



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

October 24, 2016

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Essex, Iowa for the period April 1, 2015 through March 31, 2016. The agreed-upon procedures engagement 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 investment account balances are reconciled to the general ledger monthly. In addition, the City should publish City Council meeting minutes within fifteen days and document the public purpose of certain disbursements.

A copy of the agreed-upon procedures 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 <https://auditor.iowa.gov/reports/1521-0677-EP0P>.

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CITY OF ESSEX

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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City of Essex

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Russell Hilker	Mayor	Jan 2014	Jan 2018
Ricky Dailey	Council Member	Jan 2014	Jan 2018
Marian Durfey	Council Member	Jan 2014	Jan 2018
Patricia Gay	Council Member	Jan 2016	Jan 2020
Calvin Kinney	Council Member	Jan 2016	Jan 2020
Saundra Marion	Council Member	Jan 2016	Jan 2020
Lisa Nelson	City Clerk/Treasurer		Indefinite
Mahlon Sorenson	Attorney		Indefinite

City of Essex



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

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 Essex for the period April 1, 2015 through March 31, 2016. The City of Essex'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 2015 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.

These agreed-upon procedures do not constitute an audit of 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 Essex, 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 Essex and other parties to whom the City of Essex 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 Essex 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.


MARY MOSIMAN, CPA
Auditor of State

May 26, 2016

Detailed Recommendations

City of Essex

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

(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 bank accounts and recording.
- (2) Investments – recordkeeping, investing and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities and ambulance – billing, collecting, depositing, posting, entering rates into the system, maintaining detailed accounts receivable and write-off records.
- (5) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing, distributing, entering rates and adding/removing employees from the system.
- (7) Long-term debt – recording and reconciling.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and journalizing.

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 two months reviewed, bank and book balances did not properly reconcile. The difference between bank and investment account balances and the general ledger was \$14,581 at March 31, 2016 and \$14,575 at June 30, 2015.

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 Ambulance Billings, Collections and Delinquent Accounts - Ambulance billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared and maintained monthly. In addition, ambulance billing rates have not been approved by the City Council.

City of Essex

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

Recommendation - Procedures should be established to reconcile ambulance billings, collections and delinquent accounts for each billing period. A listing of delinquent accounts should be prepared monthly. 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. Also, ambulance billing rates should be approved by the City Council.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – The reconciliations of utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation – The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (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, including a list of claims allowed, a summary of receipts and total disbursements by fund. Three of four meeting minutes tested were not published within fifteen days. The published minutes do not include disbursements by fund or a summary of receipts. Also, the published claims for the May 13, 2015 meeting did not include the reason for each claim, as required.

Recommendation – The City should publish minutes within fifteen days of the meeting, including a list of claims allowed, a summary of receipts and total disbursements by fund, as required.

- (F) Sewer Revenue Capital Loan Note – The City has not established a sewer revenue sinking account or caused an annual audit of the sewer revenue system as required by the provisions of the sewer revenue capital loan note resolution.

Recommendation – The City should establish the sewer revenue sinking account and make the required monthly transfers to the account. The City should also ensure the sewer system is audited annually, as required.

- (G) General Obligation Capital Loan Notes – Principal and interest on the City's 2003 general obligation capital loan notes were paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should transfer from the Enterprise, Water Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund, as required.

City of Essex

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (H) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

- (I) Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires LOST receipts to be allocated as follows: 30% for recreational development, 40% for infrastructure, and 30% for community betterment. The City has not properly tracked LOST disbursements and unspent balances to ensure compliance with the ballot provisions.

Recommendation – The City should establish procedures to track LOST disbursements and unspent balances to ensure LOST receipts are being used in accordance with the ballot provisions.

- (J) Investments – An accounting record/register is maintained for each investment. However, the interest rate and maturity date of each certificate of deposit (CD) is not tracked.

Recommendation – To properly account for investments, the accounting record/register should include the interest rate and maturity date of each CD.

- (K) Annual Financial Report – The beginning balance for the governmental funds did not agree to the prior year ending balance reported in the June 30, 2014 Annual Financial Report (AFR) by \$1,540 and the ending balance for the governmental funds did not agree to the general ledger by \$1,908. Also, the long-term debt section of the AFR reported the portion of debt due in the next fiscal year, but did not report the entire outstanding balance, as required.

Recommendation – The City should ensure the current year AFR beginning balances agree with the prior year ending balances and ending fund balances reported on the AFR reconcile to the City's general ledger. Also, the long-term debt section of the AFR should report the total remaining balance of outstanding debt. An independent person should review the report for accuracy. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (L) IRS Form 1099 MISC – The City did not file IRS Forms 1099 MISC for payments to contractors of \$600 or more during a calendar year, as required.

