



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

February 15, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Early, Iowa for the period July 1, 2015 through June 30, 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 utility reconciliations are performed monthly. The City should also ensure interfund transfers are approved by the City Council.

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/1622-0762-EPOP>.

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CITY OF EARLY
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

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City of Early

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Sharon Ann Irwin	Mayor	Jan 2016	Jan 2020
William Cougill	Council Member	Jan 2014	Jan 2018
Melissa Freese	Council Member	Jan 2014	Jan 2018
Brian Pickhinke	Council Member	Jan 2014	Jan 2018
Mary Ann Brinkman	Council Member	Jan 2016	Jan 2020
Doug Gulley	Council Member	Jan 2016	Jan 2020
Tammy Nuckolls	City Clerk		Indefinite
David Jennett	City Attorney		Indefinite

City of Early



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Independent Accountant's Report on Applying Agreed-Up 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 Early for the period July 1, 2015 through June 30, 2016. The City of Early'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 2016 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 receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Early, 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 Early and other parties to whom the City of Early 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 Early 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

September 8, 2016

Detailed Recommendations

City of Early

Detailed Recommendations

For the period July 1, 2015 through June 30, 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 and recording.
 - (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, reconciling and posting.
 - (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
 - (5) Debt – recordkeeping, compliance and debt payment processing.
 - (6) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
 - (7) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.

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) Investments – An accounting register is not maintained for each investment.

Recommendation – A register should be maintained for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number.

- (C) Questionable Disbursement – For the period reviewed, we noted \$95 was disbursed for flowers. This disbursement 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

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 this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

City of Early

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (D) Transfers – Two transfers selected for testing were not approved by the City Council.

Recommendation – The City Council should approve all interfund transfers prior to the actual transfer.

- (E) Financial Reporting – Two transactions were coded to the wrong account.

Recommendation – The City should implement procedures to ensure transactions are properly coded.

- (F) Revenue Bonds – Principal and interest on the City’s water and sewer revenue bonds were paid from the Debt Service Fund. In addition, the provisions of the water and sewer revenue bond resolutions require sufficient monthly transfers be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due. The City has not established the water and sewer revenue bond sinking accounts and has not made the required monthly transfers to the accounts.

Recommendation – The City should establish the required water and sewer sinking accounts and ensure monthly transfers are made to the accounts. Payments on the bonds should be made from the water and sewer sinking accounts, as required.

- (G) 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 of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

- (H) Monthly City Clerk’s Report – The monthly City Clerk’s report presented to the City Council did not include transfers between funds.

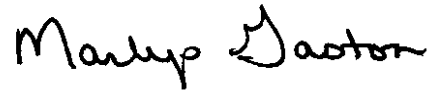
Recommendation – The monthly City Clerk’s report should include transfers between funds.

City of Early

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Premnarayan Gobin, Assistant Auditor
Luke Bormann, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director