



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ July 30, 2015 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Nichols, Iowa for the period January 1, 2013 through December 31, 2014. The agreed-upon procedures engagement was performed at the request of the City.

Mosiman recommended the City should review its control procedures to obtain the maximum internal control possible and prepare and review bank and utility reconciliations. The City should also comply with various sections of the Code of Iowa.

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 <http://auditor.iowa.gov/reports/1422-0654-BC00.pdf>.

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CITY OF NICHOLS

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2013 THROUGH DECEMBER 31, 2014

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City of Nichols

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
Cyle Geertz	Mayor	Jan 2014
Ron Oostendrop	Council Member	Jan 2014
Rich Hillyer	Council Member	Jan 2014
Carl Gillman	Council Member	Jan 2014
Jamie Kirk	Council Member	Jan 2014
Russ Grim	Council Member	Jan 2014
Elle Mae Claver	City Clerk/Treasurer	Indefinite
Amber Freyermuth	Attorney	Indefinite
<u>(After January 2014)</u>		
Cyle Geertz	Mayor	Jan 2016
Cindy Massey	Council Member	Jan 2016
Kelsie Lampe	Council Member	Jan 2016
Jamie Kirk	Council Member	Jan 2016
Russ Grim	Council Member	Jan 2016
Kelly Loving	Council Member	Jan 2016
Melissa Carter	City Clerk/Treasurer	Indefinite
Amber Freyermuth	Attorney	Indefinite

City of Nichols



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Mary Mosiman, CPA
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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 at the request of the City of Nichols. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Nichols for the period January 1, 2013 through December 31, 2014. The City of Nichols 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 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.
2. 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.
3. 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.
4. 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.
5. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
6. 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.
7. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
8. 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.

We were not engaged to and did not conduct an audit of the City of Nichols, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Nichols, 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 Nichols and other parties to whom the City of Nichols 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 Nichols 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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 20, 2015

Detailed Recommendations

City of Nichols

Detailed Recommendations

For the period January 1, 2013 through December 31, 2014

- (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) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

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 and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment 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) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Nichols

Detailed Recommendations

For the period January 1, 2013 through December 31, 2014

- (E) Monthly City Clerk's Report – A monthly City Clerk's report, including a summary of receipts, disbursements, and ending balances by fund, is not prepared.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes a summary of receipts, disbursements, and ending balances by fund. The City Council should review and approve the City Clerk's report monthly.

- (F) 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.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days of the meeting, as required.

- (H) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the 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) Business Transactions – Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dan Street, Public Works Director, owner of Earth Moving and Works	Water line, culvert repair and hydrant replacement	\$16,628

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent conflicts of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

City of Nichols

Detailed Recommendations

For the period January 1, 2013 through December 31, 2014

- (J) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Nichols Country Club	Employee picnic, golf fees, golf cart rental and prizes	\$ 462
Subway	Sandwiches for budget work session	92

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

- (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 City does not receive an image of the back of each cancelled check for several bank accounts.


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.

City of Nichols

Staff

This agreed-upon procedures engagement was performed by:

James S. Cunningham, CPA, Manager
Gwen D. Fangman, CPA, Senior Auditor II



Andrew E. Nielsen, CPA
Deputy Auditor of State