

**CITY OF NORA SPRINGS, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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Officials

Name	Title	Term Expires
Elected Officials		
George Andersen	Mayor	December 31, 2017
Steve Blickenderfer	Council Member	December 31, 2015
Alan Brallier	Council Member	December 31, 2015
Margaret Ueker	Council Member	December 31, 2017
Brian Hanft	Council Member	December 31, 2017
Candace Smith	Council Member	December 31, 2015
Appointed Officials		
Deborah Gaul	City Administrator	Indefinite

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

To the Honorable Mayor and
Members of the City Council
City of Nora Springs, Iowa

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 Nora Springs for the period July 1, 2014 through June 30, 2015. The City of Nora Springs's management, which agreed to the performance of the procedures performed, is responsible 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 2014 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 noncompliance were not noted during the performance of the specific procedures listed above.

These agreed-upon procedures did not constitute an audit of the financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Nora Springs, additional matters might have come to our attention that would have been reported to you.

To the Honorable Mayor and
Members of the City Council
City of Nora Springs, Iowa
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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 Nora Springs and other parties to whom the City of Nora Springs 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

Mason City, Iowa
September 22, 2015

Detailed Recommendations

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (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) **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. We noted that the minutes for one meeting selected were not published within 15 days.

Recommendation - The City should comply with the Code of Iowa and publish the City Council minutes within 15 days of the meeting, as required.

- (C) **Financial Condition** - As of June 30, 2015, the City had deficit balances in the following funds:

Fund	Amount
Special Revenue	
Storm Damage	\$ 72,713
Capital Projects	
2013 Sanitary Sewer	25,827
North Hooker Water Main	141,858
Aquatic Center	451,957

Recommendation - The City should take steps to reduce and eventually eliminate these deficits to return the funds to a sound financial condition.

- (D) **Bank Reconciliations** - The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. We noted bank and book balances properly reconciled in total; however, for one month tested, we noted variances among the following three funds:

1. General Fund balance on the Treasurer's report did not agree to the general ledger by \$139.79.
2. Special Revenue, Road Use Tax Fund balance on the Treasurer's report did not agree to the general ledger by \$91.07.
3. Special Revenue, Employee Benefits Fund balance on the Treasurer's report did not agree to the general ledger by (\$230.86).

In addition, the bank reconciliations are not independently reviewed by someone who is not involved in the reconciliation process.

Recommendation - The City should establish procedures to ensure any variances are reviewed and resolved timely. In addition, an independent person such as an elected official, should review all bank reconciliations and agree the balance on each reconciliation to the bank statement, scan outstanding checks and deposits for propriety and agree the reconciled balance to the general ledger. The reviewing individual should document their review by signing or initialing and dating the reconciliations.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

(E) **Annual Financial Report (AFR)** - During our review of the June 30, 2014 AFR, we noted the following:

1. The beginning fund balances on the June 30, 2014 AFR did not agree with the ending balances on the June 30, 2013 AFR. We noted that the June 30, 2013 Special Revenue Fund balance reported on the 2013 AFR was \$653,598 and \$649,983 was reported as the beginning balance on the 2014 AFR, a difference of \$3,615. We also noted that the June 30, 2013 Proprietary Fund balance reported on the 2013 AFR was \$471,306 and \$474,920 was reported as the beginning balance on the 2014 AFR, a difference of (\$3,614). These variances resulted in a \$1 net variance from the June 30, 2013 total fund balance.
2. The ending fund balances reported on the 2014 AFR did not agree to the June 30, 2014 Treasurer's report for the following funds:
 - a. The General Fund 2014 AFR reported an ending balance of \$736,548 while the Treasurer's report reported \$738,077, a net difference of (\$1,529).
 - b. The Special Revenue Funds 2014 AFR reported an ending balance of \$625,523 while the Treasurer's report reported \$623,585, a net difference of \$1,938.
 - c. The Proprietary Funds 2014 AFR reported an ending balance of \$511,285 while the Treasurer's report reported \$511,713, a net difference of (\$428).

The above variances resulted in a (\$19) net variance in the June 30, 2014 total fund balance.

3. We noted total disbursements reported on the 2014 AFR did not agree to total disbursements reported on the total monthly Treasurer's reports by \$303.

Recommendation - We recommend that amounts used to prepare the AFR be compared to year-end reports generated in the general ledger software.

(F) **Journal Entries** - Journal entries made to the general ledger 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.

(G) **Disbursements** - We selected 30 checks to test and noted one disbursement that was not listed in the minutes and approved by the City Council and one disbursement which did not contain supporting documentation to document public purpose.

Recommendation - We recommend all disbursements be approved by the City Council and supporting documentation be obtained and maintained for each disbursement.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

(H) **Payroll** - While testing payroll, we noted the following items:

1. We were unable to recalculate gross wages for one pay period for one employee selected due to the hours shown on the timecard not agreeing to the number of hours paid.
2. We noted that the wage rate for the Utility Clerk was not documented in the minutes and did not appear to have been approved by the City Council.
3. We noted that the wage rate for one employee was properly updated in the payroll software but his rate was incorrectly shown on the resolution that was approved by the City Council. The error was discovered and the resolution was corrected; however, the corrected resolution was never reapproved by the City Council.
4. We noted that the annual salary increases for all Library employees were based upon a specific amount per hour. The actual approved wage rates were not indicated in the Library Board minutes.

Recommendation - We recommend that hours entered into the payroll system be reviewed prior to generating the payroll. Wage rates should also be carefully reviewed when entered into the payroll program and resolutions should be proofread prior to presenting for the City Council approval. Lastly, salaries of Library employees should be adequately documented in the minutes.

(I) **Account Reconciliations** - We selected the month of April to reconcile bank statement deposits to total receipts posted in the general ledger. We noted that deposits reconciled to general ledger receipts within \$29.22. We also reconciled property tax receipts for the fiscal year ended June 30, 2015 to receipts posted in the general ledger. We noted that property tax receipts reconciled to the general ledger receipts within \$1,503.70.

Recommendation - We recommend that receipts posted to the general ledger be reconciled to deposits on the bank statements on a monthly basis and promptly investigate any variances.

(J) **Employee Benefits Levy** - The City levies property taxes for payroll taxes and health insurance costs. The property tax levy produced tax collections of \$99,456 recorded in the Special Revenue, Employee Benefits Fund. Payroll taxes and insurance premiums paid from the Special Revenue, Employee Benefits Fund totaled \$78,329, indicating excess property tax is being levied for this purpose. We noted an ending fund balance of \$169,607 in the Special Revenue, Employee Benefits Fund which indicates that excess property tax has been levied for several years.

Recommendation - The property tax levy should be reduced or eliminated to use up the excess fund balance. Amounts collected in excess of payroll taxes and insurance premiums in the Special Revenue, Employee Benefits Fund may be used only for allowable purposes.