



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

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**NEWS RELEASE**

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FOR RELEASE \_\_\_\_\_ May 3, 2010 \_\_\_\_\_

Auditor of State David A. Vaudt today released a report on the City of Harper for the period July 1, 2008 through December 31, 2009. The procedures were performed at the request of the Mayor as a result of concerns identified with certain transactions, including cash withdrawals and the purchase of a Hy-Vee gift card.

The report includes recommendations to strengthen the City's internal controls, such as improvements to segregation of duties, establishing procedures to reconcile utility billings, collections and delinquencies and maintenance of adequate supporting documentation.

A copy of the 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 <http://auditor.iowa.gov/specials/index.html>.

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**REPORT ON THE  
CITY OF HARPER**

**FOR THE PERIOD  
JULY 1, 2008 THROUGH DECEMBER 31, 2009**

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Auditor of State's Report

To the Honorable Mayor and  
Members of the City Council:

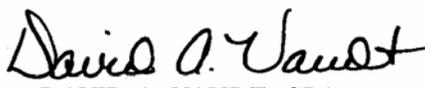
As a result of concerns identified and at your request, we conducted certain tests and procedures to selected financial transactions of the City for the period July 1, 2008 through December 31, 2009. Based on discussions with the Mayor and City Clerk and a review of relevant information, we performed the following procedures:

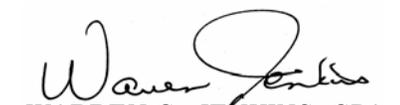
- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively. We also evaluated certain internal controls for the month of January 2010 to identify the policies and procedures in place with the new City Clerk.
- (2) Examined activity in the City's bank accounts to identify any unusual activity. We also examined images of cash withdrawal slips and related documents for propriety.
- (3) Scanned all disbursements from the City's bank accounts and examined selected transactions to determine if they were appropriate, properly approved and supported by adequate documentation.
- (4) Examined payroll disbursements and employee reimbursements issued to the former City Clerk and the former Mayor to determine if the amounts disbursed were appropriate.
- (5) Calculated the amount of utility collections by month using the deposit slips and analytically compared the monthly amounts to the amount of utility collections recorded by the current City Clerk for January 2010 to determine whether the amounts recorded by the former City Clerk appeared reasonable.
- (6) Reviewed the 2009 Annual Financial Report and the 2009 City Street Financial Report to determine if the amounts reported were accurate.
- (7) Confirmed payments to the City by the State of Iowa to determine whether they were properly deposited to the City's bank accounts.

As a result of these procedures, we identified the following findings and recommendations which should be considered by the City.

The procedures we performed do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Harper, other matters might have come to our attention that would have been reported to you.

We would like to acknowledge the assistance extended to us by the personnel of the City of Harper. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 12, 2010

## City of Harper

### Detailed Findings and Recommendations

The City of Harper is located in Keokuk County and has a population of 134. On January 1, 2010, a new Mayor took office and a new City Clerk began employment with the City. According to the Mayor and the current City Clerk, neither was informed of the City's operating procedures in place prior to January 1, 2010.

We reviewed the procedures currently used by the City to process receipts and disbursements and we reviewed selected financial records for the period July 1, 2008 through December 31, 2009. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from errors and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the City's controls.

- (A) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. The City Clerk has control over each of the following areas:
- (1) Investments – investing, recording and custody.
  - (2) Receipts – collecting, posting, deposit preparation and depositing.
  - (3) Utility Receipts – billing, collecting, posting, deposit preparation and depositing.
  - (4) Disbursements – check preparation, signing, posting and distribution.
  - (5) Payroll – check preparation, signing, posting and distribution.
  - (6) Reporting – receipt of bank statements and preparation of bank reconciliations and the City's financial statements.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the functions listed above should be segregated. City officials should establish control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personal and elected officials. Council Members should review financial records, perform reconciliations and examine supporting documentation for accounting records on a periodic basis. Evidence of various reviews should be indicated by initials of the independent reviewer and the date of the review.

