



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

September 16, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Nashua, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 13 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, monthly financial reports are not provided to the City Council and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

Thirteen of the fourteen findings discussed above are repeated from the prior year. 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.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF NASHUA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Nashua



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August 30, 2021

Officials of the City of Nashua
Nashua, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Nashua, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Nashua throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	5-7
Detailed Findings and Recommendations:	<u>Finding</u>
Fiduciary Oversight	A 9
Segregation of Duties	B 9-10
Bank Reconciliations	C 10
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D 10
Monthly Financial Reports	E 11
Revenue Bonds	F 11
Separately Maintained Records	G 11-12
Water Over the Dam Committee	H 12
Certified Budget	I 12
Financial Condition	J 12
Electronic Check Retention	K 12
Computer System	L 12
Journal Entries	M 13
Debit Card	N 13
Staff	14

City of Nashua

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clinton Betsinger	Mayor	Jan 2022
Tom Johnson	Mayor Pro tem	Jan 2022
Rolland Cagley (Appointed Mar 2018)	Council Member	Nov 2019
Angelina Dietz-Robinson	Council Member	Jan 2020
Harold Kelleher	Council Member	Jan 2020
Scott Cerwinske	Council Member	Jan 2022
John Ott	City Clerk/Treasurer	Indefinite
Dave Skilton	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clinton Betsinger	Mayor	Jan 2022
Tom Johnson	Mayor Pro tem	Jan 2022
Scott Cerwinske	Council Member	Jan 2022
Alex Anthofer	Council Member	Jan 2024
Harold Kelleher	Council Member	Jan 2024
Charles Shelby	Council Member	Jan 2024
John Ott	City Clerk/Treasurer	Indefinite
Dave Skilton	Attorney	Indefinite

City of Nashua



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Nashua for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Nashua's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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 City of Nashua's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.

8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned 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 scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. We traced selected disbursements to 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.
15. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Nashua's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Nashua and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. 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 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.

A handwritten signature in cursive script, reading "Ernest H. Ruben, Jr.", positioned above the printed name.

Ernest H. Ruben, Jr., CPA
Director

August 30, 2021

Detailed Findings and Recommendations

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (A) Fiduciary Oversight – 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.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring and reviewing pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented, and monitored to ensure compliance.

- (B) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. 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 City assets.
- (2) Cash and petty cash – reconciling bank accounts and initiating and recording cash receipt and disbursement transactions.
- (3) Investments – investing, recording, custody and reconciling.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – opening mail, collecting, depositing, recording and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, 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 individual 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.

For the Welcome Center, one individual has access to cash and records sales transactions.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, the Water Over the Dam Committee, and the Welcome Center 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.

- (C) Bank Reconciliations – Prior to May 2020, bank reconciliations were not prepared on a monthly basis. For the two months observed, the City’s bank and investment account balances reconciled to the general ledger balances.

Recommendation – The City should continue to ensure bank and investment balances are reconciled to the general ledger balances monthly and variances are reviewed and resolved timely. In addition, the City should continue to have the prepared bank reconciliations reviewed by an independent party and document evidence of that review.

- (D) 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. For the month observed, the following variances in the May 2020 accounts receivable report were identified:

- (1) The May 2020 beginning balance exceeded the April 2020 ending balance by \$12,631.
- (2) Total service charges were less than the amount reported in the utility billing register by \$2,485.
- (3) Total payments were less than the amount reported in the utility billing register by \$2,239.
- (4) Penalties and miscellaneous fees exceeded the amounts reported in the utility billing register by \$572 and \$560, respectively.
- (5) Taxes were less than the amount reported in the utility billing register by \$74.

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.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (E) Monthly Financial Reports – The City Clerk does not provide monthly financial reports to the City Council which contain a summary of the beginning balances, receipts, disbursements, transfers and ending balances by fund and a comparison of actual disbursements to the certified budget by function.

Recommendation – For better accountability and financial and budgetary control, 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, ending balances by fund, and a comparison of total disbursements for all funds to the certified budget by function.

- (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. During the fiscal years ended June 30, 2018, June 30, 2016, and June 30, 2015, the City paid for the sewer revenue bond principal and interest of \$118,345, \$159,493 and \$159,410, respectively, from the Debt Service Fund with no corresponding transfer (i.e., reimbursement) to the Debt Service Fund from the Enterprise, Sewer Fund.

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, 2020, the City was not in compliance with the net receipt requirement of the sewer revenue bond resolution.

Recommendation – The City should consult bond counsel to determine the disposition of these matters. Disposition should include making corrective transfers of \$118,345, \$159,493 and \$159,410 from the Enterprise, Sewer Fund to the Debt Service Fund for fiscal years 2018, 2016 and 2015, respectively, and ensuring 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) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The Water Over the Dam Committee maintains bank accounts for fundraiser and donation activity separate from the City Clerk’s accounting records. While this Committee is part of the City, 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, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Water Over the Dam Committee separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (H) Water Over the Dam Committee – Bank reconciliations were not prepared during the year ended June 30, 2020. Receipts were not issued for collections.

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.

- (I) Certified Budget – During the year ended June 30, 2020, disbursements exceeded the amount budgeted in the culture and recreation function. Prior to the budget amendment on May 5, 2020, disbursements exceeded the amounts budgeted in the health and social services 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.

- (J) Financial Condition – At June 30, 2020, the City had a deficit balance of \$11,208 in the Enterprise, Storm Water Utility Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial condition.

- (K) 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.

- (L) Computer System – The City does not have a written policy requiring a time out/log off function or screen saver passwords to protect computer terminals when not in use.

Recommendation – The City should develop a written policy addressing the above item in order to improve the City’s control over its computer-based system.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (M) Journal Entries – Journal entries were not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries and the approval should be documented by the signature or initials of the approver and the date of approval.

- (N) Debit Card – The Water Over the Dam Committee Account has a debit card available for use for Committee business.

Recommendation – The City Council should prohibit the use of a debit card for City purchases. The function of a debit card is to provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

City of Nashua

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Jennifer Campbell, CPA, Manager
Adam J. Sverak, Staff Auditor