



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

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Auditor of State

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**NEWS RELEASE**

Contact: Pam Bormann  
515/281-5834

FOR RELEASE

January 31, 2025

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Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Harpers Ferry, Iowa, for the period July 1, 2022, through June 30, 2023. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twelve findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations and disbursements exceeding budgeted amounts. 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 HARPERS FERRY**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2022, THROUGH JUNE 30, 2023**

**City of Harpers Ferry**



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January 16, 2025

Officials of the City of Harpers Ferry  
Harpers Ferry, 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 Harpers Ferry, Iowa, for the period July 1, 2022 through June 30, 2023. 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 Harpers Ferry 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 written in a cursive, slightly stylized font.

Rob Sand  
Auditor of State

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**City of Harpers Ferry**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerry Valley	Mayor	Jan 2024
Tom Diggins	Council Member	Jan 2024
Daren Kaepffel	Council Member	Jan 2024
Sandi Riha	Council Member	Jan 2024
Kenny Barta	Council Member	Jan 2026
Al Garin	Council Member	Jan 2026
Paul Deason	City Superintendent	Indefinite
Kelli Melcher	City Clerk	Indefinite
Shelia Diggins	Assistant City Clerk	Indefinite
Shelby Schwartz	Assistant City Clerk	Indefinite
Jeff Swartz	Attorney	Indefinite

**City of Harpers Ferry**



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Rob Sand  
Auditor of State

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 Harpers Ferry for the period July 1, 2022 through June 30, 2023, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Harpers Ferry'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 Harpers Ferry'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 were in place and incompatible duties, from a control standpoint, were not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. 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, journal entries and monthly financial reports provided to the City Council.
5. 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 were properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2023 Annual Financial Report to determine whether it was completed timely and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We observed 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.



9. 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.
10. The City had no TIF.
11. We traced selected receipts for accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. 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.
14. The City had no transfers.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. 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 Harpers Ferry'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 Harpers Ferry 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 Harpers Ferry 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.

A handwritten signature in black ink that reads "Pam Bormann". The signature is written in a cursive style with a large, looping "P" and "B".

Pam Bormann, CPA  
Deputy Auditor of State

January 16, 2025

## **Detailed Findings and Recommendations**

City of Harpers Ferry

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

(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) Accounting system – performing all general accounting functions, including journal entries, having custody of assets and controlling all data input and output.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing, custody and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, posting, recording, reconciling, entering rates into the system and maintaining detailed accounts receivable records.
- (6) Long-term debt – recordkeeping, compliance and debt payment processing.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling, and recording.
- (8) Payroll – recordkeeping, preparing, distributing and entering rates in the system.

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 – The following items were noted for payroll:

- One employee was approved by the City Council to be paid monthly however, was paid biweekly resulting in an overpayment of \$1,002.
- One employee was approved by the City Council at an hourly rate of \$28.50 however, was paid \$28.00 per hour, resulting in an underpayment for the fiscal year.

Recommendation – The City should develop procedures to ensure all employees are paid at the rate and frequency approved by the City Council.

(C) 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 did not receive an image of the back of each cancelled check.

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.

City of Harpers Ferry

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (D) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amount budgeted in the business type activities 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. This was due to budgeting sewer revenue debt in the debt service function of the Debt Service Fund rather than the business type activities function of the Sewer Fund.

Recommendation – The City should ensure the budget is prepared to reflect the proper function for disbursements. In addition, if errors are discovered in the original budget, an amendment should be made to properly reflect the current function for all disbursements.

- (E) 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 was not prepared quarterly.

Recommendation – A listing of delinquent accounts should be prepared quarterly. 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) Annual Financial Report (AFR) – Beginning and ending outstanding debt was not reported on of the City’s fiscal year 2023 AFR.

Recommendation – The City should establish procedures to ensure long-term debt is properly reported on the AFR.

- (G) Petty Cash and Change Fund – The City utilizes a petty cash fund and change fund interchangeably and the funds were not maintained on an imprest basis. The City does not have a policy for the petty cash fund specifying proper usage, allowable disbursements, approvals and maximum dollar amount to be maintained in the petty cash fund. Vouchers for petty cash activity were not prepared and maintained. An imprest system is one in which the petty cash and change funds are maintained at a fixed, authorized amount and petty cash disbursements are supported by vendor receipts and change fund receipts are written and maintained. Neither the petty cash nor change fund were authorized by the City Council through resolution. In addition, there was a \$21 variance between the authorized amount and the cash on hand. Also, the change fund was not kept in a locked, secure location.

Recommendation – The City should establish separate petty cash and change fund policies through resolution which includes proper usage, allowable disbursements, approvals and the maximum dollar amount to be maintained in the petty cash fund and to provide for an amount to be available for a change fund. A numbered voucher system should be instituted to account for petty cash withdrawals. Petty cash and change funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. The petty cash and change funds should be counted and reconciled periodically throughout the year and locked in a secure location and accessible only to staff with a need to access it.

City of Harpers Ferry

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (H) Donation – During the fiscal year ended June 30, 2023, the City donated \$500 to American Legion Post 722 for fireworks.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private nonprofit corporations. Article III, Section 31 of the Iowa Constitution states, "... no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation, or claim, be allowed by two-thirds of the members elected to each branch of the General Assembly."

At least six official Attorney General Opinions since 1972 have consistently concluded that "a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes and performs work which the government could perform directly." The Opinions further state, "Even if the function of a private nonprofit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes."

"Political subdivisions and municipalities, including cities, counties, schools and townships are municipal – governmental – entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support 'public' services which are the same or similar to the services provided by government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities."

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private nonprofit organizations. If the nonprofit organization provides a service to the City, the City may enter into a contract for services. The contract should detail the services provided and the cost of those services, as well as provide transparency for the City which allows confirmation the funds were spent as agreed and a clawback provision in the event they were not spent as agreed. If the donation is not providing a service to the City, the City should immediately cease making future donations.

- (I) Monthly City Clerk's Report – The monthly City Clerk's report presented to the City Council for approval did not include a comparison of actual disbursements for all funds to the certified budget by function.

Recommendation – To provide better control over budgeted disbursement and the opportunity for timely amendments to the certified budget, the monthly City Clerk's report should include a comparison of actual disbursements for all funds to the certified budget by function. The City Council or designated member should review and approve the monthly City Clerk's reports, and the review/approval should be documented by the signature or initials of the reviewer and the date of the review/approval.

City of Harpers Ferry

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (J) Credit Cards – The City has credit cards for use by various employees while on City business. The City did not adopt a formal written policy regulating the use of credit cards and establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

- (K) Computer System – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and helps ensure the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

The City did not have written polices for:

- Information system security, including password privacy and confidentiality.
- Requiring password changes because the software does not require users to change logins/passwords periodically.
- A written disaster recovery plan which provides for a backup site, procedures to be followed to prepare the site for equipment and identifies staff responsibilities.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control of it’s computer systems. A written disaster recovery plan should also be developed.

- (L) Procurement Policy – The City did not establish procurement policies and procedures which detail the procurement methods to be used for acquisition of property or services.

Recommendation – The City should establish written procurement policies for procurements to detail the methods to be used for the acquisition of property or services.

City of Harpers Ferry

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Deputy  
Tammy A. Hollingsworth, CIA, Manager  
Gwen D. Fangman, CPA, Manager  
April R. Davenport, Senior Auditor  
Austin C. Gohlmann, Staff Auditor  
Deborah S. Krueger Staff Auditor