2014, were paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes and received from sources other than property tax must be deposited in the Debt Service Fund.”

In addition, for the year ended June 30, 2017, the City levied \$8,421 of debt service to pay the principal and interest on the general obligation bonds. However, these tax receipts were deposited in the City’s General Fund and not the Debt Service Fund. As a result, the debt service levy was not used to pay the general obligation bonds.

Recommendation – The City should transfer \$8,421 from the General Fund to the Debt Service Fund to correct for the inappropriate deposit of the debt service property taxes into the General Fund. In addition, the City should review past general obligation bond payments and debt service levies to determine if bonds were paid from the proper source of funds. Future debt service levies should be reduced and principal and interest on the general obligation bonds should be paid from available property taxes in the Debt Service Fund until these monies are exhausted.

Future debt service levy receipts should be deposited into the Debt Service Fund and payments on the general obligation bonds should be made from the Debt Service Fund as required.

- (O) Annual Urban Renewal Report – The fiscal year 2017 Annual Urban Renewal Report was not approved and certified to the Iowa Department of Management before December 1, as required.

Recommendation – The City should ensure the Annual Urban Renewal Report is approved and certified to the Iowa Department of Management on or before December 1.

- (P) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires 100% of receipts to be used for capital improvements. The City deposits LOST receipts into the General Fund and does not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot requirements.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot.

City of Halbur

Detailed Recommendations

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

(Q) Surety Bond Coverage – The City has established Surety Bond Coverage of \$1,000 each for the City Clerk and the Mayor. This amount may not be sufficient.

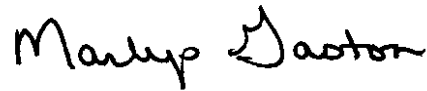
Recommendation – The City Council should review the City’s coverage to determine if the coverage is sufficient and continue to periodically review for adequacy.

City of Halbur

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager
Luke M. Bormann, CPA, Staff Auditor
Michaela M. Goergen, 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