



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE

May 15, 2020

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, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twenty-two findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 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, errors in the Annual Financial Report, the lack of a credit card policy, disbursements exceeding budgeted amounts and business transactions that may represent conflicts of interest. Sand provided the City with recommendations to address each of the findings.

Seventeen of the twenty-two 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, 2018 THROUGH JUNE 30, 2019

City of Nashua



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April 23, 2020

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, 2018 through June 30, 2019. 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, appearing to read "Rob Sand", written in a cursive style.

Rob Sand
Auditor of State

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City of Nashua

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clinton Betsinger	Mayor	Jan 2022
Tom Johnson	Mayor Pro tem	Jan 2022
Ryan Jung	Council Member	(Resigned Mar 2018)
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
Rebecca Neal	City Clerk/Treasurer	(Resigned Jan 2019)
John Ott	City Clerk/Treasurer	Indefinite
Dave Skilton	Attorney	Indefinite



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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, 2018 through June 30, 2019, 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 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 2019 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 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 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.



Ernest H. Ruben, Jr., CPA
Director

April 23, 2020

Detailed Findings and Recommendations

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (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.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

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 were not prepared monthly during the fiscal year. For the two months observed, the City’s bank and investment account balances reconciled to the general ledger balances.

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.

- (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 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 – 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 year 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, respectfully, from the Debt Service Fund with no corresponding transfer (i.e., reimbursement) to the Debt Service Fund from the Enterprise, Sewer Fund.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

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 did not make the required transfers to the sinking account, as required.

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, 2019, 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, ensuring compliance with the sewer revenue bond resolution by making the required monthly transfers to the sinking account 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) Annual Financial Report – Transfers in and transfers out reported in the City's Annual Financial Report (AFR) were overstated by \$169,243 and total disbursements for governmental activities and business type activities were understated by \$47,738 and \$23,772, respectfully. In addition, the beginning fund balance did not agree with prior years ending fund balance and the ending fund balance for year ended June 30, 2019 was overstated by \$9,501.

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

- (H) 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, 2018 through June 30, 2019

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.

- (I) Water Over the Dam Committee – Bank reconciliations were not prepared during the year ended June 30, 2019. 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.

- (J) Certified Budget – During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the general government function. Prior to the budget amendment on May 20, 2019, 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.

- (K) 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 recording of all receipts. 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.

- (L) 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 by an independent person.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (M) 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
Clinton Betsinger, Mayor, owner of Nashua Plumbing & Heating	Parts and supplies	\$ 3,159

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.

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

- (N) 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.

- (O) Annual Urban Renewal Report – Chapter 384.22(2) of the Code of Iowa requires the City Council to approve the Annual Urban Renewal Report (AURR) and to file the report with the Iowa Department of Management by December 1. The ending cash balance on the AURR was overstated by \$190,832 and the cash balance restricted for low and moderate income (LMI) was overstated by \$218,501. The TIF disbursements reported were overstated by \$11,938.

Recommendation – The City should ensure the AURR, including the amount reported as LMI, is accurate.

- (P) 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.

- (Q) 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.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- Maintaining password privacy and confidentiality.
- Requiring the use of anti-virus programs on its computers.

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

- (R) City Council Meeting Minutes – The four City Council meeting minutes observed were not signed as required by Chapter 380.7 of the Code of Iowa. In addition, minutes publications did not include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – City Council meeting minutes should be signed to authenticate the actions taken. In addition, minutes publications should include a summary of receipts, as required.

- (S) Transfers – Effective April 17, 2019 Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the affected funds and the dollar amount to be transferred. For the period April 17, 2019 through June 30, 2019, transfers did not comply with this Rule. Also, transfers were not approved by the City Council.

Recommendation – The City should ensure all transfers are approved by resolution prior to the actual transfer. The resolution should include a clear statement of the reasons for the transfer, each fund involved and the amount.

- (T) Journal Entries – Journal entries were not reviewed and approved by an independent person and supporting documentation is not required to be maintained with each journal entry.

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. In addition, supporting documentation for journal entries should be maintained.

- (U) Local Option Sales Tax (LOST) – The City’s local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 50% for debt service, 25% for urban revitalization and 25% for the Lake/Dam. During the year, allocation transfers from the Special Revenue, LOST Fund were not properly calculated causing the Debt Service Fund to receive \$3,334 in excess transfers and the Urban Revitalization and the Lake/Dam Accounts in the General Fund to each receive \$1,617 less in transfers than required by the ballot.

Recommendation – The City should establish policies and procedures to ensure the LOST funds are being spent in accordance with the voter approved ballot. The City Council should also approve a correcting transfer from the Debt Service Fund to the Urban Revitalization and the Lake/Dam Accounts in the General Fund.

City of Nashua

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (V) 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
Pamela J. Bormann, CPA, Manager
Nicholas J. Gassman, Staff Auditor
Kile J. Bean, Staff Auditor