



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

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NEWS RELEASE

FOR RELEASE _____ June 28, 2016

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Hamburg, Iowa for the period July 1, 2014 through June 30, 2015. 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 and receipts are properly recorded.

A copy of the agreed-upon procedures 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 <https://auditor.iowa.gov/reports/1521-0339-BLOF>.

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CITY OF HAMBURG

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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City of Hamburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cathy E. Crain	Mayor	Jan 2016
Kent Benefiel	Mayor Pro tem	Jan 2016
Earl Hendrickson	Council Member	Jan 2016
Mary Lou Perry	Council Member	Jan 2016
Jimmie Randolph	Council Member	Jan 2018
Willie Thorp	Council Member	Jan 2018
Sheryl Owen	City Clerk	Indefinite
T.J. Pattermann	Attorney	Indefinite

City of Hamburg



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Independent Accountant's 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 Hamburg for the period July 1, 2014 through June 30, 2015. The City of Hamburg's management, which agreed to the performance of the procedures performed, is responsible 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 2015 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.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Hamburg, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hamburg and other parties to whom the City of Hamburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 11, 2016

Detailed Recommendations

City of Hamburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

(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. Generally, one individual has control over each of the following areas for the City:

- (1) Cash and investments – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Journal entries – preparing and journalizing.

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.

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.

(C) Financial Reporting – Grant receipts totaling \$79,832 were in correctly coded as road use tax receipts. Also, to properly account for local option sales tax (LOST) receipts and ensure these receipts are used in accordance with the LOST ballot, it is the City's policy to credit 90% of LOST receipts to the Special Revenue, Local Option Sales Tax Fund and 10% to the Special Revenue, Economic Development Fund. However, during fiscal year 2015, \$35,413 of LOST receipts were recorded in the General Fund and incorrectly coded as federal grant receipts and miscellaneous receipts.

Recommendation – The City should establish procedures to ensure all receipts are properly recorded. The City should transfer \$31,872 and \$3,541 from the General Fund to the Special Revenue, Local Option Sales Tax and Economic Development Funds, respectively, to properly account for these funds in accordance with City policy.

(D) Timely Deposits – Five of 28 receipts tested were not deposited timely.

Recommendation – To safeguard cash and increase funds available for investment, receipts should be deposited intact and timely.

(E) Deposits and Investments – The City's written investment policy refers to outdated sections of the Code of Iowa. In addition, the resolution naming official depositories adopted by the City Council on November 10, 2014 does not include the deposit limit by individual institution as required by Chapter 12C.2 of the Code of Iowa.

City of Hamburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

Recommendation – The City should update its written investment policy to reference the appropriate provisions of Chapter 12B.10B of the Code of Iowa. In addition, 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.

- (F) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for two meetings tested were not published within fifteen days. In addition, this Code section requires the publication to include a summary of all receipts and disbursements by fund. Two of the published minutes tested did not include a summary of all disbursements by fund and four did not include a summary of all receipts by fund.

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

- (G) 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 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.

- (H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government 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.”

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.

- (I) Separately Maintained Records – 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. These material 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.

Recommendation – 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.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

City of Hamburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (J) Payment of General Obligation Bonds – Principal and interest on two of the City’s general obligation bonds were paid from the General Fund and the Special Revenue, Local Option Sales Tax Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.” Also, the principal and interest payments on the City’s general obligation bonds were recorded in the public safety, public works and business type activities functions rather than the debt service function.

Recommendation – The City should transfer from the General Fund and the Special Revenue, Local Option Sales Tax Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required. Also, the City should ensure all payments on the City’s general obligation bonds are budgeted and recorded in the debt service function.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

- (L) Financial Condition - The Special Revenue, FEMA Fund had a deficit balance of \$648,037 at June 30, 2015. It appears this deficit is due to FEMA project costs paid from the FEMA Fund while the corresponding FEMA reimbursements were recorded in the General Fund and the Special Revenue, Road Use Tax Fund.

Recommendation – The City should determine the amounts owed from the General Fund and the Special Revenue, Road Use Tax Fund to the Special Revenue, FEMA Fund and make corrective transfers.

- (M) Computer Systems – The following weaknesses in the City’s computer systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change log-ins/passwords and/or prevent the reuse of the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.
- Requiring timeout or logoff functions be utilized when terminals are left unattended.
- Requiring computer journal entries be reviewed and approved by an independent individual.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer systems.

City of Hamburg
Staff

This agreed-upon procedures engagement was performed by:

Brian R. Brustkern, CPA, Manager
Marcus B. Johnson, Staff Auditor
Mark D. Newhall, Assistant Auditor


Marlys K. Gaston, CPA
Director