- (B) Bank Reconciliations – Monthly reconciliations of the Clerk's balances to the bank accounts and investments were available on the City's accounting system; however, the monthly reconciliations were not reviewed by the Council or the Mayor. The City Clerk who began in January 2010 did not prepare bank reconciliations for the month of January 2010.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Any

variances should be investigated and resolved in a timely manner and a listing of outstanding checks should be prepared each month and retained. In addition, a designated member of the Council or the Mayor should review and approve the bank statements and prepared reconciliations.

- (C) Pre-numbered Receipts – Pre-numbered receipts were not issued for collections.

Recommendation – Pre-numbered receipts should be issued and maintained for all collections. In addition, City officials should ensure someone independent of the preparation of receipts and bank deposits periodically compares the receipts to amounts actually deposited to the bank.

- (D) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard assets, checks should be restrictively endorsed immediately upon receipt.

- (E) Reconciliation of Utility Billings, Collections and Delinquencies – An aging report was available on the City’s accounting system. However, a reconciliation between billings, collections and delinquencies was not prepared or reviewed by the Council. The City Clerk who began in January 2010 did not perform a reconciliation of utility billings, collections and delinquencies for the month of January 2010.

Recommendation – City officials should establish procedures to ensure utility billings, collections and delinquencies are reconciled in a timely manner each month. In addition, the Council should review and approve the reconciliations and monitor delinquent accounts.

- (F) Supporting Documentation – We scanned disbursements between July 1, 2008 and December 31, 2009 to determine if proper documentation was maintained to support the payments. We noted several instances where adequate supporting documentation was not maintained. However, based on the vendors to which payments were issued, the amount and frequency of disbursements, we did not identify any payments which appear to be improper or which may not meet the test of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

Recommendation – The Council should implement procedures to ensure adequate supporting documentation is maintained in order to determine the goods and services purchased and the related quantities are appropriate for City needs. Disbursements should be approved by the Council prior to payment, but only when supporting documentation is available.

- (G) Payroll – We reviewed payments to both the former City Clerk and former Mayor between July 1, 2008 and December 31, 2009 for payroll and employee reimbursements. Although not all payments were properly supported, we reviewed the timing, frequency and amounts of the payments and we did not identify any payments to either the former City Clerk or the former Mayor which appeared to be improper.

However, time sheets are not completed by the City Clerk.

Recommendation – Time sheets should be completed by all employees and approved and initialed by the employee and the Mayor.

- (H) Financial Statements – The monthly financial statements prepared by the City Clerk were not reviewed by someone independent of their preparation. In addition, a comparison of budget to actual information was not provided to the Council.

Recommendation – The financial statements prepared by the City Clerk should periodically be reviewed by someone independent of their preparation. Monthly reports to the Council should include, at a minimum, beginning of month fund balances, a summary of receipts, a summary of disbursements by function with a comparison to budget and end of month fund balances.

- (I) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments as approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the chart of accounts endorsed by the City Finance Committee should be used for recording the City's financial transactions.

- (J) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual or an employee handbook.

Recommendation – An accounting policies and procedures manual and an employee handbook should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel by providing job descriptions.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures, such as mileage reimbursements and scheduled pay dates for City employees.
- (3) Save time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (K) Electronic Check Retention – Section 554D.114 of the *Code* 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 retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

- (L) Minutes – Chapter 21 of the *Code* requires minutes be kept of all meetings of governmental bodies. During our review of minutes, we determined:

- (1) Minutes did not include a list of claims allowed, total disbursements from each fund and a summary of all receipts as required by Chapter 372.13(6) of the *Code*.
- (2) The minutes were not properly signed by the City Clerk or Mayor to authenticate the record as required by section 380.7(4) of the *Code*. In addition, minutes from the prior meeting were not always approved at the next Council meeting.
- (3) Minutes for the November 3, 2008 and May 7, 2009 Council meetings could not be located.

Recommendation – The Council should ensure the minutes include a list of claims allowed, an explanation of the claims, total disbursements from each fund and a summary of all receipts. The Council and City Clerk should ensure the minutes include the date, time and place, the members present and the action taken at each meeting. The minutes should also show the results of each vote taken and information sufficient to indicate the vote of each member present.

