

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

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

January 22, 2018

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Houghton, Iowa for the period April 1, 2016 through March 31, 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. The City should also establish procedures to ensure bank and utility reconciliations are prepared monthly and are independently reviewed and the Annual Financial Report is accurate.

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/1622-0532-EPOP>.

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**CITY OF HOUGHTON**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
APRIL 1, 2016 THROUGH MARCH 31, 2017**

## 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
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C	8
Monthly City Clerk’s Report	D	9
Deposit and Investment Policies	E	9
Restrictive Endorsement and Timely Deposits	F	9
City Council Meeting Minutes	G	9
Certified Budget	H	9-10
Questionable Disbursements	I	10
Disbursements	J	10
Pre-numbered Receipts	K	11
Fire Department Donation	L	11
Annual Financial Report	M	11
Chart of Accounts	N	11
Delinquency Charge	O	11
Staff		12

**City of Houghton**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Cathy Schwartz	Mayor	Mar 2016	Nov 2017
Terrell Wilson	Council Member	Jan 2016	Jan 2018
Geoff Overton	Council Member	Jan 2016	Jan 2018
Michael Perrenoud	Council Member	Jan 2016	Jan 2018
Arthur Kruse	Council Member	Jan 2016	Jan 2018
Christy Schwartz	Council Member	Feb 2016	Nov 2017
Jessica Moeller	City Clerk		Indefinite
James Becker	Attorney		Indefinite

**City of Houghton**



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Independent Accountant's Report on Applying Agreed-Up 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 Houghton for the period April 1, 2016 through March 31, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Houghton'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 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 and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
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 Houghton 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

November 6, 2017



## **Detailed Recommendations**

City of Houghton

Detailed Recommendations

For the period April 1, 2016 through March 31, 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) Investments – custody, posting and recording.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
- (5) Payroll – recordkeeping and preparing.
- (6) Utilities – billing, collecting, posting, depositing and posting.

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 – A complete bank reconciliation, including investments, was not prepared. Also, the reconciled check register balances were not compared to the City's general ledger balances because, while the City maintains receipts and disbursements by fund, individual fund balances are not maintained.

Recommendation – To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and compared to the general ledger balances by fund and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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 Houghton

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

- (D) Monthly City Clerk's Report – The monthly City Clerk's reports approved by the City Council do not include fund balances or a comparison of actual to budgeted disbursements by function. In addition, the November 2016 local option sales tax (LOST) receipts of \$947 were incorrectly recorded as road use tax receipts and road use tax receipts of \$1,435 were incorrectly recorded as LOST receipts.

Recommendation – The City Clerk should prepare monthly City Clerk's reports which include a summary of receipts, disbursements, transfers and balances by fund. Also, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk's monthly financial reports to the City Council should include comparisons of actual disbursements to the certified budget by function. In addition, the City should develop procedures to ensure all receipts are properly recorded in the general ledger.

- (E) Deposit and Investment Policies – 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) Restrictive Endorsement and Timely Deposits – Checks are not restrictively endorsed immediately upon receipt. Also, during our review of cash on hand we noted checks dated three weeks or more prior to our review.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt and should be deposited timely.

- (G) City Council Meeting Minutes – Minutes for three City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa. In addition, the approval to hire and the starting wages for the current City Clerk were not documented in the City Council meeting minutes.

Recommendation – The City should ensure all meeting minutes are signed, as required. In addition, the approval to hire and the pay rates for all City employees should be documented in the City Council meeting minutes.

- (H) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the health and social services and culture and recreation 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."

Also, Chapter 384.16(3) of the Code of Iowa requires the City Council to set a time and place for a public hearing on the budget before the final certification date and to publish (or post in three public places if the City's population is less than 200) notice of the hearing not less than ten nor more than twenty days before the hearing. The City Council approved holding a public hearing on February 28, 2017 for the fiscal year 2018 budget

City of Houghton

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

and notice of this hearing was posted on February 15, 2017. However, because City Council meeting minutes were not prepared or available documenting a February 28, 2017 public hearing, as required by Chapter 21.3 of the Code of Iowa, we were unable to verify whether a public hearing was held, as required. In addition, Chapter 384.16(5) of the Code of Iowa requires adoption of the budget by resolution. The City did not document or approve a resolution to establish the fiscal year 2018 budget, as required.

Because the City could not provide documentation a public hearing was held prior to adoption of the budget and because the budget was not adopted by resolution of the City Council, it does not appear the City's fiscal year 2018 budget is valid.

Recommendation – The fiscal year 2016 budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

The City should consult legal counsel to determine the disposition of the potentially invalid fiscal year 2018 budget. Also, the City should establish procedures to ensure meeting minutes are prepared and retained for all City Council meetings and public hearings, as required. In addition, the budget should be adopted by resolution, as required.

- (I) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Gale Thompson	Easter egg supplies	\$ 24
Mt. Hamill Tap	Christmas party, including alcoholic beverages	169
Staats	Retirement plaque	20
Christy Schwartz	Retirement party	133

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. It was unclear how the purchase of alcohol would serve a public purpose.

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 requirement for proper documentation of public purpose. Disbursements should not be approved if the public purpose is not served.

- (J) Disbursements – Supporting documentation for two transactions could not be located.

Recommendation – All disbursements should be supported by invoice or other supporting documentation.

City of Houghton

Detailed Recommendations

For the period April 1, 2016 through March 31, 2017

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

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all receipts. These receipts should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (L) Fire Department Donation – In September 2016, the City approved a donation of \$500 to the Houghton Volunteer Fire Department (Association), a Chapter 504 non-profit corporation.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a 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.”

Recommendation – We are not aware of any statutory authority for the City to provide public funds to a separate non-profit corporation. The City should seek reimbursement of the \$500 paid to this corporation.

- (M) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The City’s AFR reported receipts, disbursements, and ending fund balances which did not agree with the City’s financial records. Also, total payroll disbursements of \$7,825 reported on the last page of the AFR were not supported by City records.

Also, the City maintains a separate checking account for the Enterprise, Sewer Fund however the receipts, disbursements and balances are not reported in the AFR and are not included in the City’s budget.

Recommendation – The City should ensure future Annual Financial Reports are supported by the City’s records. Also, all City funds should be included in the AFR and the City’s budget, including the Enterprise, Sewer Fund.

- (N) 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.

- (O) Delinquency Charge – The City’s sewer ordinance requires a 10% delinquency charge on overdue sewer bills, however, the ordinance is not enforced by the City.

Recommendation – The City should ensure delinquency fees on overdue accounts are appropriately charged in accordance with the City’s ordinance.

City of Houghton

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Eileen D. Loomis, Staff Auditor

  
Marlys K. Gaston, CPA  
Director