



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

October 24, 2016

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Northboro, Iowa for the period April 1, 2015 through March 31, 2016. 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 ensure bank reconciliations are completed monthly and are independently reviewed and establish procedures to ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. The City should also ensure financial activity and balances of all City accounts are included in the City's accounting records.

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/1522-0679-EP0P>.

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CITY OF NORTHBORO

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

**FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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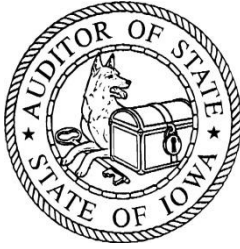
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City of Northboro

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Clint Wright	Mayor	Jan 2016	Jan 2020
Amy Desormeaux	Mayor Pro-Tem	Jan 2014	Jan 2018
Jane Miller	Council Member	Jan 2016	Resigned May 2016
John Denton	Council Member	Jan 2016	Resigned May 2016
Zach Desormeaux	Council Member	Jan 2016	Jan 2020
Rusty Orme	Council Member	Jan 2016	Jan 2020
Glenda Wright	City Clerk		Indefinite

City of Northboro



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Independent Accountant's Report on Applying Agreed-Upon 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 Northboro for the period April 1, 2015 through March 31, 2016. The City of Northboro'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 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions and reporting of unclaimed property to the State of Iowa.
8. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.


9. 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.
10. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
11. 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.

These agreed-upon procedures do not constitute an audit of 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 Northboro, 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 Northboro and other parties to whom the City of Northboro may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Northboro 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

June 10, 2016

Detailed Recommendations

City of Northboro

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

(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 and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (4) Disbursements – invoice processing, mailing, check writing, reconciling and recording.
- (5) Payroll – record keeping, preparing and distributing.

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 – The cash balances in the City’s general ledger were not reconciled to bank account balances throughout the year and the City does not maintain outstanding check listings.

Recommendation – Monthly outstanding check listings should be maintained. The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

(C) Financial Reporting – The City has not implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. The City also does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and local option sales tax.

A monthly City Clerks report, including a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of total disbursements for all funds to the certified budget is not prepared.

In addition, the City’s beginning and ending cash balances on the Annual Financial Report (AFR) do not agree with the general ledger balance by \$14,826 and \$22,614, respectively. No support was maintained for the receipts and disbursements reported.

City of Northboro

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed. The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. The City Clerk should prepare a monthly City Clerk’s report which includes a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements for all funds by function to the certified budget. In addition, the City should establish procedures to ensure the AFR receipts, disbursements and balances agree with the general ledger.

- (D) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (E) Payroll – The quarterly amount paid to the City Clerk was not properly approved by the City Council.

Recommendation – The City Council should approve all employee salaries and wage rates. The approval should be documented in the City Council meeting minutes.

- (F) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings in cities with a population of less than 200 be posted within 15 days of the adjournment of the meeting. The postings should include total disbursements from each fund and a summary of receipts. Minutes were not posted with 15 days and the postings did not include total disbursements from each fund or a summary of receipts, as required.

Recommendation – The City should comply with the Code of Iowa and post City Council meeting minutes within 15 days, including total disbursements by fund and a summary of receipts.

- (G) Deposits and Investments – 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 – They 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.

City of Northboro

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works 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.”

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.

- (I) Prenumbered Receipts – Prenumbered receipts were not issued 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 money.

- (J) 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.

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

- (K) Disbursement Documentation – Supporting documentation for four of thirty transactions tested could not be located.

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

- (L) Local Option Sales Tax – The City was unable to locate a copy of the local option sales tax (LOST) ballot. In accordance with the LOST ballot obtained from the County Auditor, LOST receipts are required to be used 100% for community betterment. The City’s LOST receipts are credited to the General Fund and no documentation is maintained to support how the funds were used or the unspent balance held for the specified purpose.

Recommendation – The City should maintain a copy of the LOST ballot and establish procedures to properly account for LOST receipts, disbursements and balances in accordance with the LOST ballot provisions.

City of Northboro

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Trent M. Mussmann, Senior Auditor


Marlys K. Gaston, CPA
Director