The Council should ensure it is provided accurate bill listings and all actions taken to approve bills and transfers are properly recorded in the minutes. Also, the minutes should be signed to authenticate the record, the minutes should be maintained at City Hall and an official copy should be kept in the Council meeting book. The City Clerk should continue to post the minutes in three public places which have been permanently designated by ordinance.

- (M) Branching Out Grant – We identified a gift card was purchased in September 2009 with remaining funds from a Branching Out Grant received from Trees Forever and Alliant Energy. There has been no activity on the gift card since the date of purchase and the balance of the gift card remains intact and in the possession of the City. Through review of supporting documentation and discussion with Trees Forever personnel, we determined the intention of the gift card was to use the remaining funds during the spring of 2010.

Recommendation – The City should contact Trees Forever personnel to determine if additional reporting may be required for the unspent portion of the Branching Out Grant. In addition, the City should ensure unspent funds for future grants are allowed to be retained. If so, the remaining funds should be deposited to the City's bank accounts and tracked separately by City personnel. Gift cards should not be purchased in the future.

- (N) Cashiers Check – We identified a cashiers check issued in the amount of \$2,045.00 in August 2009. Through review of the August 24, 2009 Council minutes, we determined the disbursement was a reimbursement to a vendor for tree removal.

Recommendation – The Council should ensure all City obligations are paid by City check and presented to the Council for approval.

- (O) Dormant Bank Account – In July 2009, the former City Clerk received a letter from the City's bank stating the City's savings account had been dormant for 2 years and the bank would begin charging a fee if there was no activity. As a result, on July 21, 2009, the former City Clerk withdrew \$10.00 in cash from the City's checking account and deposited that amount to the City's savings account the same day.

We also identified 2 additional cash withdrawals. A \$10.00 cash withdrawal was made from the City's checking account on July 21, 2009 but was redeposited to the City's checking account the same day. The other cash withdrawal occurred on September 17, 2009. A \$10.00 cash withdrawal was made from the City's savings account and deposited to the City's checking account the same day. We were unable to determine the reason for the 2 additional cash withdrawals. However, they appear to be bank corrections and we determined all 3 cash withdrawals from the City's bank accounts were properly redeposited to the City's bank accounts.

Recommendation – Because the City has not established a petty cash or change fund, the Council should ensure all City obligations are paid by check and presented to the Council for approval. If the City establishes a petty cash or change fund, the City should implement procedures to ensure any cash withdrawals are approved by the Council and adequate supporting documentation is maintained for

any cash withdrawn. If funds need to be moved between bank accounts, a transfer should be made instead of a cash withdrawal.

- (P) Annual Financial Report – We compared the ending balances reported on the 2009 Annual Financial Report to the ending balances reported on the City’s trial balance at June 30, 2009. The total ending balances reported on the 2009 Annual Financial Report equal the amounts reported on the City’s trial balance and bank statements at June 30, 2009. However, the allocation between governmental funds and proprietary funds does not reconcile.

Recommendation – The July 1, 2009 balances should be corrected when the 2010 Annual Financial Report is filed. The City should ensure the amount reported on the Annual Financial Report reconciles to the amount listed on City’s trial balance in total and by fund type. In addition, the City should ensure the amounts reported reconcile to the City’s bank statements.

- (Q) City Street Financial Report – We compared the ending balance of the Road Use Tax Fund reported on the 2009 City Street Financial Report to the ending balance reported on the City’s trial balance at June 30, 2009. The total ending balance reported on the 2009 City Street Financial Report does not equal the amount reported on the City’s trial balance at June 30, 2009.

Recommendation – The City should ensure the ending balance of the Road Use Tax Fund reported on the City Street Financial Report reconciles to the amount reported on the City’s trial balance. The City should contact a representative of the Department of Transportation to determine what steps, if any, should be taken to resolve information which may have been previously reported in error.

Report on the  
City of Harper

Staff

This engagement was performed by:

Annette K. Campbell, CPA, Director  
James R. Wittenwyler, Staff Auditor

  
Tamera S. Kusian, CPA  
Deputy Auditor of State