

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

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NEWS RELEASE

FOR RELEASE

March 24, 2020

Contact: Ernest Ruben, Jr.
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, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twelve findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of an independent review of utility reconciliations, disbursements exceeding budgeted amounts, a business transaction which may represent a conflict of interest, a construction project that was not competitively bid and a deficit fund balance. Sand provided the City with recommendations to address each of the findings.

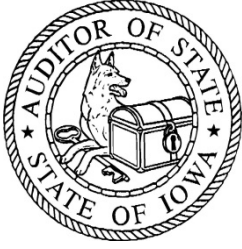
Eight of the twelve findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in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

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CITY OF HOSPERS
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Hospers



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March 10, 2020

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 year ended June 30, 2019. 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

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City of Hospers

Officials

<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



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Rob Sand
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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 procedures to selected accounting records and related information of the City of Hospers for the period July 1, 2018 through June 30, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Hospers' 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 2019 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. We traced voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
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 10, 2020

Detailed Findings and Recommendations

City of Hospers

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

(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.

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) 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 reconciliations were not reviewed by an independent person.

Recommendation – 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 Hospers

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (C) 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 one of 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.

- (D) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public safety, public works, community and economic development, general government and capital projects functions prior to the June 3, 2019 budget amendment. In addition, disbursements exceeded the amount budgeted in the capital projects function at June 30, 2019. 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) Journal Entries - Journal entries made directly to the general ledger were not approved by the City Council.

Recommendation – An independent person should review and approve journal entries. The review and approval should be documented by signing or initialing and dating the journal entries.

- (G) Transfers – Transfers between funds prior to April 17, 2019, exceeded the amount approved by the City Council by \$3,847.

In addition, effective April 17, 2019, 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. After April 17, 2019, the City made transfers between funds totaling \$46,628 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.

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

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

City of Hospers

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

(I) Deficit Balance – The Capital Projects Fund had a deficit balance of \$24,111 at June 30, 2019.

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

(J) Business Transactions – Business transactions between the City and City officials which may represent a conflict of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Arnie Vander Wilt, City Council Member, owner of Ten-Kredit Electric Inc.	Electrical work for shelter house	\$26,028

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

(K) Bidding Procedures – The City paid construction costs totaling \$307,459 at June 30, 2019 for a shelter house. A donor offered to pay a portion of the cost if, to the extent possible, local contractors were used. The City was responsible for reviewing and paying all construction bills and the donor reimbursed \$207,581 to the City. The City paid the remaining costs of the shelter.

Chapter 26.3 of the Code of Iowa states, in part, “If the estimated total cost of a public improvement exceeds the competitive bid threshold of one hundred thousand dollars, or the adjusted competitive bid threshold established in section 314.1B, the governmental entity shall advertise for sealed bids for the proposed public improvement.” The adjusted competitive bid threshold was \$135,000 for the calendar year beginning January 1, 2018. The City did not obtain competitive bids as required by Chapter 26.3 of the Code of Iowa.

Chapter 26.6 of the Code of Iowa states, “If private funds are offered to a governmental entity for a building or improvement to be used by the public and such funds are conditioned upon private construction of the building or improvement, this chapter shall not apply to the project if the governmental entity does not contribute any funds to such construction.”

Because City funds were used for a portion of the construction of the shelter house and the estimated cost exceeded \$135,000, the project should have been competitively bid.

Recommendation – The City should ensure all future contracts exceeding the competitive bid threshold are competitively bid as required by Chapter 26.3 of the Code of Iowa.

City of Hospers

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (L) 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

Staff

This engagement was performed by:

Ernest H. Ruben Jr., CPA, Director
Michelle B. Meyer, CPA, Manager
Ryan J. Pithan, CPA, Senior Auditor II
Tristan J. Swiggum, Assistant Auditor