



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Jim Cunningham
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FOR RELEASE

October 18, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Hazleton, Iowa, for the period July 1, 2021 through June 30, 2022. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eighteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, lack of utility reconciliations and the need for a monthly City Clerk's report. 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 website at [Audit Reports – Auditor of State](#).

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CITY OF HAZLETON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2021 THROUGH JUNE 30, 2022

City of Hazelton



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Rob Sand
Auditor of State

September 14, 2023

Officials of the City of Hazleton
Hazleton, 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 Hazleton, Iowa, for the period July 1, 2021 through June 30, 2022. 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 Hazleton 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 Hazleton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Darin Hayzlett	Mayor	Jan 2022	Jan 2024
Chris Hayzlett	Council Member	Jan 2020	Jan 2024
Stephen Horan (Appointed)	Council Member	Jan 2022	Nov 2023
Jared Little	Council Member	Jan 2022	Jan 2026
Danette Lujan	Council Member	Jan 2022	Jan 2026
Monica Michels	Council Member	Jan 2022	Jan 2026
Cole Passick	City Clerk		Indefinite
Heather Prendergast	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 performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Hazleton for the period July 1, 2021 through June 30, 2022, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Hazleton'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 City of Hazleton's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, 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 may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

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 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.
4. 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.
5. We observed the City's fiscal year 2022 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
6. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
7. We scanned for 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.
8. 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.

9. The City has no TIF.
10. We traced selected receipts to accurate accounting and consistency with the recommended COA.
11. The City had no voter approved levies.
12. 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.
13. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
14. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
15. 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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Hazleton's management to perform this agreed-upon procedures engagement and conducted our engagement 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. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Hazleton and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 Hazleton 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.



James Cunningham, CPA
Deputy Auditor of State

September 14, 2023

Detailed Findings and Recommendations

City of Hazleton

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (A) Fiduciary Oversight – 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. Many of the findings included in the report indicate the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring the review of pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

- (B) 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) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – handling, reconciling, and recording.
- (3) Investments – recordkeeping, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, deposit preparations, depositing, recording and reconciling.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – entering rates into the system, preparing, reconciling, recording and distributing.
- (7) Utilities – billing, collecting, depositing, posting, and maintaining accounts receivable records.
- (8) Long-term debt – recording, reconciling and debt payment processing.
- (9) Journal entries – preparing and recording.
- (10) 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.

City of Hazleton

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (C) Deposits – We traced the total collections deposited in the City’s bank account for November 2021 and May 2022 to the amounts recorded in the city’s accounting system. For May 2022 the bank account included \$9,765 more in deposits than what was recorded in the City’s general Ledger. Of this amount \$8,866 was for the May 2022 property tax received from the County which were not recorded in the City’s general ledger.

Recommendation – The City should implement procedures to ensure all collections are deposited and recorded in the City’s accounting system in a timely manner.

- (D) Bank Reconciliations – Although the City’s accounting system generates a Reconciliation Detail, the account balances per the bank statements and Reconciliation Detail were not traced to the general ledger balances. At June 30, 2022, the cash balance per the City’s general ledger was understated by \$7,890 compared to the cash balance per the bank. In addition, the May 2022 bank reconciliation did not include evidence of an independent review.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly to ensure all activity is properly recorded in the City’s general ledger 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.

- (E) Annual Financial Report – The fiscal year 2022 Annual Financial Report (AFR) total receipts, disbursements and beginning and ending balances do not agree with the City’s financial records.

Recommendation – The City should ensure receipts, disbursements and fund balances reported on the AFR agree with the City’s records, and that the AFR includes a beginning balance.

- (F) Monthly City Clerk’s Report – Monthly financial reports were not provided to the City Council detailing receipts, disbursements and ending balances by fund or comparisons of total disbursements for all funds to the certified budget.

Recommendation – Monthly financial reports should be prepared and submitted to the City Council for their review and approval. All reports should be maintained on file at the City Clerk’s office. Comparisons of total disbursements for all funds to the certified budget by function should be included in the financial reports to provide better control over budgeted disbursements and provide the opportunity for timely amendments to the budget.

- (G) Financial Condition – At June 30, 2022 the City had deficit balances of \$3,595, \$300,310 and \$20,049 in the Special Revenue, Employee Benefits Fund and the Enterprise Funds, 2014 CDBG Sewer Project and Sewer Sinking Fund, respectively.

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

City of Hazleton

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (H) Journal Entries – Journal entries observed were not reviewed and approved by an independent person.

