



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

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NEWS RELEASE

FOR RELEASE

December 20, 2021

Contact: Ernest Ruben  
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Humeston, 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 twenty-one findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 13 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations, disbursements exceeding budgeted amounts, the annual financial report not agreeing with the City's general ledger and lack of proper controls over timesheets and discrepancies in the former Library Director's timesheets. Sand provided the City with recommendations to address each of the findings.

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 report has been filed with the Wayne County Attorney's office. 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 HUMESTON**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2018 THROUGH JUNE 30, 2019**

**City of Humeston**



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August 16, 2021

Officials of the City of Humeston  
Humeston, 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 Humeston, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6(3) 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 Humeston 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 Humeston**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
David Gunzenhauser	Mayor	Sept 2018	Nov 2019
Carlos Paugh (Appointed)	Council Member	Jan 2018	Nov 2019
Jeff Stiles	Council Member	Jan 2016	Jan 2020
Tyler Wilson (Appointed)	Council Member	Oct 2018	Nov 2019
Rae Dean Hughes	Council Member	Jan 2018	Jan 2022
Tim Myers	Council Member	Jan 2018	Jan 2022
Courtney Peasley	City Clerk/Treasurer		Indefinite
Verle Norris	City Attorney		Indefinite

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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 Humeston 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 Humeston'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 City of Humeston's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa recommendations. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

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 2018 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. 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.
9. The City had no TIF.
10. We traced selected receipts for accurate accounting and consistency with the recommended COA.
11. The City had no voter approved levies.
12. We traced 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.
13. The City had no transfers.
14. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
15. 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 engaged by the City of Humeston's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Humeston and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 Humeston 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.

A handwritten signature in black ink, appearing to read "Ernest H. Ruben, Jr." with a stylized flourish at the end.

Ernest H. Ruben, Jr. CPA  
Director

August 16, 2021

**Detailed Findings and Recommendations**

City of Humeston

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) Cash – handling, reconciling and recording.
- (2) Investments – detailed recordkeeping, custody, and reconciling.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Debt – recordkeeping and debt payment processing.
- (8) Journal entries – preparing and recording.

For the First Responders, all accounting functions are handled by one or two individuals without adequate compensating controls.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and First Responders should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – Although bank reconciliations were prepared for individual bank accounts and investments, the reconciliations did not contain evidence of independent review.

Recommendation – An independent person should review the bank reconciliations and document the review by signing or initialing and dating the monthly bank reconciliations.

(C) First Responders Bank Reconciliation – The First Responders maintain bank accounts for activity separate from the City Clerk's accounting records. Reconciliations of the bank balances to the book balances were not prepared.

Recommendation – The First Responders should establish procedures to ensure bank account balances are reconciled to the book balance monthly. The reconciliations should be reviewed by an independent person. The independent review should include the signature or initials of the reviewer and the date of the review.

City of Humeston

Detailed Findings and Recommendations

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

- (D) Deficit Balances – At June 30, 2019, the General Fund and the Enterprise, Garbage/Recycle Fund had deficit balances of \$63,784 and \$68,572, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial condition.

- (E) Library Disbursements – Two of eight disbursements traced were not properly supported by an invoice. In addition, two disbursements traced did not include Library Board approval.

Recommendation – The City should ensure Library disbursements are properly supported and approved.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout theyear.

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. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (G) Payroll – There was no evidence one of six employee hourly wage rates was approved by the City Council. Also, for four of five City Clerk timesheets traced, the hours paid were not properly supported. Also, timesheets for Library employees were not independently reviewed.

Recommendation – All approved employee salaries and hourly wage rates should be documented in the City Council meeting minutes. The City should ensure hours paid agree to employee timesheets. An independent person should compare hours paid to employee timesheets and this review should be documented by the signature or initials of the reviewer and the date of the review. Library employee timesheets should be approved by supervisory personnel prior to preparation of payroll.

