



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

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NEWS RELEASE

FOR RELEASE

January 25, 2019

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Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Stanhope's Periodic Examination Report dated July 18, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2017 through March 31, 2018.

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 indicate the City Council needs to exercise additional fiduciary oversight. While two of the seven findings reported in the Periodic Examination Report dated July 18, 2016 have been corrected and one has been partially corrected, four of the findings are reported as "not corrected." Three additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Stanhope's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF STANHOPE

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

**FOR THE PERIOD
JUNE 1, 2017 THROUGH MARCH 31, 2018**

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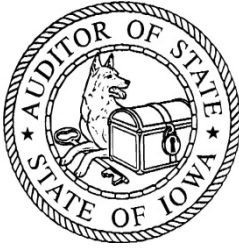
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City of Stanhope

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Harold Hove	Mayor	Jan 2018	Jan 2020
Susan Moore	Council Member	Jan 2016	Jan 2020
Roger Hayes, Jr.	Council Member	Jan 2016	Jan 2020
Nila Zanker	Council Member	Jan 2016	Jan 2020
Crystal Renze	Council Member	Jan 2018	Jan 2022
Terry Painton	Council Member	Jan 2018	Jan 2022
Jessica Murray	City Clerk/Treasurer		Indefinite
Meredith Mahoney Nerem	Attorney		Indefinite

City of Stanhope



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Auditor of State's Independent 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 July 18, 2016 on the City of Stanhope, Iowa covering the period April 1, 2015 through March 31, 2016 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 July 18, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2017 through March 31, 2018.

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 indicate the City Council needs to exercise additional fiduciary oversight.

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.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated July 18, 2016. 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 Stanhope during the course of our follow-up procedures engagement. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Rob Sand".

ROB SAND
Auditor of State

January 3, 2019

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

City of Stanhope

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

Findings Reported in the Periodic Examination Report dated July 18, 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) 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, posting and maintaining detailed accounts receivable and write-off records.
 - (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (6) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
 - (7) Debt – recordkeeping, compliance and debt payment processing.
 - (8) 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.

Current Status – Not corrected. The recommendation is repeated.

- (B) Monthly City Clerk's Report – A monthly City Clerk's report, including a summary of receipts, disbursements, transfers and balances for each fund is prepared. However, the report is not provided to the City Council for review. In addition, a comparison of actual disbursements to budget by function is not provided to the City Council.

Recommendation – A monthly City Clerk's report, including a summary of receipts, disbursements, transfers and balances for each fund should be provided to the City Council. In addition, a comparison of actual disbursements to budget by function should be provided to the City Council for review.

Current Status – Partially corrected. During the period reviewed, a monthly City Clerk's report, including a summary of receipts, disbursements, transfers and balances for each fund, was provided to the City Council. Also, while the City Council was provided a comparison of actual disbursements to budget by fund, a comparison of actual disbursements to the certified budget by function was not provided. The recommendation is partially repeated.

City of Stanhope

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

- (C) Bank Reconciliations – Bank reconciliations are prepared for the City’s main checking account. However, bank reconciliations are not prepared for the following City accounts: the Community Center Building account, the Fitness Center account, the DBA First Responders account and the Stanhope Fire Department account. In addition, bank reconciliations are not provided to the City Council for review.

Recommendation – Bank reconciliations should be prepared for all City accounts and provided to the City Council for review monthly.

Current Status – Not corrected. While the Community Center Building account was closed in February 2018 and the recommendation is, therefore, no longer valid for the account, the recommendation is repeated for the remaining accounts. In addition, see finding (H).

- (D) 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 which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Corrected. On October 11, 2016, the City adopted a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (E) Long-term Debt – Principal and interest on the City’s general obligation corporate purpose bonds were paid from the Special Revenue, Local Option Sales Tax Fund and the 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.”

Recommendation – The City should transfer from the Special Revenue, Local Option Sales Tax and Enterprise, Water Funds to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

Current Status – Not corrected. Although a transfer resolution was passed during the period reviewed, principal and interest payments related to the City’s general obligation bonds were budgeted for and paid from the Special Revenue, Local Option Sales Tax Fund and the Enterprise, Water Fund.

- (F) Financial Condition – The Enterprise, Water Fund had a deficit balance of \$3,645 at June 30, 2015.

Recommendation – The City should investigate alternatives to eliminate the deficit to return the fund to a sound financial condition.

Current Status – Not corrected. The Enterprise, Water Fund had a deficit balance of \$62,843 at March 31, 2018. In addition, see finding (J).

City of Stanhope

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

- (G) Disbursements – Supporting documentation for disbursements is not properly canceled to prevent reuse. A claim report showing approval and payment of the claims is attached to each invoice, but the report is easily removable.

Recommendation – The City should implement procedures to ensure invoices are properly canceled to prevent reuse.

Current Status – Corrected. During the period reviewed, supporting documentation for disbursements were stamped ‘Paid’ to prevent reuse and were attached to a claim report showing approval and payment of the claim.

Additional Findings as a Result of Follow-up Procedures:

- (H) Separately Maintained Records – 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.”

The Stanhope Fire Department, the Stanhope First Responders and the Stanhope Fitness Center maintain bank accounts separate from the City Clerk’s accounting records. While these department are part of the City, the transactions for these accounts are not included in the City’s annual budget, monthly financial reports or Annual Financial Report.

In addition, the transactions of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department, First Responders and Fitness Center separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (I) Electric Revenue Bonds – The City issued \$1,345,000 in Electric Revenue Bonds on July 6, 2016 to finance an electrical substation project. A portion of the net proceeds, \$1,181,323, were recorded in the City’s Capital Projects Fund rather than the City’s Enterprise, Electrical Fund.

The remainder of the net proceeds, or \$95,958, were credited to the City’s Enterprise, Electrical Fund to establish a reserve account. However, these proceeds were reported as charges for service receipts in the City’s fiscal year 2017 Annual Financial Report, rather than proceeds of long-term debt.

City of Stanhope

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

Recommendation – The City should ensure Electric Utility debt proceeds and the related disbursements are recorded the Enterprise, Electric Fund. The debt proceeds used to establish a reserve account should have been reported as “other financing sources” in accordance with the Uniform Chart of Accounts.

- (J) Deficit Balances – At March 31, 2018, the General and Debt Service Funds had deficit balances of \$86,098 and \$5,516, respectively.

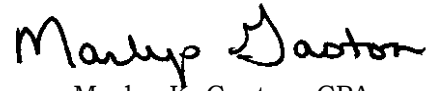
Recommendation – The City should investigate alternatives to eliminate these deficits and return the funds to a sound financial condition.

City of Stanhope

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Brandon J. Vogel, Senior Auditor II


Marlys K. Gaston, CPA
Deputy Auditor of State