Recommendation – The journal entries should be approved by an independent person and evidence of the approval should be documented by the signature or initialing of the approver and the date of the approval.

- (I) Payment of General Obligations – Chapter 384.4 of the Code of Iowa states, in part, “A city shall establish a debt service fund and shall certify taxes to be levied for the debt service fund in the amount necessary to pay: a) judgments against the city, except those authorized by state law to be paid from other funds” Chapter 384.4 goes on to state, moneys 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 period observed, the general obligation debt payments for a City were paid out of the Special Revenue, Road Use Tax Fund.

Recommendation – Payments on the general obligation debt should be made from the Debt Service Fund as required.

- (J) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing for each billing period was not maintained. Additionally, the City was not charging penalties on delinquent accounts in accordance with their policy.

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. In addition, a delinquent listing should be prepared each month and reviewed in a timely manner by someone independent of any other utility duties and penalties should be applied in accordance with City policies.

- (K) Utility Ordinance – We observed that water and sewer utility rates were increased by resolution and not by ordinance during fiscal year 2022. In addition, City officials were unable to provide the City ordinance which established the landfill rates.

Recommendation – Utility rates should be established by ordinance of the City Council as required by Chapter 384.84 of the Code of Iowa. In addition, the City should maintain documentation of the approved utility rates.

- (L) Receipts – Four of 29 checks observed as received from the State and deposited in the City’s bank account could not be traced to the general ledger.

Recommendation – The City should implement procedures to ensure all receipts are recorded timely and properly supported.

- (M) Prenumbered Receipts – Prenumbered receipts are not issued for all collections received.

Recommendation – Prenumbered receipts should be issued for all collections. An independent person should account for the numerical sequence of the prenumbered receipts and compare these collections to the bank deposit and the accounting records, and the evidence of review should be documented with the name or initials of the reviewer and the date of the review.

City of Hazleton

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (N) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa states, “Within fifteen days following a regular or special meeting of the council, the clerk shall cause the minutes of the proceedings of the council, including the total expenditure from each city fund, to be published in a newspaper of general circulation in the city.” We observed meeting minutes for three of four meetings observed were posted more than 15 days after the meeting. Also, one of the four meetings observed did not have a proof of publication.

In addition, minutes for two of four meetings observed were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and ensure minutes are published within fifteen days of the meeting as required. In addition, the City should ensure all City Council meeting minutes are signed to authenticate the actions taken.

- (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 their checking 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) Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amounts budgeted in the general government function. 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.

- (Q) Compensatory Time – For the period July 2021 to January 2022 we observed compensatory time (comp time) was incorrectly calculated for 3 employees. The incorrect calculations were the result of the wrong number of hours being entered in the payroll system. Comp time was calculated on the employee’s timesheet at 1.5 times the number of hours worked over 80 hours. The regular hours and the calculated comp time hours were entered into the payroll system which also calculated comp time at 1.5 times the number of hours over 80 hours, resulting in improper comp time hours being paid out. The excess comp time hours paid for the 3 employees follows:

- (1) The current City Clerk was paid an additional 27.25 hours of improper comp time at the rate of \$22.00 per hour for a total of \$599.50.
- (2) One Public Works employee was paid an additional 0.75 hours of improper comp time at the rate of \$26.78 per hour for a total of \$20.09.
- (3) One Public Works employee was paid an additional 6.375 hours of improper comp time at a rate of \$22.00 per hour for a total of \$140.25 of improper comp time.

Recommendation – The City should work with legal counsel to determine if the excessive comp time should be repaid.

City of Hazleton

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (R) Special Investigation – In addition to the agreed-upon procedures performed for the City of Hazleton, Iowa, for the period July 1, 2021 through June 30, 2022, we also performed a special investigation of the City of Hazleton Fire Department, Iowa for the period July 1, 2021 through June 30, 2022. The special investigation was completed, a report was issued by the Auditor of State, and the report is available on the Office of Auditor of State’s website. The report includes the concerns regarding the Fire Departments Association which was dissolved on July 1, 1997.

Recommendation – Oversight by City officials is essential and should be an ongoing effort. City officials should exercise due care and review all pertinent information. City officials should also ensure sufficient information is prepared and provided to them for making decisions and appropriate policies and procedures are adopted, implemented, and monitored to ensure compliance.

City of Hazleton

Staff

This engagement was performed by:

Jim Cunningham, CPA, Deputy
Michelle B. Meyer, CPA, Director
Ridge G. Nennig, Staff Auditor
Julius O. Cooper, Staff Auditor