



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

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**NEWS RELEASE**

FOR RELEASE

February 17, 2017

Contact: Marlys Gaston  
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations on the City of Hills' Periodic Examination Report dated November 6, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period July 1, 2015 through June 30, 2016.

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. The findings included in this report are indications the City Council has exercised fiduciary oversight and has taken action to implement many of the recommendations. Ten of the sixteen findings reported in the Periodic Examination Report dated November 6, 2014 have been corrected and three have been partially corrected. The City Council has not yet taken action to implement the remaining three recommendations.

A copy of the City of Hills' Report on the Status of Periodic Examination Findings and Recommendations 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/1421-0482-EPFP>.

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**CITY OF HILLS**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON THE STATUS OF PERIODIC EXAMINATION  
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD  
JULY 1, 2015 THROUGH JUNE 30, 2016**

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**City of Hills**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Tim Kemp	Mayor	Jan 2016	Jan 2018
Bruce Endris	Council Member	Jan 2014	Jan 2018
Thomas Kirkpatrick	Council Member	Jan 2014	Jan 2018
Steve Harris	Council Member	Jan 2016	Jan 2020
Merle Hill	Council Member	Jan 2016	Jan 2020
Cathy Knebel	Council Member	Jan 2016	Jan 2020
Cathy Fitzmaurice-Hill	City Administrator		Indefinite
Erek Sittig	Attorney		Indefinite

**City of Hills**



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Independent Accountant's Report on the Status of Periodic  
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated November 6, 2014 on the City of Hills, Iowa covering the period October 1, 2013 through September 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated November 6, 2014 and the current status of the City's implementation of the recommendations included in that report.

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. Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

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 Hills and other parties to whom the City of Hills 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 Hills during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Mary Mosiman*  
MARY MOSIMAN, CPA  
Auditor of State

June 30, 2016

**Report on the Status of Periodic Examination  
Findings and Recommendations**

City of Hills

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2015 through June 30, 2016

**Findings Reported in the Periodic Examination Report dated November 6, 2014:**

(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 – handling, reconciling and recording.
- (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – preparing and distributing.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Financial reporting – preparing and reconciling.
- (9) 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.

**Current Status – Not corrected. The recommendation is repeated.**

(B) Bank Reconciliations – Cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. The “Bank Statement Reconciliation” reports generated from the City’s financial system include the City’s main checking account, but exclude the investment accounts. For the two months reviewed, bank and book balances for the City’s main checking account did not properly reconcile. Variances of \$52 and \$28 were not resolved. In addition, the bank reconciliations were not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

**Current Status – Partially corrected. The May 2016 bank reconciliation was reviewed during our follow-up procedures. While the reconciliation included evidence of an independent review, the reconciliation did not include investment accounts. When the investment accounts were included, no variances were noted. The recommendation is partially repeated.**

City of Hills

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2015 through June 30, 2016

- (C) Fire Fighters Association Donations – In April 2010, the former Fire Chief of the Volunteer Fire Department closed two checking accounts and cashed in two certificates of deposit, totaling \$157,920, and deposited those funds into accounts in the name of the newly formed Hills Fire Fighters Association (Association), a private non-profit corporation. In addition, in November 2011, the City donated \$2,500 of proceeds from the sale of an old rescue truck to the Association.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa 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."

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, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property."

We previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

"... I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be 'public funds,' subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking."

Recommendation – A 28E agreement, as described in the advice letter does not exist. We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over its public funds to a separate non-profit organization. The City should recover the remaining funds provided to the Association, including all income derived from the investment of the funds from the time they were remitted to the Hills Fire Fighters Association. In addition, the City should require an immediate accounting for these public funds from the date of each donation.

**Current Status – Corrected. During the period reviewed, the City reviewed the Fire Association records and determined remaining funds of \$28,466 should be returned to the City. On May 20, 2016, this amount was remitted to the City.**

City of Hills

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2015 through June 30, 2016

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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 of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

**Current Status – Partially corrected. For the period reviewed, monthly utility reconciliations were performed. However, the utility reconciliations and delinquent accounts were not reviewed by the City Council or an independent person designated by City Council. The recommendation is partially repeated.**

- (E) Utility Rates – The utility rates entered into the system are not reviewed by an independent person to ensure proper utility calculations and billings.

Recommendation – An independent person should review utility rates entered into the system to ensure proper utility calculations and billings. The review should be documented by the signature or initials of the reviewer and the date of the review.

**Current Status – Partially corrected. Per discussion with City Administrator, after the periodic examination, the City Administrator and Deputy City Clerk reviewed each customer’s utility rate to determine the proper rate was entered into the system. However, the review performed was not documented. The recommendation is partially repeated.**

- (F) Dual Signatures on Checks – City policy requires dual signatures on all checks. However, when checks are printed, the Mayor’s “dual” signature is automatically printed on the checks, negating the intended control of an independent countersignature.

