



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

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**NEWS RELEASE**

FOR RELEASE

March 29, 2019

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Contact: Marlys Gaston  
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, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain the maximum internal control possible. The City should also seek reimbursement of \$27,567 which was turned over to the Hospers Firefighters Association, Inc. in May of 2018.

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/reports/audit-reports/>.

# # #

**CITY OF HOSPERS**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2017 THROUGH JUNE 30, 2018**

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**City of Hospers**

**Officials**

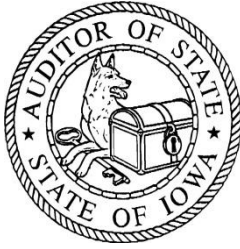
**(Before January 2018)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Harlan Rouse	Mayor	Jan 2018
Danielle Kleinhesselink	Council Member	Jan 2018
Benjamin Whitmore	Council Member	Jan 2018
Mandi Kramer	Council Member	Jan 2020
Raul Martinez	Council Member	(Resigned Aug 2017)
Arnie Vander Wilt (Appointed Nov 2017)	Council Member	Nov 2019
Kelly Schulz	Council Member	Jan 2020
Heidi Kramer	City Clerk/Treasurer	Indefinite
Micah Schreurs	Attorney	Indefinite

**(After January 2018)**

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

**City of Hospers**



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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 tests and procedures to selected accounting records and related information of the City of Hospers for the period July 1, 2017 through June 30, 2018, 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 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 2018 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 tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. We reviewed voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 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.



ROB SAND  
Auditor of State

February 26, 2019

## **Detailed Recommendations**



City of Hospers

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(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, including journal entries, 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) Journal entries – preparing and recording.
- (8) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (9) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (10) Computer system – performing all general accounting functions and controlling all data input and output.
- (11) Financial reporting – preparing and reconciling.

For the Hospers Area Fire Department accounts, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording 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.

(B) 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.

City of Hospers

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (C) 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 should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Monthly City Clerk’s Report – The City Clerk’s reports to the City Council do not include comparisons of actual disbursements to the certified budget by function or a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk’s reports to the City Council should include comparisons of actual disbursements to the certified budget by function. Also, for better financial information, the monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (E) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements from each fund and a summary of all receipts. Minutes publications for four meetings tested did not include total disbursements for each fund or a summary of all receipts.

Recommendation – The City should comply with the Code of Iowa and publish a summary of receipts and total disbursements by fund, as required.

- (F) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public safety, 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.

- (G) Disbursements – The City does not classify disbursements by function in accordance with the recommended Uniform Chart of Accounts.

Recommendation – To facilitate comparisons of the certified budget to disbursements at the function level (i.e. legal level of budget control) and to provide better control over budgeted disbursements and the opportunity for timely budget amendments, the City should classify disbursements by function in accordance with the recommended Uniform Chart of Accounts.

City of Hospers

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (H) 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...” At June 30, 2018, the City’s AFR included receipts, disbursements, and ending fund balances which did not agree to the City’s records, including the June 2018 City Clerk’s report.

The governmental funds ending fund balance at June 30, 2018 was overstated by \$14,007 and the proprietary funds ending fund balance at June 30, 2018 was understated by \$22,668. In total, the ending fund balance for the fiscal year 2018 AFR was understated by \$8,662 when compared to the bank balance. The understatement of \$8,662 was the result of \$2,875 of certificate of deposit (CD) interest which was not recorded in the City’s general ledger or AFR, and \$5,787 of accrued payroll expense which was recorded in the City’s general ledger and AFR for fiscal year 2018. Disbursements which have not been paid as of June 30<sup>th</sup> (i.e. accounts payable) should not be reported as disbursements in the cash basis general ledger or AFR.

Recommendation – The City should establish procedures to ensure future Annual Financial Reports agree to the City’s records, including the City Clerk’s reports.

- (I) Payroll – The approved wage rate for lifeguards for fiscal year 2018 was not included in the City Council meeting minutes. Also, the City did not retain timesheets for a part-time library assistant and the auditor was unable to verify hours worked for the employee. In addition, the City pays employees \$35 to clean the City Library, however, the rate of pay was not documented and approved in the City Council meeting minutes.

Recommendation – Approved wage rates for employees should be documented in the City Council meeting minutes. Also, timesheets should be reviewed, approved and retained for all employees.

- (J) Journal Entries and Transfers – Journal entries made directly to the general ledger were not approved by the City Council. In addition, actual transfers between funds made during fiscal year 2018 exceeded the amount approved by the City Council in the fiscal year 2018 budget by \$2,191.

Recommendation – The City Council should review and approve all journal entries and transfers to ensure they are reasonable and supported.

- (K) Untimely Deposits – Nine intergovernmental receipts tested were not deposited timely (i.e. weekly).

Recommendation – The City should establish procedures to ensure all receipts are deposited timely.

- (L) Annual Urban Renewal Report – The tax increment financing (TIF) disbursements and ending cash balance reported on the Annual Urban Renewal Report (AURR) Levy Authority Summary do not agree with the City’s records. In addition, the AURR was not submitted on or before December 1, and was not approved by the City Council until January 2, 2018.

City of Hospers

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City’s records. In addition, the City Council should properly approve the AURR report prior to certifying the report and the report should be certified on or before December 1, as required.

- (M) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has TIF debt outstanding of \$4,000 at July 1, 2016. The general ledger TIF Fund cash balance at July 1, 2016 and June 30, 2017 was zero. However, the TIF debt outstanding reported on the Annual Urban Renewal Report (AURR) as of July 1, 2016 is \$301,919, \$297,919 in excess of TIF debt outstanding at that date. In addition, the TIF cash balance reported on the AURR at July 1, 2016 and June 30, 2017 are \$301,919 and zero, respectively. The TIF cash balance reported on the AURR as of July 1, 2016 is overstated by \$301,919.

Recommendation – The City should ensure the amounts reported on the Annual Urban Renewal Report agree with the City’s records.

- (N) 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.”

The City Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. While the Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of the accounts were not reported to the City Council and disbursements from these 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’s 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.

City of Hospers

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (O) Fire Fighter's Association – In May 2018, a separately maintained money market account (calendar account), held by the Hospers Area Fire Department was closed and the balance of \$27,567 was transferred to the Hospers Firefighters Association, Incorporated.

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."

In addition, a letter of advice from the Attorney General regarding "Transfer of public funds to private non-profit organization", dated April 22, 2008, state in part, "Past opinions of this office have consistently concluded that a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes and performs work which the government could perform directly." The letter also states the proceeds and related income are public funds and must be accounted for, deposited and invested pursuant to chapter 12B and 12C of the Code of Iowa and the investment policy of the City.

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 \$27,567 paid to the Association.

- (P) 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 which documented compliance with the LOST ballot referendum.

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

City of Hospers

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Manager  
Ryan J. Pithan, CPA, Senior Auditor II

  
Marlys K. Gaston, CPA  
Deputy Auditor of State