- (H) Former Library Director Timesheets – Amanda Anderson was hired as the Library Director on October 12, 2015. During August 2019, the City Clerk identified timesheet discrepancies when combining the hours reported for each day and the total hours reported on each timesheet for the Library Director. The total hours reported on the Library Director timesheets were in excess of the daily combined actual hours worked. The spreadsheet formula to calculate the total hours for each timesheet had been removed and a total number of hours was entered. The City Clerk reviewed the Library Director's timesheets from June 22, 2017 to August 14, 2019 and prepared a summary of the discrepancies. There were no discrepancies in the Library Director's timesheets prior to the pay period beginning June 7, 2018. We compared the City Clerk prepared summary and Library Director's timesheets to confirm the Library Director was paid 161 hours more than recorded as worked during that period. The total amount of overpayment of wages during this period was \$2,196.80, including FICA of \$143.55 and IPERS of \$176.75. Ms. Anderson's employment was terminated effective September 5, 2019.

Recommendation – The City should develop procedures to ensure timesheets are accurate and hours paid agree to total actual hours worked. Pursuant to Iowa Code 11.53, a copy of this report will be filed with the Wayne County Attorney.

City of Humeston

Detailed Findings and Recommendations

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

- (I) Depository Resolution – The City has not adopted a resolution naming official depositories as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – 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.

- (J) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public safety, culture and recreation, general government, and business type activities 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.

- (K) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (L) Library and City Fitness Center Receipts – The City does not issue prenumbered receipts for all collections.

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

- (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...” We noted the following regarding the City’s 2018 AFR:

- The ending fund balances did not agree to City records. The reported governmental funds ending balance was \$6,544 lower than the City’s records. The reported proprietary funds ending balance reported was \$128,217 higher than the City’s records.
- Certain receipts and disbursements did not agree with City records.
- The budgeted disbursements reported on the AFR did not agree with the City’s certified budget for the public safety, public works, culture and recreation, general government, and business type activities functions.

Recommendation – The City should establish procedures to ensure the AFR beginning and ending fund balances and receipts and disbursements agree with City records. Also, the budget amounts reported on the AFR should represent the final or amended budget.

City of Humeston

Detailed Findings and Recommendations

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

- (N) Credit Cards – The City has not adopted a credit card policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

- (O) City Council 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, including a summary of receipts and total disbursements by fund. A summary of receipts and total disbursements by fund were not included in the published City Council minutes.

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

- (P) Sewer Revenue Note – The following were noted:

- (1) The City's sewer revenue note resolution requires a sinking account be established and payments are to be made into the sinking account in equal monthly installments. The City has not established or made the required transfers to a sewer sinking account.
- (2) The City's sewer revenue note resolution requires a short-lived asset account be established and \$5,500 be made into the account annually. The City has not established or made the required transfers to the short-lived asset account.

Recommendation – The City should establish a sewer revenue note sinking account and make the required transfers to the account for the purpose of making the note principal and interest payment when due. Also, the City should establish a sewer revenue note short-lived asset account and make the required transfers.

- (Q) Local Option Sales Tax (LOST) – The ballot establishing the local option sales tax calls for 50% of the receipts to be used for the payment of bonds for the County Jail, 911 Center and Sheriff's Office construction or any other jail related expenses and 50% to be used for any other lawful purpose of the City. One local option sales tax (LOST) receipt totaling \$5,163 was incorrectly recorded to the Special Revenue, Road Use Tax Fund, rather than the Special Revenue, LOST Fund. This resulted in one payment totaling \$2,581 not paid to the Wayne County Sheriff as required.

Recommendation – The City should ensure LOST receipts are correctly recorded and pay amounts owed to the Wayne County Sheriff's Office, as required.

- (R) Restrictive Endorsement – Checks are not restrictively endorsed when received but rather are endorsed when the deposit is prepared.

Recommendation – To strengthen controls over receipts, the City should restrictively endorse checks immediately upon receipt.

City of Humeston

Detailed Findings and Recommendations

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

- (S) Journal Entries – Supporting documentation is not maintained to support journal entries and journal entries are not approved by an independent person.

Recommendation – Supporting documentation should be maintained to support all journal entries. Additionally, all journal entries should be approved by an independent person and evidence of the approval should be documented.

- (T) 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The First Responders maintain bank accounts and investments for activity separate from the City Clerk’s accounting records. While this 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 these accounts were not reported to the City Council and disbursements from the 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 First Responders 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.

- (U) First Responders Disbursements – Disbursements from the First Responders accounts were not supported by invoices or other supporting documentation.

Recommendation – Supporting documentation should be maintained for all disbursements.



City of Humeston

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director  
Tammy A. Hollingsworth, CIA, Manager  
Brett S. Gillen, CPA, Senior Auditor  
Sammantha J. Coster, Assistant Auditor