



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

February 15, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Nichols, Iowa, for the period July 1, 2022 through June 30, 2023. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported thirteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts, the City's meeting minutes not being signed and not including total disbursements by fund, or a summary of all receipts as required and monthly financial reports not being provided to the City Council. Sand provided the City with recommendations to address each of the findings.

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 website at [Audit Reports – Auditor of State](#).

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CITY OF NICHOLS

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023**

City of Nichols



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January 14, 2024

Officials of the City of Nichols
Nichols, 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 Nichols, Iowa, for the period July 1, 2022 through June 30, 2023. 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 Nichols 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".

Rob Sand
Auditor of State

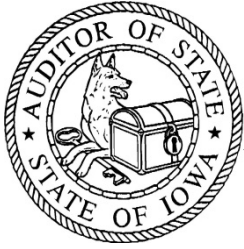
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City of Nichols

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Linsey Reimers	Mayor	Jan 2022	Jan 2024
Russ Grim	Council Member	Jan 2022	Jan 2024
JD Hora	Council Member	Jan 2022	Jan 2024
JJ Hudson	Council Member	Jan 2022	Jan 2024
Kelsie Lampe	Council Member	Jan 2022	Jan 2024
Cindy Massey	Council Member	Jan 2022	Jan 2024
Aeneas Schmitz	City Clerk/Treasurer		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 Nichols for the period July 1, 2022 through June 30, 2023, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Nichols'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 Nichols'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 2022 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. The City had no debt.
10. The City had no TIF.

11. We traced selected receipts for accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. 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.
14. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. 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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Nichols'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 and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Nichols 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 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.


Pam Bormann, CPA
Director

January 14, 2024

Detailed Findings and Recommendations

City of Nichols

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

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

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 month of June 2023, the total balance per the City's general ledger was \$12,814 more than the total \$1,199,533 balance of all banks and investment accounts. We were unable to determine the reason for this variance.

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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – 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 Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (D) Monthly City Clerk's Report – Monthly financial reports were not provided to the City Council detailing receipts, disbursements and ending balances by fund or comparisons of total disbursements for all funds to the certified budget.

Recommendation – Monthly financial reports should be prepared and submitted to the City Council for their review and approval. All reports should be maintained on file in the City Clerk's office. Comparisons of total disbursements for all funds to the certified budget by function should be included in the financial reports to provide better control over budgeted disbursements and provide the opportunity for timely amendments to the budget.

- (E) Prenumbered Receipts – Prenumbered receipts were not issued for all collections received.

Recommendation – Prenumbered receipts should be issued for all collections. An independent person should account for the numerical sequence of the prenumbered receipts and compare these collections to the bank deposit and the accounting records, and the evidence of review should be documented with the name or initials of the reviewer and the date of the review.

- (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 – Meeting minutes were not signed as required by Chapter 380.7 of the Code of Iowa. In addition, the minutes did not include total disbursements by fund or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should ensure all City Council meeting minutes are signed by the City Clerk as required by Chapter 380.7 of the Code of Iowa. In addition, the City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes which includes total disbursements from each fund and a summary of receipts.

- (H) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the public safety 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.

City of Nichols

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (I) Disbursements – An effective internal control system provides internal controls related to ensuring all disbursements are properly supported and cancelled to prevent reuse. Although the City Council approves a disbursement listing, no evidence exists to indicate invoices or other supporting documentation are cancelled to prevent reuse. In addition, one of thirty-one transactions observed was not properly supported. The purpose for the transaction was obtained from City officials. The disbursement was paid to Casey’s in the amount of \$102 for gas for a police department vehicle.

Recommendation – The City should establish policies and procedures to ensure all disbursements are properly supported and approved and supporting documentation is properly cancelled to prevent reuse.

- (J) Void Checks – There is no policy to ensure voided checks are properly mutilated and retained.

Recommendation – The City should develop a policy to properly mutilate and retain voided checks.

- (K) Payroll – Timesheets do not include evidence of supervisory review. In addition, timesheets are not maintained for one employee paid on an hourly basis.

Recommendation – Timesheets should be reviewed and approved by supervisory personnel or City officials prior to the preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. In addition, timesheets should be maintained for all employees.

- (L) Interfund Transfers – Section 545-2 of the City Finance Committee Rules requires “A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred.” Transfers observed were not approved by resolution.

Recommendation – The City should approve all transfers by resolution. The resolutions should include the information required by Section 545-2 of the City Finance Committee Rules.

- (M) Annual Financial Report – The fiscal year 2022 Annual Financial Report (AFR) beginning and ending balances do not agree with the City’s financial records.

Recommendation – The City should ensure fund balances reported on the AFR agree with the City’s records.

City of Nichols

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Gwen D. Fangman, CPA, Manager
William J. Sallen, CPA, Senior Auditor
Sydney L. Steffen, Assistant Auditor