



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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

May 23, 2017

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Contact: Marlys Gaston  
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Hospers, Iowa for the period July 1, 2015 through June 30, 2016. 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. The City should also consult legal counsel regarding the disposition of the excess tax increment financing receipts which exceed the amount of TIF debt outstanding.

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/1622-0803-BLOF>.

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**CITY OF HOSPERS**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2015 THROUGH JUNE 30, 2016**

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**City of Hospers**

**Officials**

**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Harlan Rouse	Mayor		Jan 2018
Ben Hamblin	Council Member		Jan 2016
Kelly Schulz	Council Member		Jan 2016
John Solsma	Council Member		Jan 2016
Danielle Kleinhesselink	Council Member		Jan 2018
Benjamin Whitmore	Council Member		Jan 2018
Heidi Kramer	City Clerk/Treasurer		Indefinite
Michael Jacobsma	Attorney		Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Harlan Rouse	Mayor		Jan 2018
Danielle Kleinhesselink	Council Member		Jan 2018
Benjamin Whitmore	Council Member		Jan 2018
Mandi Kramer	Council Member		Jan 2020
Raul Martinez	Council Member		Jan 2020
Kelly Schulz	Council Member		Jan 2020
Heidi Kramer	City Clerk/Treasurer		Indefinite
Michael Jacobsma	Attorney		Indefinite

**City of Hospers**



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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 Hospers for the period July 1, 2015 through June 30, 2016. The City of Hospers'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 2016 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 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 voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. 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.
15. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
16. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
17. 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 Hospers, 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 Hospers and other parties to whom the City of Hospers 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 Hospers 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

March 9, 2017

## **Detailed Recommendations**

City of Hospers

Detailed Recommendations

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

(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) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Journal entries – preparing and recording.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (10) Computer system – performing all general accounting functions and controlling all data input and output.
- (11) 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 should be documented by the signature or initials of the reviewer and the date of the review.

(B) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

(C) 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 should be documented by the signature or initials of the reviewer and the date of the review.

City of Hospers

Detailed Recommendations

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

- (D) Monthly City Clerk's Report – The City Clerk's reports to the City Council do not include comparisons of actual disbursements to the certified budget by function or a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk's reports to the City Council should include comparisons of actual disbursements to the certified budget by function. Also, for better financial information, the monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (E) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. 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 and include total disbursements from each fund and a summary of all receipts. Minutes for one of four meetings tested were not published within fifteen days. Minutes publications for four meetings tested did not include total disbursements for each fund or a summary of all receipts.

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

- (G) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the general government, capital projects 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.

- (H) Disbursements – The City does not classify disbursements by function in accordance with the recommended Uniform Chart of Accounts.

Recommendation – To facilitate financial reporting and to provide better control over budgeted disbursements and the opportunity for timely budget amendments, the City should classify disbursements by function in accordance with the recommended Uniform Chart of Accounts.

City of Hospers

Detailed Recommendations

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

- (I) Payment of General Obligation Bonds – 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 taxes must be deposited in the debt service fund.” The City paid its general obligation capital loan notes from funds other than the Debt Service Fund.

Recommendation – General obligation debt payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

- (J) Payroll – The following were identified:

- (1) Although time cards are maintained for all employees, the time cards were not always reviewed and approved by appropriate supervisory personnel prior to the preparation of payroll.
- (2) City Council approval of wage rates was not documented in the City Council meeting minutes.

Recommendation – Time cards should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of review. Employee wage rates should be documented in the City Council meeting minutes and should be approved as a salary or an hourly rate, not as a percentage increase.

- (K) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (L) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (M) Interfund Transfers – The City transfers money to and from various funds periodically. However, these transfers were not always approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all interfund transfers prior to the actual transfer and document transfer approval and amounts as part of the minutes records.

- (N) Untimely Deposits – Seventeen intergovernmental receipts tested were not deposited timely.

Recommendation – The City should establish procedures to ensure receipts are deposited timely.

City of Hospers

Detailed Recommendations

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

- (O) 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 fiscal year 2016 Annual Financial Report (AFR) ending fund balances were greater than the City’s records by \$9,805 and total receipts and disbursements reported on the AFR were greater than the City’s records by \$6,644 and \$33,252, respectively.

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

- (P) Annual Urban Renewal Report – The tax increment financing (TIF) disbursements, beginning balance and ending cash balance reported on the Levy Authority Summary do not agree with the City’s records.

Recommendation – The City should ensure the TIF amounts reported on the Levy Authority Summary agree with the City’s records.

- (Q) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has TIF debt outstanding of \$43,505 at June 30, 2015. However, the amount reported on the Annual Urban Renewal Report as the TIF cash balance as of June 30, 2015 is \$239,245, \$195,740 in excess of the TIF debt outstanding. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted the County Treasurer and allocated to the respective taxing districts.

In addition, the City credited TIF receipts to the General Fund rather than to a special revenue TIF fund as required by 403.19 of the Code of Iowa.

Recommendation – The City should record all TIF receipts in a special revenue fund, as required. The City should also consult legal counsel to determine the disposition of the excess TIF receipts, including whether the TIF receipts in excess of TIF indebtedness should be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

City of Hospers

Detailed Recommendations

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

- (R) Separately Maintained Records – The City of Hospers Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records. In addition, the Library has an authorized petty cash amount of \$300 which is not included in the City’s accounting records.

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.

- (S) Capital Projects – Capital projects were not accounted for in a separate capital projects fund.

Recommendation – To properly track capital projects and improve financial reporting, the City should account for capital projects in a separate capital projects fund.

- (T) Local Option Sales Tax – The local option sales tax (LOST) ballot requires 25% of LOST collections be allocated for property tax relief, 50% for community programs and services and 25% for economic development. During the year, LOST disbursements were not tracked in a manner which documented compliance with the LOST ballot referendum.

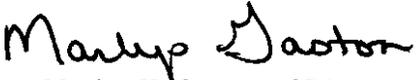
Recommendation – The City should implement procedures to ensure LOST disbursements are used in accordance with the ballot.

City of Hospers

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager  
Ryan J. Pithan, CPA, Senior Auditor  
Cody J. Pifer, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director