Recommendation – The City should comply with City policy requiring dual signatures on all checks. Checks should be prepared and signed by one individual and then the supporting vouchers and invoices should be made available, along with the check, to the second or independent individual for review and countersignature.

**Current Status – Not corrected. The recommendation is repeated.**

- (G) Monthly City Clerk’s Report – A Monthly City Clerk’s Report, including a summary of receipts, disbursements and ending balances by fund, is not prepared.

Recommendation – The City Clerk should prepare a Monthly City Clerk’s Report which includes a summary of receipts, disbursements and ending balances by fund. The City Council should review and approve the Monthly City Clerk’s Report timely.

**Current Status – Corrected. For the period reviewed, the City Administrator prepared a monthly City Treasurer’s Report including receipts, disbursements and ending balances by fund. The City Treasurer’s Reports were approved by the City Council.**

City of Hills

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2015 through June 30, 2016

- (H) Annual Financial Report - The 2014 Annual Financial Report (AFR) did not accurately report the beginning and ending fund balances for fiscal year 2014. In addition, loan proceeds of \$290,110 were incorrectly reported as miscellaneous receipts rather than other financing sources and approximately \$290,000 of disbursements related to a water project were reported as sewer utility disbursements.

Recommendation – The City should establish procedures to ensure the AFR, including the beginning and ending fund balances, is accurate and agrees to the City’s accounting records.

**Current Status – Corrected. The fiscal year 2015 AFR, including beginning and ending fund balances, agrees to the City’s records.**

- (I) City Council Meeting Minutes – The following were identified:

- 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 three of four meetings tested were not published within fifteen days.
- Three of four monthly minutes reviewed did not include total disbursements from each fund as required by Chapter 372.13(6) of the Code of Iowa.
- Three of four monthly minutes reviewed did not include a listing of claims allowed as required by Chapter 372.13(6) of the Code of Iowa.
- Four of four monthly minutes reviewed did not include a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.
- Proper public notice for one of four monthly meetings reviewed was not provided as required by Chapter 21.4 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, including total disbursements by fund, a list of all claims allowed and a summary of all receipts, as required. The City should also ensure all meetings are preceded by proper public notice.

**Current Status – Corrected. For the period reviewed, the City gave proper notice of meetings and the meeting minutes tested were published within fifteen days and included total disbursements from each fund, a summary of all receipts and a list of claims allowed.**

- (J) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount 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.

City of Hills

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2015 through June 30, 2016

**Current Status – Not corrected. Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the business type activities function prior to the April 25, 2016 budget amendment. The recommendation is repeated.**

- (K) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Steve Harris, City Council Member	Equipment and labor for City hall addition	\$ 4,681

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transaction may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the services were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

**Current Status – Corrected. There were no transactions totaling more than \$2,500 noted during our follow-up procedures.**

- (L) Financial Condition – The City had deficit balances of \$45,624 and \$79,879 in the Special Revenue, Road Use Tax and the Enterprise, Water Utility Funds, respectively, at September 30, 2014.

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

**Current Status – Corrected. For the period reviewed, the City had no deficit balances.**

- (M) Payroll – Timesheets did not include evidence of supervisory review.

Recommendation – All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll. Approval of the time sheets should be documented by the supervisor’s signature or initials and the date of approval.

**Current Status – Corrected. The timesheets reviewed during our follow-up procedures included evidence of supervisory review.**

- (N) Lack of Written Policies and Procedures – While the City has adopted a written disaster recovery plan, certain items were not included in the plan. Specifically, the plan does not include an inventory of all essential software systems, requirements for supplies, relevant accounting manuals and other documentation to be located offsite and a requirement to test the plan.

Recommendation – The City should include the above noted items in its written disaster recovery plan.

City of Hills

Report on the Status of Periodic Examination Findings and Recommendations

For the Period July 1, 2015 through June 30, 2016

**Current Status – Corrected. On June 13, 2016, the City adopted an information systems disaster prevention and recovery plan which included the items noted above.**

- (O) Unrecorded Investment Interest – During the period reviewed, we noted \$1,836 of interest earned on certificates of deposit not recorded in the City’s general ledger.

Recommendation – The City should record interest earned on certificates of deposit in the general ledger as the interest is received.

**Current Status – Corrected. During the period reviewed, the City recorded interest earned on the certificates of deposit in the general ledger and at March 31, 2016, the City’s general ledger balance for certificates of deposit agreed with the bank’s balance.**

- (P) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for one transaction tested could not be located.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

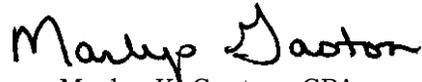
**Current Status – Corrected. For the period reviewed, invoices and other supporting documentation were available to support the transactions tested.**

City of Hills

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager  
Joshua W. Ostrander, Senior Auditor

  
Marlys K. Gaston, CPA  
Director