



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 28, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Harvey, Iowa for the period April 1, 2017 through March 31, 2018. 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. The City should also ensure bank and investment balances are reconciled to fund balances monthly and financial reports and variances are investigated and resolved timely. In addition, the City should establish procedures to prepare monthly utility reconciliations. Reconciliations should be independently reviewed.

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 HARVEY
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
APRIL 1, 2017 THROUGH MARCH 31, 2018

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
Bank Reconciliations	B	8
Annual Financial Report	C	8-9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D	9
Monthly City Clerk’s Report	E	9
City Council Meeting Minutes	F	9
Certified Budget	G	9-10
Business Transactions	H	10
Unsupported Disbursements	I	10
Disbursement Approval	J	10
Payroll	K	11
Deposits and Investments	L	11
Financial Condition	M	11
Local Option Sales Tax Transfer	N	11
Electronic Check Retention	O	11
Allowances	P	11
Staff		12

City of Harvey

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Dennis Seibert	Mayor	Jan 2018	Jan 2020
Jamie VanderVeer	Council Member	Jan 2018	Jan 2020
Marty Heaton	Council Member	Jan 2018	Jan 2020
Charles Evans	Council Member	Jan 2018	Jan 2020
Sue VerMeer	Council Member	Jan 2018	Jan 2020
Bonnie Geery	City Clerk/Treasurer		(Resigned Aug 2017)
Chris Elahi	City Clerk/Treasurer		Indefinite
Mike Lane	Attorney		Indefinite

City of Harvey



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 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 Harvey for the period April 1, 2017 through March 31, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Harvey'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 transfers between funds for propriety, proper authorization and accurate accounting.
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 Harvey 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

January 10, 2019

Detailed Recommendations

City of Harvey

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

(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 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 – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) 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 – Although monthly reconciliations were prepared for the City’s checking account, complete bank reconciliations, including City investments, were not prepared and the reconciled balances were not compared to the City’s total fund balance per the monthly City Clerk’s financial report. Also, the bank reconciliations are not independently reviewed.

For June 2017, the checking account bank reconciliation did not include a \$50 outstanding check as a reconciling item and the monthly City Clerk’s financial report (book balance) did not include three disbursements totaling \$867. For March 2018, the bank reconciliation totaled \$260,704, or \$9,468 less than the City Clerk’s monthly report balance of \$270,172. We resolved all but \$238 of the variance by determining certain receipts and disbursements were not properly recorded in the City’s ledger throughout previous months, which caused an incorrect balance in the financial report.

Recommendation – The City should establish procedures to ensure 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 bank statements and reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” We noted the following regarding the City’s fiscal year 2017 AFR:

City of Harvey

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

Receipts, disbursements, and ending fund balance reported in the fiscal year 2017 AFR did not agree with the City's financial records. Receipts were understated by \$10,784, disbursements were overstated by \$7,481, and the ending fund balance was understated by \$18,267.

In addition, the total beginning balance in the 2017 AFR agreed with the bank balance but the distribution between the General and Special Revenue Funds did not agree with the fund balances per the City's financial reports.

Recommendation – The City should establish procedures to ensure amounts reported on the AFR are supported by the City's records.

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

Recommendation – 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.

- (E) Monthly City Clerk's Report – The monthly City Clerk's reports included various errors. The beginning balances did not always agree to the prior month's ending balance. Certain disbursement totals did not agree with the bank statements or the disbursement journal did not foot. In addition, a comparison of total disbursements to the certified budget by function is not prepared.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes accurate receipts, disbursements and beginning and ending balances. The reports should also include comparisons of total disbursements by function to the certified budget.

- (F) City Council Meeting Minutes – In Cities with a population exceeding 200, Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements from each fund and a summary of receipts. Although the City's population exceeds 200, the City posted but did not publish City Council proceedings, as required. In addition, the posting of the minutes did not include total disbursements by fund or a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required. The published minutes should include total disbursements by fund and a summary of receipts.

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

City of Harvey

Detailed Recommendations

For the period April 1, 2017 through March 31, 2018

In addition, the City did not publish notice of the April 8, 2017 budget amendment at least ten but not more than twenty days prior to the hearing as required by Chapters 384.16(3) and 384.18(2) 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.

The City Council should ensure notice of the hearing for a budget amendment is published at least ten but not more than twenty days prior to the hearing, as required.

- (H) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tyler Geery, Water Superintendent's son	Water plant and park maintenance	\$2,959

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since 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 this matter.

- (I) Unsupported Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Three of thirty disbursements did not include proper documentation for support and the two credit card transactions tested were not supported by original, itemized receipts or invoices.

In addition, a related party transaction for an emergency pipe leak repair was not properly supported, as the services were performed and paid with only a verbal agreement. Also, a reimbursement to the former City Clerk to purchase a new utility billing system was not properly supported, as the only documentation was a quote from the vendor.

Recommendation – All disbursements should be supported by invoice or other supporting documentation.

- (J) Disbursement Approval – The City Council approves disbursements after they are paid. In addition, five of thirty disbursements tested, were not approved by City Council. Checks are ratified by City Council the month after the checks are written. There was no quorum for the May 2017 City Council meeting and the April 2017 bills were not subsequently approved.

Recommendation – All disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. The City should adopt a written disbursement policy to allow payment of certain routine bills prior to City Council approval. All disbursements made under this policy should be reviewed and approved at the next City Council meeting to provide the Council with an accurate knowledge of all funds expended by the City.

City of Harvey

Staff

- (K) Payroll – Documentation of City Council approval of wage rates for the City’s Water Superintendent was not available.

Recommendation – The City should ensure City Council approval is documented in the City Council meeting minutes to support all City employee wages.

- (L) 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.

- (M) Financial Condition – At March 31, 2018, the Special Revenue, Road Use Tax Fund had a deficit balance of \$7,671.

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

- (N) Local Option Sales Tax Transfer – The City’s local option sales tax (LOST) ballot requires LOST receipts to be used for community betterment. In February 2018, the City transferred \$55,000 of LOST receipts to the Enterprise, Sewer Fund to eliminate a deficit fund balance. The City Council did not document how the transfer qualified as community betterment to comply with provisions of the LOST ballot. In addition, the transfer was not approved by the City Council.

Recommendation – The City should establish procedures to ensure LOST receipts are used in accordance with the ballot provisions. Prior to spending LOST receipts for community betterment, the City should document how the disbursement or transfer complies with the LOST ballot provisions. In addition, the City should ensure all transfers are approved by the City Council prior to making the transfer.

- (O) 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.

- (P) Allowances – Certain employees were paid allowances for vehicle fuel, internet and personal cell phone usage. The allowances were not processed through payroll, and, accordingly the proper tax withholdings were not applied. In addition, the allowances were not included on the employee’s Form W-2.

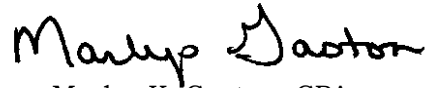
Recommendation – The City should ensure employee allowances are paid through payroll and subject to tax withholdings and wage reporting.

City of Harvey

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Brandon J. Vogel, Senior Auditor II
Elin M. Landgren, 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
Deputy Auditor of State