



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 9, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Holland, Iowa for the period July 1, 2016 through June 30, 2017. 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. In addition, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

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/1722-0357-EPOP>.

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CITY OF HOLLAND
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017

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City of Holland

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Scott Borchardt	Mayor	Jan 2016	Jan 2018
Steve Cox	Council Member	Jan 2014	Jan 2018
Todd Hansen	Council Member	Jan 2014	Jan 2018
Jerry Schoolman	Council Member	Jan 2016	Jan 2020
Dan Blythe	Council Member	Jan 2016	Jan 2020
Charles Kruse	Council Member	Jan 2016	Jan 2020
Kristy Sawyer	City Clerk/Treasurer		Indefinite
Erica Allen	Attorney		Indefinite

City of Holland



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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 Holland for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Holland's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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 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.

8. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
9. 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.
10. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Holland 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

October 11, 2017

Detailed Recommendations

City of Holland

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

(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, recording and reconciling.
- (2) Receipts – opening mail, collecting, depositing, recording, posting and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting, recordkeeping for accounts receivable and write-offs.

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 – The cash balances in the City’s general ledger were reconciled to bank account balances monthly, but the reconciliations were not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure bank account reconciliations are reviewed by an independent person. The review should be documented by signing or initialing and dating the monthly reconciliations.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – While utility billings, collections and delinquent accounts were reconciled monthly, there is no evidence of independent review of the utility reconciliations.

Recommendation – The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts each month. Reviews of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(D) 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.

City of Holland

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (E) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the culture and recreation and general government 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.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dan Blythe, Council Member, owner of Blythe Sanitation	City sanitation and recycling services	\$ 5,940

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

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

- (G) Questionable Disbursements – During the year, \$200 was disbursed for two \$100 gift cards. These disbursements may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

- (H) Disbursements – Supporting documentation for one of thirty transactions tested could not be located. In addition, a claims payable voucher is attached to each invoice for City Council approval, however the vouchers are not signed to evidence approval.

Recommendation – The City should ensure all disbursements are properly supported by an invoice or other supporting documentation. Also, the City Council should evidence approval of each claim by signing and dating the claims payable voucher attached to each invoice.

City of Holland

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (I) Transfers – Transfers between funds were not approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and amount(s) as part of the minutes records.

- (J) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa 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 does not receive an image of the back of each cancelled check.

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

- (K) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

- (L) Authorized Pay – City ordinance established the salary of the Mayor at \$1,200 per year payable annually. However, beginning in January 2012, the Mayor is paid \$100 monthly rather than annually.

Recommendation – The City should comply with the City ordinance and pay the Mayor annually rather than monthly.

- (M) 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 and City Clerk’s reports reported receipts, disbursements and fund balances which did not agree with City records.

Recommendation – The City should establish procedures to ensure the monthly City Clerk’s reports and the Annual Financial Report reconcile to the City’s records, including all investment and Fire Department accounts.

- (N) Fire Service – The City and the Colfax Township collaborate for fire service. The transactions and resulting balances of these accounts are included in the Township’s accounting records. According to the City Clerk, the Township provides the equipment and maintenance and the City provides the building to house the equipment. With the exception of \$500 provided annually by the City, the fire service is funded by the Colfax Township. An agreement established in accordance with Chapter 28E of the Code of Iowa would permit the establishment of a jointly operated entity. An existing agreement could not be located.

Recommendation – The City and the Township should enter into a 28E agreement to formalize the fire services and provide for the rights and responsibilities of each party.

City of Holland

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (O) Community Club Donation – In June 2017, the City approved transferring \$300 to the newly formed Holland Community Club, a volunteer non-profit organization. The \$300 was subsequently repaid to the City.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a non-profit organization. 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."

Recommendation – In the future, the City should not provide public funds to private non-profit organizations in accordance with of Article III, Section 31 of the Constitution of the State of Iowa.

- (P) Monthly City Clerk's Report – In November 2016, local option sales tax receipts totaling \$1,647 were recorded in the City's records as road use tax receipts.

In addition, the monthly City Clerk's reports do not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – The City should establish procedures to ensure all receipts are properly recorded. Also, the City should establish procedures to ensure monthly City Clerk's reports include a comparison of total disbursements for all funds to the certified budget by function.

- (Q) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states in part, "Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer's tenure in office, but may be reimbursed for actual expenses incurred."

For the period reviewed, a City Council Member was paid \$4,658 for City maintenance and mowing services. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits an elected official from receiving compensation as a City employee while serving as a Council Member.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including consideration of seeking reimbursement for the \$4,658 improperly paid to the Council Member for maintenance and mowing services.

- (R) Disaster Recovery Plan – The City does not have a written disaster recovery plan for financial data.

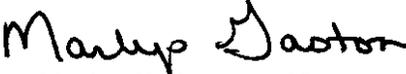
Recommendation – The City should develop a written disaster recovery plan. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, weekly back up of computer files, copies of user documentation and the disaster recovery plan should be maintained at an off-site location.

City of Holland

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Eileen D. Loomis, Staff Auditor
Elin M. Landgren, Assistant Auditor


Marlys K. Gaston, CPA
Director