

**CITY OF HAWKEYE, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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Officials

Name	Title	Term Expires
Officials		
Don Kelly	Mayor	December, 2015
Angie Weidemann	Council Member	December, 2015
Ben Menne	Council Member	December, 2015
John Campbell	Council Member	December, 2017
Terry Buenzow	Council Member	December, 2017
Allison Maschel	Council Member	December, 2017
Dorty Yauslin	City Clerk/Treasurer	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and
Members of the City Council
City of Hawkeye, Iowa

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 Hawkeye for the period July 1, 2014 through June 30, 2015. The City of Hawkeye'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 2014 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.

To the Honorable Mayor and
Members of the City Council
City of Hawkeye, Iowa
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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 tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 noncompliance were not noted during the performance of the specific procedures listed above.

These agreed-upon procedures did not constitute an audit of the 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 Hawkeye, 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 Hawkeye and other parties to whom the City of Hawkeye may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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HOGAN - HANSEN

Traer, Iowa
August 27, 2015

Detailed Recommendations

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:

- Accounting System - performing all general accounting functions, including journal entries and having custody of assets.
- Cash - handling, reconciling and recording.
- Investing - recordkeeping, investing, reconciling and posting.
- Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- Utilities - billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- Debt - recordkeeping, compliance and debt payment processing.
- Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- Payroll - entering rates into the system, recordkeeping, preparing and distributing.
- Computer System - performing all general accounting functions and controlling all data input and output.
- 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 and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) **City Council Minutes** - The following were identified:

- Chapter 380.7 of the Code of Iowa requires the Clerk to authenticate all measures except motions with a signature. In the four meetings tested, none of the minutes were signed by the Clerk.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to be published within 15 days of the meeting. In the four meetings tested, the minutes for one of the meetings were not published within 15 days.
- Chapter 372.13(6) of the Code of Iowa requires minutes to include the total disbursements by fund. In the four meetings tested, none of the minutes included total disbursements by fund.

Detailed Recommendations

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

Recommendation - The City should comply with Chapter 380.7 of the Code of Iowa and require the Clerk to authenticate all measures except motions with a signature. The City should also comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes within 15 days and include total disbursements from each fund in the published City Council minutes.

(C) **Bank Reconciliations** - The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. However, the following were identified:

- For the two months reviewed, there was no indication of an independent review of the bank reconciliations.
- For one month reviewed, 3 of 26 reconciled book balances did not agree to the City's general ledger, and for the second month reviewed, 13 of 26 reconciled book balances did not agree to the City's general ledger.
- For the two months reviewed, the bank balances used on the bank reconciliations did not agree to the bank statements.
- For one of the two months reviewed, a variance of \$10,943.12 was not resolved.
- For the two months reviewed, the investment balances reported on the bank reconciliations did not agree to the investment statements.

Recommendation - The City should establish procedures to ensure that amounts reported on the bank reconciliations agree to the City's records, bank statements, investments statements and any other supporting documentation. In addition, the City should establish procedures to ensure that variances are reviewed and resolved in a timely manner. Also, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

(D) **Management Financial Information** - The Clerk's financial reports to the City Council did not include comparisons of actual disbursements to the certified budget by function.

Recommendation - To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk's monthly financial reports to the City Council should include comparisons of actual disbursements to the certified budget by function.

(E) **Monthly Treasurer's Report** - The monthly Treasurer's report presented to the City Council for approval does not contain transfers between funds. In addition, beginning fund balances, plus receipts and minus disbursements, did not agree to ending fund balances. Lastly, not all fund balances agreed to the monthly bank reconciliations.

Recommendation - Transfers should be included in the monthly Treasurer's report presented to the City Council for approval. In addition, beginning fund balances, plus receipts and minus disbursements should agree to ending fund balances. Lastly, all fund balances should agree to monthly bank reconciliations.

Detailed Recommendations

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

- (F) **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..." We were unable to agree beginning and ending fund balances, receipts and expenditures to the City's general ledger.

