



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

July 7, 2015

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Hills, Iowa for the period October 1, 2013 through September 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City strengthen its internal controls to obtain the maximum internal control possible. The City should also ensure monthly bank and utility reconciliations are performed. The City should recover funds remaining from the Hills Fire Fighters Association, including all contributions and bequests donated to the City Volunteer Fire Department along with income derived from the investment of those funds from the time they were remitted to the Association.

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 <http://auditor.iowa.gov/reports/1421-0482-EP0P.pdf>.

###

CITY OF HILLS

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2014

Table of Contents

		<u>Page</u>
Officials		3
Independent Accountant’s Report on Applying Agreed-Upon Procedures		5-6
Detailed Recommendations:	<u>Finding</u>	
Segregation of Duties	A	8
Bank Reconciliations	B	8
Fire Fighters Association Donations	C	9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D	10
Utility Rates	E	10
Dual Signatures on Checks	F	10
Monthly City Clerk’s Report	G	10
Annual Financial Report	H	10
City Council Meeting Minutes	I	11
Certified Budget	J	11
Business Transactions	K	11
Financial Condition	L	12
Payroll	M	12
Lack of Written Policies and Procedures	N	12
Unrecorded Investment Interest	O	12
Disbursements	P	12
Staff		13

City of Hills

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
Tim Kemp	Mayor	Jan 2016
Bruce Endris	Council Member	Jan 2014
Thomas Kirkpatrick	Council Member	Jan 2014
Steve Harris	Council Member	Jan 2016
Merle Hill	Council Member	Jan 2016
Cathy Knebel	Council Member	Jan 2016
Bonnie Hansen	City Clerk	Indefinite
Erek Sittig	Attorney	Indefinite
<u>(After January 2014)</u>		
Tim Kemp	Mayor	Jan 2016
Steve Harris	Council Member	Jan 2016
Merle Hill	Council Member	Jan 2016
Cathy Knebel	Council Member	Jan 2016
Bruce Endris	Council Member	Jan 2018
Thomas Kirkpatrick	Council Member	Jan 2018
Bonnie Hansen	City Clerk	Indefinite
Erek Sittig	Attorney	Indefinite

City of Hills



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Hills for the period October 1, 2013 through September 30, 2014. The City of Hills' 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 2014 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 receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 audit of the City of Hills, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Hills, 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 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 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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 6, 2014

Detailed Recommendations

City of Hills

Detailed Recommendations

For the period October 1, 2013 through September 30, 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.

(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.

City of Hills

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

- (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.

City of Hills

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

- (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.

- (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.

- (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.

- (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.

- (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.

City of Hills

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

(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.

(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.

(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.

City of Hills

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

- (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.

- (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.

- (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.

- (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.

- (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.

City of Hills

Staff

This agreed-upon procedures engagement was performed by:

Brian R. Brustkern, CPA, Manager
Jesse J. Probasco, CPA, Staff Auditor
Christian E. Cottingham, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State