



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 19, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Northboro's Periodic Examination Report dated June 10, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2017 through March 31, 2018.

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. Six of the twelve findings reported in the Periodic Examination Report dated June 10, 2016 have been corrected, three have been partially corrected, and three of the findings are reported as "not corrected". Three additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Northboro's Report on the Status of Periodic Examination Findings and Recommendations 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/audit-reports/>.

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CITY OF NORTHBORO

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
JUNE 1, 2017 THROUGH MARCH 31, 2018**

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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 2018	Jan 2020
Rusty Orme	Council Member	Jan 2016	Jan 2020
Eric Nelson	Council Member	Nov 2017	Jan 2020
Carolyn Matzinger	Council Member	Nov 2017	Jan 2020
Joe Matzinger	Council Member	Jan 2018	Jan 2022
Molly Nelson	Council Member	Jan 2018	Jan 2022
Mary Cutler	City Clerk/Treasurer		Indefinite
James Varley	Attorney		Indefinite

City of Northboro



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Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated June 10, 2016 on the City of Northboro, Iowa covering the period April 1, 2015 through March 31, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date June 10, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2017 through March 31, 2018.

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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated June 10, 2016. 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 Northboro during the course of our follow-up procedures engagement. Should you have 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

October 31, 2018

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Northboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

Findings Reported in the Periodic Examination Report dated June 10, 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 – recordkeeping, 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.

Current Status – Not corrected. The recommendation is repeated

(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.

Current Status – Corrected. During the period reviewed, the City is maintained a monthly outstanding check listing which was used to reconcile the bank balance to the book balance.

(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 Clerk’s 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.

City of Northboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

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.

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.

Current Status – Partially corrected. The City has implemented the recommended COA and during the period reviewed, the City utilized fund accounting. The City also maintained support for the receipts and disbursements reported in the fiscal year 2017 AFR. The beginning and ending balances on the AFR agreed with the general ledger and the monthly City Clerk's reports included a summary of beginning balances, receipts, disbursements and ending balances by fund. However, the monthly City Clerk's reports did not include a comparison of total disbursements by function to the certified budget. The recommendation is partially repeated.

- (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.

Current Status – Corrected. The City has documented accounting procedures such as budget preparation and others.

- (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.

Current Status – Corrected. During the period reviewed, the City Clerk's quarterly wage was approved in the City Council meeting minutes.

City of Northboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

- (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 within 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.

Current Status – Not corrected. The recommendation is repeated. In addition, see finding (M).

- (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 – 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.

Current Status – Partially corrected. The City adopted a resolution naming official depositories. However, the City has not adopted a written investment policy. The recommendation is partially repeated.

- (H) Certified Budget – Disbursement during the year ended June 30, 2015 exceeded the amount 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.

Current Status – Not corrected. Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in public safety and general government functions. The recommendation is repeated.

- (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.

Current Status – Corrected. During the period reviewed, the City issued prenumbered receipts.

City of Northboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

- (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.

Current Status – Corrected. During the period reviewed, the City retained an image of the back of each cancelled check.

- (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.

Current Status – Corrected. During the period reviewed, the City maintained supporting documentation for all transactions tested.

- (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.

Current Status – Partially corrected. The City has obtained a copy of the LOST ballot. However, the City did not maintain documentation to support the use of the LOST receipts or the unspent balance held for the specified purpose. The recommendation is partially repeated.

City of Northboro

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2017 through March 31, 2018

Additional Findings as a Result of Follow-up Procedures:

- (M) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires postings of the minutes of the City Council meetings to include a list of claims allowed, including the reason for the claim. The postings of the minutes of the lists of claims allowed did not include the reason for the claim.

Recommendation – The City should comply with the Code of Iowa and post the reason for each claim allowed, as required.

- (N) Security of Unused Checks – Unused checks were not stored in a secure location.

Recommendation – The City should develop procedures to ensure unused checks are stored in a secure location.

- (O) Payroll – The Mayor, City Council members and City Clerk compensation was not reduced by the required Federal Insurance Contributions Acts (FICA) tax and the City did not contribute the City's share of FICA, as required. In addition, the City did not report the compensation on Internal Revenue Service (IRS) Form W-2.

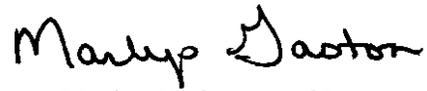
Recommendation – The City should consult the IRS to determine proper disposition of the payroll taxes not withheld and the unreported compensation.

City of Northboro

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Adjoa S. Adanledji, Staff 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