



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ April 3, 2014 _____ Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an examination report on the City of Newhall, Iowa for the period July 1, 2012 through June 30, 2013. The examination 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 and establish procedures to ensure bank and utility reconciliations are performed monthly and all financial activity is properly recorded. The City should also comply with requirements established in the Code of Iowa related to the publication of City Council meeting minutes and ensure the budget is amended in accordance with Chapter 384.18 before disbursements exceed budgeted amounts.

A copy of the examination 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/1321-0039-BLOF.pdf>.

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CITY OF NEWHALL
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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City of Newhall

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------------|----------------------|---------------------|
| Jan Mattson | Mayor | Jan 2014 |
| William Much | Mayor Pro Tem | Jan 2014 |
| Mike Berry | Council Member | Jan 2014 |
| Richard Etscheidt | Council Member | Jan 2014 |
| Gerald Gessner | Council Member | Jan 2014 |
| Aaron Knaack | Council Member | Jan 2014 |
| Keri Touro | City Clerk/Treasurer | Indefinite |
| Don Hoskins & Anne Loomis | Attorney | Indefinite |



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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Newhall pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Newhall for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

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 2012 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 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 reviewed 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 reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 Newhall, 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 Newhall, 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 Newhall and other parties to whom the City of Newhall 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 Newhall during the course of our examination. 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

November 8, 2013

Detailed Recommendations

City of Newhall

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (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.
 - (8) Transfers – preparing and reconciling.

Also, the City has not established an authorized amount for petty cash.

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 evidenced by the signature or initials of the reviewer and the date of the review. The City should establish an authorized petty cash amount and perform surprise test counts.

- (B) Bank Reconciliations and Financial Reporting – 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. Also, \$45,655 of receipts from the State of Iowa were deposited to the bank but were not recorded in the City's financial accounting system and \$13,128 was paid from the City's bank account electronically but was not recorded as a disbursement in the City's financial accounting system. Additionally, a receipt of \$3,712 deposited to the City's bank account was voided in the City's financial accounting system. The City Clerk was unsure why the receipt entry had been voided.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances should be reviewed and resolved timely. Also, all receipts and disbursements recorded electronically to the City's bank account should be recorded in the City's financial accounting system. If receipts are voided in the City's financial accounting system, the reason should be documented and the entry should be posted again.

City of Newhall

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (C) 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, document their review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

- (D) Financial Condition – At June 30, 2013, the City had a deficit balance of \$11,622 in the Enterprise, Water Fund.

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

- (E) 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. Selected meeting minutes were not published within fifteen days. Also, the minutes record of one meeting reviewed was not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. Also, the minutes record should be signed to authenticate the actions taken, as required.

- (F) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government and business-type activity 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 be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

- (G) Disbursements - Supporting documentation for all credit card charges was not available. Also, certain consecutively numbered checks selected for testing could not be located and had not been recorded in the accounting system. The checks were not identified as voided in the City’s financial accounting system and had not cleared the bank.

Recommendation – The City should ensure supporting documentation for all credit card charges is retained. Also, the City should ensure gaps in the numerical sequence of checks issued are identified and resolved to help to prevent potential misuse.

- (H) Accounting Policies and Procedures Manual – The City does not have a standardized accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel, streamline accounting operations and help achieve uniformity in accounting and in the application of policies and procedures.

City of Newhall

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (2) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (3) Help preserve the key elements in the City's internal controls.
- (4) Increase effectiveness and efficiency of City operations.

- (I) Water Revenue Bonds and Notes – The City's 2002 water revenue bond and 2004 water revenue note resolutions require repayment solely from the net receipts of the Enterprise, Water Fund and state the debt repayments are not payable in any manner by taxation. The City is required to establish a water sinking account and make sufficient monthly transfers to this account from the Enterprise, Water Fund for making the required debt payments. While the City has established the water sinking account, transfers to the sinking account were incorrectly made from the Debt Service Fund rather than from the Enterprise, Water Fund.

The electronic payment of principal and interest for the 2002 water revenue bond was not recorded in the City's general ledger. Additionally, the water sinking account maintains a balance because the 2002 water revenue bond was not recorded in the general ledger and the 2004 water revenue note payments were made from the Enterprise, Water Fund, not from the sinking account.

Further, the 2002 water revenue bond requires the City to maintain user rates at a level to ensure net receipts are equal to at least 110% of the principal and interest due in that year. Since the City's Enterprise, Water Fund is in a deficit position, the City has not maintained sufficient user rates.

Recommendation – The City should make a correcting transfer from the water sinking account to the Debt Service Fund. The City should transfer from the Enterprise, Water Fund to the water sinking account monthly and future bond and note payments should be made from the sinking account, as required.

The City should adjust user rates or reduce other expenses to ensure net receipts equal at least 110% of the principal and interest due each year.

- (J) Payroll – Certain employee timesheets were not approved by a supervisor.

Recommendation – Timesheets should be reviewed, approved and signed by a supervisor or elected official.

- (K) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

City of Newhall

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

The City had a cash balance of \$149,270 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) at June 30, 2013. However, the City had no outstanding TIF obligations at that date. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

The City has not submitted the Urban Renewal Annual Report required by Chapter 384.22 of the Code of Iowa to the Iowa Department of Management.

Recommendation – The City should consult legal counsel to determine the disposition of the excess monies in the Special Revenue, Urban Renewal Tax Increment Fund. If the City has no further tax increment financing debt, the \$149,270 should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa. The City should submit the Urban Renewal Annual Report, as required.

- (L) Employee Benefits Levy – Tax collections were properly receipted into the Special Revenue, Employee Benefits Fund. However, there were no disbursements recorded in this fund or transfers to reimburse the General Fund or the Special Revenue, Road Use Tax Fund for employee benefits related to employee salaries paid from those funds.

Recommendation – The City should determine the amount of employee benefits attributable to General Fund and Special Revenue, Road Use Tax Fund employees and reimburse those funds through transfers from the Special Revenue, Employee Benefits Fund.

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

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (N) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|----------------------------|----------|
| Jerry Gessner, Council Member, Owner of Gessner's Auto Service | Repair | \$ 1,407 |
| Richard Etscheidt, Council Member, Owner of Rich's of Newhall | Demolition | 1,069 |

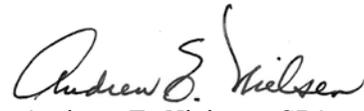
In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

City of Newhall

Staff

This examination was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Eric L. Rath, Staff Auditor
Leslie M. Downing, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State