Recommendation – The City should complete and file IRS Forms 1099 MISC, as required.

- (M) Monthly City Clerk's Report – The monthly City Clerk's report to the City Council included a list of claims for the month, but did not include a summary of beginning balances, receipts, disbursements, transfers and ending balances by fund. Also, budget to actual information is provided quarterly rather than monthly.

Recommendation – For better financial information, the monthly reports should include the beginning balances, receipts, disbursements, transfers and ending balances for each fund. Also, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City's Clerk's monthly financial reports to the City Council should include comparisons of total disbursements for all funds to the certified budget by function.

City of Essex

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (N) Clothing Allowance – Certain disbursements were noted 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.

As part of the annual budget, the City Council approves and pays \$200 to each employee annually as a clothing allowance. The City does not have a policy requiring a specific type of clothing for employees to perform their duties and the City does not require employees to provide receipts to evidence clothing purchases. The City did not document the public benefit derived from providing the clothing allowances. In addition, the allowances were not processed through payroll and, accordingly, the proper tax withholdings were not applied.

Recommendation – The City should determine and document the public purpose served by providing clothing allowances to employees. If this practice is continued, the City should ensure clothing allowances are properly processed through payroll.

- (O) Fire and Rescue Compensation – Pay rates for fire and rescue staff are not approved by the City Council.

Recommendation – The City Council should take formal action to approve the pay rates for all fire and rescue staff and document the pay rates in the City Council meeting minutes.

- (P) City Clerk Pay – The City has a contract with the City Clerk to perform ambulance billings. The City Clerk is paid 6% of the billed amount for each rescue call on a monthly basis. These duties are to be performed outside the City Clerk’s normal work hours. The billing system and files are located at City Hall. While the agreement was approved by the Fire Chief, the City Council did not take formal action to approve the agreement.

The City also pays the City Clerk to perform janitorial services. The City Council approved to pay the City Clerk \$100 per month through June 30, 2015 and \$125 per month subsequent to that date.

For the period April 1, 2015 through March 31, 2016 the City Clerk was paid \$53,060, including \$13,635 for ambulance billing and \$1,425 for janitorial services. While the City Clerk prepared timesheets, the timesheets did not include time spent on ambulance billing or janitorial services. Supporting documentation was not maintained to substantiate the amounts paid to the City Clerk for ambulance billing or janitorial services.

Recommendation – Timesheets should be prepared to document all hours and services performed and should be signed by the City Clerk and the Mayor or a City Council person. All agreements for pay should be reviewed and approved by the City Council and documented in the City Council meeting minutes.

- (Q) Employee IPERS Classification – The City applied the Iowa Public Employees’ Retirement System (IPERS) protective occupation member rate to the rescue billing duty wages paid to the City Clerk. However, the City Clerk performs no duties which qualify for this higher member rate. Accordingly, the regular member rate should have been applied to these wages.

Recommendation – The City should contact IPERS to determine the disposition of this matter.

City of Essex

Detailed Recommendations

For the period April 1, 2015 through March 31, 2016

- (R) Transfers – During the period April 1, 2015 to March 31, 2016, certain transfers between funds were reported as receipts and disbursements rather than transfers.

Recommendation – The City should ensure transfers between funds are properly reported.

- (S) Financial Condition – At June 30, 2015, the Special Revenue, Emergency and Employee Benefits Funds had deficit balances of \$5,170 and \$8,520, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficit balances in order to return the funds to a sound financial position.

- (T) Tax Increment Financing – Chapter 403.22 of the Code of Iowa requires the City to provide assistance for low and moderate income family housing (LMI) when urban renewal projects involve public improvements related to housing and residential development.

In accordance with the City's 2006 Urban Renewal Plan, the City is required to provide LMI assistance by setting aside 39.6% of the project costs for LMI housing activities. Based on the total costs to date for the applicable urban renewal project, the required LMI set aside amount is \$89,601. The City has not tracked the accumulation or proper use of the required LMI set-aside.

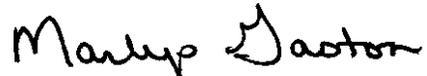
Recommendation – The City should establish procedures to track LMI set-aside amounts and related disbursements to demonstrate compliance with the LMI requirements.

City of Essex

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Mallory A. Sims, Assistant Auditor


Marlys K. Gaston, CPA
Director