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STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 8, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Numa, Iowa for the period January 1, 2016 through December 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. In addition, the City should establish procedures to ensure bank reconciliations are independently reviewed and the Annual Financial Report is accurate.

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/1622-0022-EPOP>.

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CITY OF NUMA

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

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City of Numa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Michelle Kauzlarich	Mayor	Jan 2016	Jan 2018
Jolene Fadiga	Council Member	Jan 2014	Jan 2018
Betty Marshall	Council Member	Jan 2014	Jan 2018
Donna Sales	Council Member	Jan 2016	Jan 2018
Melinda Fadiga	City Clerk		Indefinite

City of Numa



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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 Numa for the period January 1, 2016 through December 31, 2016. The City of Numa'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 2016 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, investment policy and reporting of unclaimed property to the State of Iowa.
8. 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.

9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. 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 Numa, 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 Numa and other parties to whom the City of Numa 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 Numa 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

April 5, 2017

Detailed Recommendations

City of Numa

Detailed Recommendations

For the period January 1, 2016 through December 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) Debt – recordkeeping and debt payment processing.
- (5) Disbursements – purchasing, invoice processing, check writing, check signing, mailing, recording and reconciling.
- (6) Payroll – recordkeeping, preparing, signing and distributing.
- (7) Financial reporting – preparing and reconciling.
- (8) Computer system – performing all general accounting functions and all data input and output.

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) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The 2016 Annual Financial Report (AFR) did not accurately report the beginning and ending fund balances for fiscal year 2016. The ending governmental fund balance was overstated by \$35,993 in comparison to the reconciled bank balances.

Additionally, property tax receipts incorrectly included Special Revenue, Road Use Tax Fund deposits for May and June 2016. This resulted in total receipts being overstated by \$1,220. We were unable to determine the accuracy of disbursements by function reported on the AFR because the City did not retain this information.

Recommendation – The City should ensure Annual Financial Report receipts, disbursements and fund balances agree with the City’s records.

City of Numa

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (C) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual accounts and were presented to the City Council, there was no evidence of review by an independent person.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

- (D) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (E) Monthly City Clerk's Reports – The monthly City Clerk's report does not separate total fund balances for the General Fund and the Special Revenue, Road Use Tax Fund. Also, interest from the savings account is not recorded in the computer system (general ledger). Additionally, the City Clerk's reports are not retained.

Recommendation – The monthly City Clerk's reports should include beginning and ending fund balances and receipts and disbursements for each fund. The monthly City Clerk's reports should be retained. Interest should be recorded when received.

- (F) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for one \$22 employee reimbursement tested could not be located. Also, supporting documentation is not cancelled to prevent reuse.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Also, supporting documentation should be cancelled to prevent reuse.

- (G) Payroll – Wages and withholdings are not reviewed by an independent person to ensure proper payroll calculations. The calculation of the City Clerk's IPERS' withholding was inaccurate. In addition, we could not locate City Council approval for employee or elected officials' salaries.

Recommendation – An independent person should review and test wages and withholdings for proper calculations. Evidence of testing should be retained. City Council approval of pay rates for City employees should be documented in the minutes record. Pay rates for the Mayor and City Council members should be approved by City ordinance.

City of Numa

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

(H) City Council Meeting Minutes – The following were noted:

- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be posted within fifteen days of the meeting and include total disbursements from each fund, a list of claims allowed and a summary of receipts. The City did not retain documentation to indicate timely posting or to evidence the postings included total disbursements from each fund, a listing of claims allowed and a summary of receipts. Also, meetings were not preceded by proper notice as required by Chapter 21.4 of the Code of Iowa.
- Meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa.
- Meeting minutes did not always indicate the vote of each City Council Member present as required by Chapter 21.3 of the Code of Iowa.

Recommendation – The City should ensure proper notice of meetings is given and should post the City Council minutes within fifteen days of holding the meeting, as required. The posted minutes should include a list of claims allowed, a summary of receipts and total disbursements by fund, as required. In addition all minutes should be signed and indicate the vote of each Council Member present, as required.

(I) 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 – The 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.

(J) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works and community and economic development 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) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation community center note were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required.

City of Numa

Detailed Recommendations

For the period January 1, 2016 through December 31, 2016

- (L) 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 for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (M) Employee Benefits Levy – The City accounted for the employee benefits levy in the General Fund rather than a Special Revenue Fund. In accordance with budget forms prescribed by the Iowa Department of Management, the employee benefits levy is a Special Revenue Fund levy.

Recommendation – The City should establish a Special Revenue Fund to account for the employee benefits levy.

City of Numa

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Katherine L. Rupp, CPA, Manager
Ian N. Judson, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director