



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

State Capitol Building
Des Moines, Iowa 50319-0004

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

June 28, 2019

Contact: Marlys Gaston
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, 2017 through June 30, 2018. 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. Also, the City should establish procedures to ensure bank reconciliations are completed monthly, including all investment accounts, and variances between bank and book balances are resolved timely.

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 HAMBURG
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

City of Hamburg



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June 25, 2019

Officials of the City of 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 year ended June 30, 2018. 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 Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and written in a cursive-like font.

Rob Sand
Auditor of State

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City of Hamburg

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cathy E. Crain	Mayor	Jan 2020
Kent Benefiel	Mayor Pro tem	Jan 2020
Jimmie Randolph	Council Member	Jan 2018
Willie Thorp	Council Member	Jan 2018
Ray Hendrickson	Council Member	Jan 2020
Mary Lou Perry	Council Member	Jan 2020
Sheryl Owen	City Clerk	Indefinite
G. Rawson Stephensen	Attorney	Indefinite

(After January 2018)

<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	Jan 2020
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, 2017 through June 30, 2018, 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 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 2018 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 transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 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.


Marlys K. Gaston, CPA
Deputy Auditor of State

June 25, 2019

Detailed Recommendations

City of Hamburg

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(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. 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 bank reconciliations were prepared for individual bank accounts, the reconciliations did not include investments or compare the total bank and investment balances to the total cash balance per the general ledger. For the two months reviewed, the book balance was greater than the bank balance by \$90.

Recommendation – To improve financial accountability and control, total reconciled bank balances, including investments, should be compared to the general ledger monthly and variances between book and bank balances should be 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) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the City Council meeting minutes to be published within 15 days of the meeting, including a summary of receipts. One of four published minutes tested was not published within 15 days of the meeting and all four published minutes tested did not include a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and ensure meeting minutes are published within 15 days of the meeting, including a summary of receipts.

City of Hamburg

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (D) Management Financial Information – The City Clerk’s financial reports to the City Council included a balance sheet and a year-to-date receipts and disbursements report for the City as a whole, not by fund. Also the information provided did not include a comparison of the certified budget by function to actual disbursements.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s monthly financial reports to the City Council should include comparisons of actual disbursements to the certified budget by function. Also, for better financial information, the monthly reports should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (E) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public works, community and economic development, 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.”

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.

- (F) 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The bookkeeping and custody of the Library checking and savings accounts and CD investments were under the control of the Library Board in a location separate from the City Clerk’s office. While the Library is part of the City, these accounts were not reflected in the City’s accounting system and have not been included in the City’s annual budget, Annual Financial Reports or monthly 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 Library Department’s 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 Hamburg

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (G) Library Bank Reconciliations – The balance in the Library’s separately maintained general ledger was not reconciled to bank and investment balances throughout the year. The June 30, 2018 bank and book balances did not properly reconcile, with the bank balance being \$9,001 more than the book balance.

Recommendation – The Library should establish procedures to reconcile the Library’s general ledger to the bank accounts and investments monthly. Variances, if any, should be investigated and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (H) Credit Cards – The City and the Library each have a credit card for use by employees while on City and Library business. Supporting documentation was not available for one of the two Library credit card statements selected for testing.

Recommendation – The City Council and Library Board of Trustees should ensure that all disbursements are properly supported by an original vendor invoice.

- (I) Library Board of Trustees Meeting Minutes – The Library Board of Trustees approves bills monthly. However, the list of approved bills is not included in the minutes.

Recommendation – The Library Board of Trustees should include a list of bills approved for payment in the meeting minutes.

- (J) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries.

- (K) Utility Rates – The City’s utility rate ordinance required the sewer and water rates to increase as of July 1, 2017. For six utility billings tested from September 2017, the City calculated the utility charges using the old utility rates.

Recommendation – The City should ensure the utility rates as approved by the utility rate ordinance are used when calculating utility customers’ monthly bills.

- (L) Deficit Balance – The Capital Projects Fund had a deficit balance of \$1,268 at June 30, 2018.

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

City of Hamburg

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Brian R. Brustkern, CPA, Manager
Preston R. Grygiel, Staff Auditor
Amanda M. Anderson, Assistant Auditor