



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 2, 2016

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Nashua, Iowa for the period July 1, 2014 through June 30, 2015. 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. Also, the City should establish procedures to ensure bank and utility reconciliations are performed monthly and the reconciliations are reviewed by an independent person. In addition, the Annual Financial Report should agree with the City's records and should be filed timely.

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/1521-0166-BLOF>.

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CITY OF NASHUA

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

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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City of Nashua

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Deanne Lantow	Mayor	Nov 2015
Richard Baldwin	Mayor Pro tem	Jan 2016
Robert Mehmen	Council Member	Jan 2016
Roger Gigler	Council Member	Jan 2016
Rolland Cagley	Council Member	Jan 2018
Richard Crooks	Council Member	Jan 2018
Tabatha Caswell	City Clerk/Treasurer	Indefinite
Dave Skilton	Attorney	Indefinite

City of Nashua



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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 Nashua for the period July 1, 2014 through June 30, 2015. The City of Nashua'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 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 receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Nashua, 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 Nashua and other parties to whom the City of Nashua 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 Nashua 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

March 9, 2016

Detailed Recommendations

City of Nashua

Schedule of Findings

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. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person 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 City assets.
- (2) Cash and petty cash – reconciling bank accounts and initiating and recording cash receipt and disbursement transactions.
- (3) Investments – investing, recording and custody.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – recordkeeping, preparing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing, reconciling and distributing.

For the Water Over the Dam Committee, one person has control over each of the following areas:

- (1) Cash and investments – handling and recording cash and investing.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – posting, reconciling and check writing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Water Over the Dam Committee should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be documented by the signature or initials of the independent reviewer and the date of the review.

(B) Bank Reconciliations – Bank reconciliations and outstanding check listings were not prepared monthly during the fiscal year. At December 31, 2014 and June 30, 2015, the City's general ledger balances exceeded the bank and investment account balances by \$265,008 and \$225,192, respectively. The City has hired a CPA firm to prepare bank reconciliations.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger balances monthly and variances are reviewed and resolved timely. An independent person should review all bank reconciliations and document the review by signing or initialing and dating the reconciliation. A listing of outstanding checks should be prepared monthly and retained to support the reconciliation.

City of Nashua

Schedule of Findings

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

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not properly reconciled monthly. The City’s utility software generates a monthly reconciliation but if the City does not generate the reconciliation at month end, the report is not accurate. In addition, a delinquent accounts listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared and retained monthly. Procedures should be established to ensure the utility reconciliations are generated from the City’s software and verified by City personnel at the end of each month. The City Council or a City Council designated independent person should review the reconciliations and monitor delinquencies. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Monthly Financial Reports – The City Clerk does not provide monthly financial reports to the City Council for review.

Recommendation – The City Council should require the City Clerk to provide monthly financial reports to the City Council for review. The reports should include, at a minimum, a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund and comparisons of total disbursements for all funds to the certified budget by function.

- (E) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires 25% of the LOST proceeds to be used for lake/dam disbursements, 25% for urban revitalization and 50% for debt service. The City credits all LOST receipts to the Special Revenue, LOST Fund and transfers 50%, the lake/dam and urban revitalization portions, to the General Fund. The City does not track LOST funds disbursed from the General Fund to ensure and document the funds are used for allowable purposes and to ensure the unspent portion of LOST funds held in the General Fund are properly accounted for. In addition, for the year ended June 30, 2015, the City did not transfer the 50% portion of LOST receipts required to be used for debt service to the Debt Service Fund.

Recommendation – The City should adequately track LOST disbursements and unspent balances to demonstrate compliance with the LOST ballot requirements. The debt service portion of LOST should be transferred to the Debt Service Fund annually.

- (F) Revenue Bonds – The following instances of non-compliance with the sewer revenue bond requirements were noted:

In accordance with the sewer revenue bond resolution, bond principal, interest and fees are payable solely from sewer revenues. However, during the year ended June 30, 2015, the City paid \$159,410 of sewer revenue bond principal, interest and services fees from the Debt Service Fund.

The City’s sewer revenue bond resolution requires a sinking account be established and payments are to be made into the sinking account in equal monthly installments on the first day of each month. The City has not established or made the required transfers to a sewer sinking account.

City of Nashua

Schedule of Findings

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

The sewer revenue bond resolution requires sewer user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year. During the year ended June 30, 2015, the City was not in compliance with the net receipt requirement of the sewer revenue bond resolution.

Recommendations – The City should make a corrective transfer of \$159,410 from the Enterprise, Sewer Fund to the Debt Service Fund. Future payments on the sewer revenue bonds should be made from the Enterprise, Sewer Fund, as required. The City should comply with the sewer revenue bond resolution by establishing the required sinking account and making the required monthly transfers. The City should ensure sewer user rates are established at a level which produces net receipts of 110% of the annual principal and interest payments on the bonds.

- (G) Annual Financial Report – Receipts, disbursements and fund balances reported in the City's Annual Financial Report (AFR) did not agree with City records. In addition, the AFR was not filed by December 1, as required.

Recommendation – The City should implement procedures to ensure the AFR receipts, disbursements and fund balances agree with City records and the AFR is filed timely.

- (H) Separately Maintained Records – The Water Over the Dam Committee maintains bank accounts for fundraiser and donation activity separate from the City Clerk's accounting records. 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 or monthly financial reports.

