

**CITY OF HOSPERS, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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Officials

Name	Title	Term Expires
Elected Officials		
Harlan E. Rouse	Mayor	December 31, 2017
Danielle Kleinhesselink	Council Member	December 31, 2015
Ben Hamblin	Council Member	December 31, 2015
Kelly Schulz	Council Member	December 31, 2015
John Solsma	Council Member	December 31, 2015
Benjamin Whitmore	Council Member	December 31, 2017
Appointed Officials		
Heidi Kramer	City Clerk	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures —

To the Honorable Mayor and
Members of the City Council
City of Hospers, Iowa

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 Hospers for the period July 1, 2014 through June 30, 2015. The City of Hospers's 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 tax increment financing (TIF) transactions, including receipts, disbursements and transfers for compliance and accurate accounting, including compliance with 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 noncompliance were not noted during the performance of the specific procedures listed above.

These agreed-upon procedures did not constitute an audit of the financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Hospers, 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 Hospers and other parties to whom the City of Hospers may report. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Traer, Iowa
August 13, 2015

Detailed Recommendations

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

(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) Accounting system - performing all general accounting functions, including journal entries, and having custody of assets.
- (2) Cash - handling, reconciling and recording.
- (3) Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts - opening mail, collecting, depositing, journalizing, 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 journalizing.
- (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 realized segregation of duties is difficult with the 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 and journal entries should be evidenced 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 Reconciliation Reports" generated from the City's financial system include the City's main checking account, but exclude the money market and investment accounts. For two months reviewed, March, 2015 and June, 2015, the "Your Computer Balance Is" on the "Bank Reconciliation Report" varied significantly from the checking account bank statement balance. In addition, the listings of outstanding checks and deposits in transit generated monthly do not properly cut-off at month end.

Time certificate accounts are not adjusted to match bank balances in the general ledger. There are also accounts, such as the "Sweep" account and the "South Side Park Fund" account that are not included in the general ledger.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

Recommendation - The City should establish procedures to ensure the general ledger is reconciled to the bank and investment account balances monthly. Outstanding check and deposit in-transit listings should properly cut off at month. Consultation with the software provider is suggested, if needed, to understand how to generate the proper reconciling reports. Variances, if any, should be reviewed and resolved timely.

All accounts should be reported in the general ledger and reconciled to bank statements monthly.

- (C) **Certified Budget** - Disbursements at year end exceeded the amount budgeted in the public safety, general government and debt service 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.

- (D) **Official Depositories** - 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 - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

- (E) **Investment Policy** - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (F) **Chart of Accounts** - The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation - To provide better financial information and control, the COA, or its equivalent, should be followed.

- (G) **City Council Minutes** - Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include total disbursements for each fund. The minutes for all meetings tested were either published late or not at all. They 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 ensure the minutes are published timely and contain a summary of receipts and total disbursements by fund.

- (H) **Financial Reports** - The following were identified:

- (1) Although monthly Clerk's reports are prepared, the reports do not agree with the general ledger or the bank balances.
- (2) The "Sweep" account and the "South Side Park Fund" account are not included in the general ledger and the "South Side Park Fund" is not included in the Clerk's reports.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (3) The time certificate accounts are not updated every month, so a \$30,000 transfer remained on the June, 2015 Clerk's report that was transferred in August, 2014.
- (4) The Clerk's reports to the City Council do not include comparisons to the certified budget by function or a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund.

Recommendation - To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk's reports to the City Council should balance all accounts to the general ledger each month and include comparisons 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.

- (I) **Disbursements** - The City is not classifying disbursements by function in accordance with the recommended Chart of Accounts.

While the City Council notes approval of claims in the minutes, approval is not indicated on the invoices. In addition, supporting documentation was not available for a November payment. We were told the City Clerk calls each month to verify the amount to be paid.

Recommendation - The City should classify disbursements by function in accordance with the recommended Chart of Accounts. The City should establish procedures to authenticate a detailed listing of claims or document approval on each invoice.

- (J) **Payroll** - The following were identified:

- (1) Although time cards are maintained for all employees, the time cards are not reviewed and approved by appropriate supervisory personnel prior to the payroll being prepared.
- (2) Annual salary increases for City employees were approved based upon a percentage but the actual approved wages were not documented in the City Council minutes.

Recommendation - Timesheets should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be evidenced by the signature or initials of the reviewer and the date of the review. Wages of employees should be adequately documented in the City Council minutes and be approved as a salary on an hourly rate and not a percentage increase.

- (K) **Prenumbered Receipts** - Prenumbered receipts were not issued for all cash collections.

Recommendation - Prenumbered receipts should be issued for all cash collections.

- (L) **Journal Entries** - Journal entries are not reviewed and approved by an independent individual.

Recommendation - An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (M) **Payment of General Obligation Debt** - General obligation debt payments were made from the General Fund rather than a separate Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Recommendation - General obligation debt payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

- (N) **Annual Urban Renewal Report** - The City did not submit an Annual Urban Renewal Report to the Department of Management by December 1 as required by the Code of Iowa. We were unable to reconcile the report to the City's cash or debt records.

Recommendation - The City should submit its Annual Urban Renewal Report to the State of Iowa Department of Management before December 1 as required by the Code of Iowa. The City should also develop records to properly support the amounts that should be included on the Annual Urban Renewal report.

- (O) **Annual Financial Report** - In the 2014 Annual Financial Report, culture and recreation disbursements do not match the City's general ledger. The South Side Park Fund disbursements were added to the AFR but are not included in the general ledger. Ending balances on the AFR do not match the general ledger because the South Side Park Fund is included on the AFR but not the general ledger.

Recommendation - The City should ensure all funds are included in the City's general ledger.

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

Recommendation - The City should obtain and retain images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

- (Q) **Inter-fund Transfers** - Inter-fund transfers are not approved by the City Council.

Recommendation - The City Council should approve all inter-fund transfers prior to the actual transfer and document approval and amounts as part of the minutes' records.

- (R) **Public Budget Hearing** - The City Council approved the budget at the same time as setting the public budget hearing.

Recommendation - The City Council should approve the budget after holding the public budget hearing.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (S) **Separately Maintained Records** - The Fire Department maintains separate accounting records for certain operations. These transactions and cash balances are not included in the City's accounting records.

Recommendation - 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." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (T) **Tax Increment Financing** - The City has tax increment financing (TIF) debt but does not have a fund set up to account for the related transactions.

Recommendation - The City should set up a TIF special revenue fund to account for TIF transactions.