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STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 3, 2018

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, 2016 through June 30, 2017. 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. The City should also 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/1721-0166-BLOF>.

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CITY OF NASHUA

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

**FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017**

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City of Nashua

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Angelina Dietz	Mayor	Jan 2018
Tom Johnson	Mayor Pro tem	Nov 2017
Kyle Lane	Council Member	(Resigned Nov 2017)
Brenda Roberts	Council Member	(Resigned Nov 2017)
Rolland Cagley	Council Member	Jan 2018
Ryan Jung	Council Member	Jan 2020
Tabatha Caswell	City Clerk	Apr 2017
Rebecca Neal	Interim City Clerk	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, 2016 through June 30, 2017, 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 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 2017 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.

We were not engaged to and did not conduct an examination or review, 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.

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 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.


MARY MOSIMAN, CPA
Auditor of State

June 26, 2018

Detailed Recommendations

City of Nashua

Schedule of Findings

For the period July 1, 2016 through June 30, 2017

- (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 – 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, recording 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.

City of Nashua

Schedule of Findings

For the period July 1, 2016 through June 30, 2017

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.

- (C) Bank Reconciliations – Bank reconciliations and outstanding check listings were not prepared monthly during the fiscal year. At June 30, 2017, the City’s general ledger balances exceeded the bank and investment account balances by \$6,236.

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 reconciliations. Listings of outstanding checks should be prepared monthly and retained to support the reconciliations.

- (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.

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.

- (E) 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.

- (F) Debt Service Fund – During the year, the City improperly made a \$29,605 capital lease payment for a street sweeper from the Debt Service Fund.

Recommendation – The City should make a corrective transfer from the General Fund or the Special Revenue, Road Use Tax Fund for the lease payment made from the Debt Service Fund.

City of Nashua

Schedule of Findings

For the period July 1, 2016 through June 30, 2017

- (G) 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 year ended June 30, 2017, the City paid for the sewer revenue bond principal and interest from the Debt Service Fund and subsequently reimbursed the Debt Service Fund with a transfer from the Enterprise, Sewer Fund. However, during the years ended June 30, 2016 and June 30, 2015, the City paid \$159,493 and \$159,410, respectively, of sewer revenue bond principal, interest and services fees from the Debt Service Fund with no corresponding transfer (i.e., reimbursement) to 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.

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, 2017, the City was not in compliance with the net receipt requirement of the sewer revenue bond resolution.

Recommendations – The City should make corrective transfers of \$159,493 and \$159,410 from the Enterprise, Sewer Fund to the Debt Service Fund for fiscal year 2016 and fiscal year 2015, respectively. 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.

- (H) Annual Financial Report – Receipts, disbursements and fund balances reported in the City's Annual Financial Report (AFR) did not agree with City records.

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

- (I) 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.

City of Nashua

Schedule of Findings

For the period July 1, 2016 through June 30, 2017

- (J) Water Over the Dam Committee – Bank reconciliations were not prepared during the year ended June 30, 2017. Receipts were not issued for collections. Also, detailed supporting documentation for disbursements was not retained.

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.

- (K) Certified Budget – During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the community and economic development and general government 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.

- (L) Payroll – For five of six timesheets tested, there was no indication the time sheets had been reviewed and approved by supervisory personnel prior to preparation of the payroll. In addition, timesheets for the first half of the fiscal year were not retained.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel prior to preparation of payroll. The approvals should be documented by the signature or initials of the reviewer and the date of the review. Timesheets should be retained to support the City’s payroll.

- (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) Recording Receipts – The City posted \$1,780 of debt service property tax receipts to the General Fund. Certain property tax and local option sales tax receipts were not recorded in the accounting system, understating receipts by \$44,547 and \$12,790, respectively. The City also recorded mobile home and utility excise tax receipts as property tax rather than other city tax.

Recommendation – A corrective transfer of \$1,780 should be made from the General Fund to the Debt Service Fund. The City should establish procedures to ensure receipts are correctly recorded in the accounting system and are reconciled to deposits.

City of Nashua

Schedule of Findings

For the period July 1, 2016 through June 30, 2017

- (O) Disbursements – Five of thirty disbursements tested were not approved by the City Council. In addition, two of thirty disbursements included mileage claims which were not properly itemized.

Recommendation – All disbursements should be approved by the City Council and the approval should be documented in the Council meeting minutes. Mileage claims should be itemized and include the destination, purpose of trip, miles and the rate per mile.

- (P) 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.

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.

- (Q) 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
Paul Becthold, Chief of Police, owner of Becthold Plumbing	Water meter installation and plumbing repair	\$ 8,590

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

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

- (R) 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 and the Water Over the Dam Committee do not receive images of the back of each cancelled check.

Recommendation – The City and 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, 2016 through June 30, 2017

- (S) 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.

- (T) 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.

City of Nashua

Staff

This engagement was performed by:

Donna F. Kruger, CPA, Manager
Jenny R. Lawrence, Senior Auditor II
Adam R. McCleish, Assistant Auditor


Marlys K. Gaston, CPA
Director