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 annual budget and should be reported to the City Council on a monthly basis.

- (I) Water Over the Dam Committee – Bank reconciliations were not prepared during the year ended June 30, 2015. Receipts were not issued for collections. Also, detailed supporting documentation for disbursements was not always retained. In addition, sales tax of \$232 was paid on an invoice.

Recommendation – The Water Over the Dam Committee should ensure monthly bank reconciliations are prepared, retained and reviewed by an independent person and the review is documented by the signature or initials of the reviewer and the date of the review. Prenumbered receipts should be issued for all collections at the time of the collection to provide additional control over recording of all money received. Supporting documentation for disbursements should be obtained and retained. Procedures should be established to ensure the City does not pay sales tax.

City of Nashua

Schedule of Findings

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

- (J) Certified Budget – During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the culture and recreation and public works functions prior to the budget amendment. At June 30, 2015, disbursements exceeded the amount budgeted in the culture and recreation function. 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) City Council Meeting Minutes – For two of five City Council meeting minutes tested, the minutes were only signed by the City Clerk.

The publications of City Council meeting minutes did not include total disbursements by fund and a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – City Council meeting minutes should be signed by the City Clerk and someone independent of the minutes preparation. Publications should include total disbursements by fund and a summary of all receipts, as required.

- (L) Payroll – For three of six timesheets reviewed, there was no indication the time sheets had been reviewed and approved by supervisory personnel prior to preparation of the payroll. In addition, employee vacation and sick leave balances were not reviewed by an independent person.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel prior to preparation of payroll. In addition, vacation and sick leave balances should be reviewed and approved by an independent person. The approvals should be documented by the signature or initials of the reviewer and the date of the review.

- (M) Receipts – A listing of checks received in the mail was not prepared and reviewed by an independent person. In addition, prenumbered receipts were not issued for all collections.

Recommendation – A listing of checks received in the mail should be prepared by a person other than accounting personnel. This listing should be compared to the receipt records by an independent person. Prenumbered receipts should be issued for all collections at the time of collection to provide additional control over recording of all receipts.

- (N) Disbursements – Nine of thirty disbursements tested, were not approved by the City Council and sixteen were approved after the disbursement was made. In addition, two of thirty disbursements were not properly supported.

Recommendation – All disbursements should be approved by the City Council and the approval should be documented in the meeting minutes. The City could adopt a written policy to allow payment of certain bills prior to City Council approval, if desired. All disbursements should be approved by the City Council prior to disbursement, with the exception of those specifically allowed by the policy.

City of Nashua

Schedule of Findings

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

- (O) Receipt Coding – The City recorded mobile home and utility excise tax receipts as property taxes rather than other city tax.

Recommendation – The City should record mobile home and utility excise tax receipts as other city tax consistent with the Uniform Chart of Accounts.

- (P) Deposits and Investments – 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 which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (Q) Credit Cards/Charge Account – The City has credit cards and a Casey’s charge account for use by various employees and firefighters while on City business, including the purchase of fuel for City vehicles. The City has not adopted a formal policy to regulate the use of credit cards or charge accounts and has not established procedures for the proper accounting of fuel charges. Additionally, mileage logs are not maintained for each City vehicle and completed each time a vehicle is fueled. Also, we noted \$23 of interest charges paid on the Casey’s charge account.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards and the Casey’s charge account. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and the charge account and for what purposes, as well as the types of supporting documentation required to substantiate charges. Policies should require mileage logs be maintained for all City vehicles. The logs should be periodically reviewed and reconciled to purchases. Procedures should be established to ensure timely payment of credit card/charge account bills to avoid late fees and penalties.

- (R) Annual Urban Renewal Report – The fiscal year 2014 Annual Urban Renewal Report was not approved and certified to the Iowa Department of Management before December 1, as required. In addition, the Special Revenue, Tax Increment Financing Fund balance reported on the Levy Authority Summary was understated by \$773.

Recommendations – The City should ensure the Annual Urban Renewal Report is accurate and is approved and certified to the Iowa Department of Management on or before December 1.

- (S) 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 Water Over the Dam Committee does not receive images of the back of each cancelled check.

Recommendation – The Water Over the Dam Committee 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.

City of Nashua

Schedule of Findings

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

(T) Disaster Recovery Plan – The City does not have a written disaster recovery plan for financial data.

Recommendation – The City should develop a written disaster recovery plan. At a minimum, the plan should identify computer equipment needed for temporary processing and paper supplies, such as checks, warrants, purchase orders, etc., which should be located off-site. Additionally, weekly back up of computer files, copies of user documentation and the disaster recovery plan should be maintained at an off-site location.

(U) Computer System – The following weaknesses in the City’s computer based system were noted:

The City does not have written policies for:

- Requiring a time out/log off function or screen saver passwords to protect computer terminals when not in use.
- Requiring the use of passwords and requiring passwords be changed every 60 to 90 days.
- Maintaining password privacy and confidentiality.
- Requiring the use of anti-virus programs on its computers.
- Ensuring only software licensed to the City is installed on its computers.
- Usage of the internet.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer based system.

(V) Accounting Procedures Manual – The City does not have a current 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.

City of Nashua

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Jamie T. Reuter, Senior Auditor II
Alex W. Case, Assistant Auditor


Marlys K. Gaston, CPA
Director