



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

April 21, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Hospers, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported seven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 and 8 of this report. The findings address issues such as a lack of segregation of duties, disbursements exceeding budgeted amounts, and the lack of tracking the use of local option sales tax receipts. Sand provided the City with recommendations to address each of the findings.

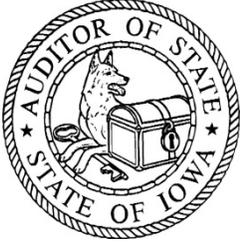
Six of the seven findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

###

CITY OF HOSPERS
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Hospers



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

March 25, 2021

Officials of the City of Hospers
Hospers, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Hospers, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Hospers throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

Table of Contents

| | <u>Page</u> |
|--|----------------|
| Officials | 3 |
| Auditor of State's Independent Report on Applying Agreed-Upon Procedures | 4-5 |
| Detailed Findings and Recommendations: | <u>Finding</u> |
| Segregation of Duties | A 7 |
| Disbursements | B 7 |
| Local Option Sales Tax | C 7 |
| Certified Budget | D 8 |
| Payroll | E 8 |
| Transfers | F 8 |
| Reconciliation of Utility Billings, Collections and Delinquent Accounts | G 8 |
| Staff | 9 |

City of Hospers

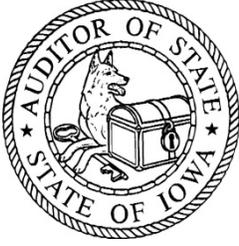
Officials

(Before January 2020)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|----------------------|---------------------|
| Dan Dykstra | Mayor | Jan 2022 |
| Arnie Vander Wilt | Council Member | Nov 2019 |
| Mandi Kramer | Council Member | Jan 2020 |
| Kelly Schulz | Council Member | Jan 2020 |
| Mandy Boersma | Council Member | Jan 2022 |
| Michael Thompson | Council Member | Jan 2022 |
| Heidi Kramer | City Clerk/Treasurer | Indefinite |
| Micah Schreurs | Attorney | Indefinite |

(After January 2020)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|----------------------|---------------------|
| Dan Dykstra | Mayor | Jan 2022 |
| Mandy Boersma | Council Member | Jan 2022 |
| Michael Thompson | Council Member | Jan 2022 |
| Mandi Kramer | Council Member | Jan 2024 |
| Arnie Vander Wilt | Council Member | Jan 2024 |
| Kurt Zevenbergen | Council Member | Jan 2024 |
| Heidi Kramer | City Clerk/Treasurer | Indefinite |
| Micah Schreurs | Attorney | Indefinite |



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Hospers for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Hospers'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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

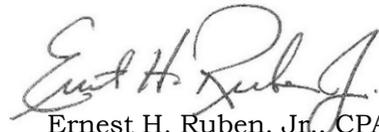
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. We traced selected disbursements to 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 traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 findings and 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 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.


Ernest H. Ruben, Jr., CPA
Director

March 25, 2021

Detailed Findings and Recommendations

City of Hospers

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions 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) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.

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) Disbursements – For five of thirty-six disbursements traced, the City paid sales tax totaling \$26. In addition, one credit card transaction traced included a late fee of \$12.

Recommendation – The City should develop procedures to ensure sales tax is not paid on purchases. In addition, the City should ensure all payments are made timely to avoid late fees.

(C) 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 to document compliance with the LOST ballot referendum.

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

City of Hospers

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (D) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government, capital projects, and business type activities functions prior to the June 15, 2020 budget amendment. In addition, disbursements exceeded the amount budgeted in the public safety and culture and recreation functions at June 30, 2020. 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.

- (E) Payroll – The City paid the City Clerk an additional \$100 a month to serve as the ambulance secretary and an additional \$17 a week to clean City Hall. However, approval for the additional pay was not documented in the City Council meeting minutes.

Recommendation – Additional employee pay should be approved by the City Council and the approval should be documented in the City Council meeting minutes.

- (F) Transfers – Rule 545-2 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the affected funds and the dollar amount to be transferred. The City made transfers between funds totaling \$176,773 which were not approved by resolution.

Recommendation – The City Council should ensure all transfers are approved by resolution prior to the actual transfer, as required.

- (G) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although the City prepares a utility billings, collections and delinquent accounts reconciliation on a monthly basis, the delinquent listing documentation was not retained.

Recommendation – The City should establish procedures to retain the delinquent account listing to support the utility reconciliation.

City of Hospers

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Tiffany M. Ainger, CPA, Manager
Craig S. Miller, Staff Auditor
Sally S. Downing, Assistant Auditor