

CITY OF NEWHALL, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014

Table of Contents ---

Officials	1
Independent Accountant’s Report on Applying Agreed-Upon Procedures	2-3
Detailed Recommendations.....	4-8

Officials

Name	Title	Term Expires
(Before January, 2014)		
Elected Officials		
Jan Mattson	Mayor	January, 2014
William Much	Council Member	January, 2014
Mike Berry	Council Member	January, 2014
Richard Etscheidt	Council Member	January, 2014
Gerald Gessner	Council Member	January, 2014
Aaron Knaack	Council Member	January, 2014
Appointed Officials		
Keri Touro	City Clerk	Indefinite
Don Hoskins and Anne Loomis	Attorney	Indefinite
(After January, 2014)		
Elected Officials		
Jan Mattson	Mayor	January, 2016
William Much	Council Member	January, 2016
Gerald Gessner	Council Member	January, 2016
Ruby Carolan	Council Member	January, 2016
Skyler Childers	Council Member	January, 2016
Doug Rinderknect	Council Member	January, 2016
Appointed Officials		
Keri Touro	City Clerk	Indefinite
Don Hoskins and Anne Loomis	Attorney	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures —

To the Honorable Mayor and
Members of the City Council
City of Newhall, Iowa

We have performed an agreed-upon procedures engagement of the City of Newhall pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. 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, 2013 through June 30, 2014. 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 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 (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) 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 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 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 CFC recommended chart of accounts.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts 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 noncompliance 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.

HOGAN - HANSEN

HOGAN - HANSEN

Cedar Rapids, Iowa
September 15, 2014

Detailed Recommendations

Detailed Recommendations

For the Period July 1, 2013 through June 30, 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. We noted that incompatible duties are being performed by the same person.

Recommendation - We realize that 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.

- (B) **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

Recommendation - The City should obtain and retain images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

- (C) **Payroll** - One timesheet selected for testing did not include evidence of supervisory review. Additionally, the wage of one employee tested was not approved by the City Council, as required. We also noted inconsistency in the determination of overtime hours. We noted an employee had overtime calculated based on hours worked more than eight hours a day for one check and based on hours worked more than 40 hours a week for another check.

Recommendation - All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, procedures should be established to ensure that approved payroll rates are entered and reviewed by an independent person, with the approval being documented. Furthermore, we recommend that the City Council review procedures for calculating overtime hours and update policies accordingly.

- (D) **City Council Minutes** - Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include total disbursements from each fund and a summary of receipts. Proof of publication for two of the four meetings selected for testing could not be located. In addition, these two meetings did not include total disbursements from each fund or a summary of receipts.

Recommendation - The City should comply with the Code of Iowa and publish City Council minutes within 15 days of each meeting, as required. The published minutes should include total disbursements by fund and a summary of receipts, as required.

- (E) **Certified Budget** - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the general government, debt service and business-type activities 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.

Detailed Recommendations

For the Period July 1, 2013 through June 30, 2014

- (F) **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:

Paid to	Purpose	Amount
Benton Community Post Prom	Donation for high school post prom party	\$ 50

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.

- (G) **City Council Disbursement Approval** - Documentation was not available showing City Council approval for 3 of the 30 disbursements tested.

Recommendation - All disbursements should be approved by City Council and documentation of City Council approval should be retained.

- (H) **Supporting Documentation** - Supporting documentation was not available to support two disbursements tested in the amounts of \$67.40 and \$30.77.

Recommendation - The City should maintain supporting documentation for all disbursements.

- (I) **Forms 941, W-2 and W-3** - Copies of the Forms W-2 and W-3, the third quarter 2013 Form 941 and fourth quarter 2013 Form 941 retained by the City were not signed and dated. Therefore, we were unable to determine if they were timely filed. The City was unable to locate the first quarter 2014 Form 941 and indicated that the second quarter Form 941 was not completed by the July 31, 2014 deadline.

Recommendation - The City should ensure such forms are filed timely in the future and retain copies of all filed Forms 941, W-2 and W-3, which are signed and dated.

- (J) **Petty Cash** - Documentation supporting payments to replenish petty cash initially was not available. Documentation for all but four payments was subsequently provided.

Recommendation - Documentation supporting all petty cash replenishments should be retained by the City.

Detailed Recommendations

For the Period July 1, 2013 through June 30, 2014

- (K) **Bank Reconciliations** - The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. However, for the two months reviewed, bank and book balances did not properly reconcile. Variances of \$17,381.50 and \$184.50 were not resolved.

Recommendation - The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely.

- (L) **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, there were no transfers recorded to the water sinking account. The December interest payment was recorded in the Sewer Fund and the June principal and interest payment was recorded in the Debt Service Fund.

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 and Sewer Funds to reimburse those funds for water debt service payments made in error. 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 increase user rates or reduce expenses to ensure that net receipts equal at least 110% of the principal and interest due each year.

- (M) **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 by 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.

The City had a cash balance of \$161,151 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) as of June 30, 2014. However, the City had no outstanding TIF obligations as of 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.

Detailed Recommendations

For the Period July 1, 2013 through June 30, 2014

The City submitted the Urban Renewal Annual Report required by Chapter 384.22 of the Code of Iowa to the Iowa Department of Management; however, it was filed after the December 1, 2013 deadline.

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 \$161,151 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 timely.

- (N) **Financial Condition** - As of June 30, 2014, the City had deficit balances of \$36,703 and \$129,119 in the Enterprise, Water and Road Use Tax Funds, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

- (O) **Transfer and Journal Entry Documentation** - Supporting documentation was not maintained for interfund transfers and journal entries. Additionally, transfers and journal entries are not approved by anyone before being recorded to the general ledger.

Recommendation - Supporting documentation should be maintained which substantiates all interfund transfers and journal entries. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable. Journal entries should be approved by an independent person and evidence of the approval should be documented.

- (P) **Computer Software** - The following weakness in the City's computer software was noted:

The City changed computer software during the June 30, 2014 fiscal year. According to City personnel, the company that was hired to install the software entered all prior year fund balances and grouped all transactions for the period July 1, 2013 through September 30, 2013 into a single entry. Many transactions were entered incorrectly causing the General Fund, Road Use Tax Fund, Local Option Sales Tax Fund, Debt Service Fund, Water Fund and Sewer Fund to have incorrect ending fund balances.

Recommendation - The City should review all transactions that were entered by the computer software company and variances should be investigated. Consultation with the software provider is suggested, if needed, to understand how the transactions were entered.

- (Q) **Receipts** - Certain receipts that were tested were not recorded in the proper fund, and we noted that the ACH utility deposit for the month tested was not recorded in the general ledger.

Recommendation - The City should establish procedures to ensure receipts are recorded properly and to the proper fund.

Detailed Recommendations

For the Period July 1, 2013 through June 30, 2014

- (R) **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.

- (S) **Local Option Sales and Services Tax** - The City was unable to provide the most recent local option sales and services tax referendum authorizing the collection of the tax; therefore, we were not able to test that the tax receipts were spent in accordance with the provisions of the referendum.

Recommendation - The City should obtain a copy of the referendum from the County Auditor and maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

- (T) **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.