Recommendation - The City should ensure future Annual Financial Reports agree with the City's records.

- (G) **Investment Policy** - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (H) **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

Recommendation - The City should obtain and retain images of both the front and back of all canceled checks as required by Chapter 554D.114 of the Code of Iowa.

- (I) **Accounting Policies and Procedures Manual** - The City does not have a written accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- Aid in training additional or replacement staff.
- Help achieve uniformity in accounting and in the application of policies and procedures.
- Save supervisory time with respect to making recording decisions so they will not have to be made each time the same, or similar, situation arises.

- (J) **Section 148** - The City does not have written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code.

Recommendation - The City should establish written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code.

Detailed Recommendations

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

(K) **Debt** - The following were identified:

- Principal and interest on the City's general obligation debt was paid from the General Fund and Enterprise Water 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."
- For one of the eight debt obligations, there was activity recorded in the general ledger for which there was no supporting documentation. In addition, the debt was not reported on the 2015 Annual Financial Report.
- For one of the eight debt obligations, we noted that the debt was reported on the 2014 and 2015 Annual Financial Report and on the 2014 Annual Urban Renewal Report. However, no supporting documentation could be located for this debt.

Recommendation - The City should transfer from the General Fund and Enterprise Water Fund to the Debt Service Fund for future general obligation debt funding contributions. Payments on the bonds should be made from the Debt Service Fund. In addition, the City should retain supporting documentation for all debt obligations. Lastly, the City should establish procedures to ensure that all reports filed agree with the City's debt records.

(L) **Tax Increment Financing (TIF)** - A copy of the Urban Renewal Area TIF Indebtedness/Increment Tax Reconciliation was not available. Therefore, we were unable to review the report to identify and document the City's certified TIF obligations. In addition, we were unable to scan the report for unusual or unallowable obligations.

Recommendation - The City should retain a copy of the Urban Renewal Area TIF Indebtedness/Increment Tax Reconciliation.

(M) **TIF Certification** - The City used Form 2 to request additional TIF increment tax. Form 2 should only be used to request less than the maximum legally available TIF increment tax.

Recommendation - The City should file a corrected Form 2 and establish procedures to ensure that the proper TIF forms are filed.

(N) **Financial Condition** - As of June 30, 2015, the City had deficit balances in the Debt Service Fund and TIF Coop Fund.

Recommendation - The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

(O) **Journal Entries** - Supporting documentation was not maintained which substantiates journal entries made in the general ledger. In addition, journal entries were not reviewed and approved by an independent individual.

Recommendation - Supporting documentation should be maintained which substantiates all journal entries. In addition, an independent individual should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Detailed Recommendations

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

- (P) **Transfers** - The City transfers money to and from various funds periodically. However, these transfers were not approved by the City Council.

Recommendation - The City Council should approve all fund transfers prior to the actual transfer and document approval and amounts as part of the minutes of the City Council meetings.

- (Q) **Reconciliation of Utility Billings and Collections** - Utility billings and collections were not reconciled throughout the year. In addition, billings and collections documentation was not retained throughout the year. Therefore, we were unable to perform procedures to compare amounts billed to amounts collected. Also, we were unable to review City officials' accounts in order to test selected billings to collection and deposit to the bank.

Recommendation - Procedures should be established to reconcile utility billings and collections for each billing period. The City Council or another independent individual designated by the City Council should review the reconciliations and document their review. In addition, all billing and collection documentation should be retained.

- (R) **Receipts** - We performed a test of receipts from bank deposits to the general ledger for one month. We noted that the bank deposits exceeded the general ledger receipts total by \$5,526.68.

Recommendation - The City should establish procedures to ensure that all deposits are recorded in the City's general ledger.

- (S) **Disbursements** - Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for 10 of 30 disbursements selected could not be located.

Recommendation - All disbursements should be supported by invoices or other supporting documentation before checks are issued, and the documentation then filed in a logical order.

- (T) **Certified Budget** - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the debt service 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.