



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 13, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Emerson, Iowa for the period July 1, 2016 through June 30, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its internal control procedures to obtain the maximum internal control possible. In addition, the City should comply with the meeting minutes publication requirements of the Code of Iowa and the water revenue bond requirements.

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/1722-0616-EPOP>.

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CITY OF EMERSON

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

**FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017**

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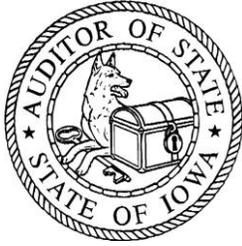
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City of Emerson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
David Galley (Appointed)	Mayor	Nov 2016	Nov 2017
Ann Roth (Appointed)	Council Member	Nov 2016	Nov 2017
Phillip Kudron (Appointed)	Council Member	May 2016	Nov 2017
Heidi Pullen	Council Member	Jan 2016	Jan 2020
Jennifer Shaw	Council Member	Jan 2016	Jan 2020
Ronald Stephens Jr.	Council Member	Jan 2016	Jan 2020
Kimberly Nelson	City Clerk		Indefinite
Lori Jansky	City Treasurer		Indefinite
Matthew G. Woods	Attorney		Indefinite

City of Emerson



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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 Emerson for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Emerson's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Emerson 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

October 25, 2017

Detailed Recommendations

City of Emerson

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

(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) Long-term debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing, posting and reconciling.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and recording.

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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year. However, an independent review of the reconciliation is not performed.

Recommendation – 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.

(C) Financial Condition – At June 30, 2017, the City had deficit balances of \$3,457 and \$1,836 in the Enterprise, Sewer and Storm Water Funds, respectively.

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

(D) Revenue Bonds – The provisions of the water revenue bond resolution require the City to produce and maintain net receipts at a level not less than 110% of the principal and interest on the revenue bond as they become due. For the year ended June 30, 2017, the City's Enterprise, Water Fund had net operating receipts of \$31,342, which was less than 110% of the required revenue bond principal and interest payment of \$43,659.

City of Emerson

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

Recommendation – The City should consult legal counsel to determine the disposition of this matter and review the City’s utility rates to ensure the rates are adequate to produce the required net operating receipts.

- (E) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days.

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

- (F) Go Fund Me Account – The City opened a “Go Fund Me” account to collect donations for new playground equipment. Although the account does not have a significant balance, the account may not be an allowable depository for public funds in accordance with Chapters 12B.10 and 12C of the Code of Iowa. Chapter 12B.10(1)(b) states, in part, “The treasurer of state and the treasurer of each political subdivision shall at all times keep funds coming into their possession as public money in a vault or safe to be provided for that purpose or in one or more depositories approved pursuant to chapter 12C.”

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

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

Recommendation – Journal entries should be reviewed and approved by an independent person and evidence of the approval should be documented.

- (H) Financial Reporting – One transaction was coded to an incorrect receipt account.

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

- (I) Change/Petty Cash Fund – The City maintains a change/petty cash fund for which an authorized amount could not be located.

Recommendation – The change/petty cash fund should be formally authorized by the City Council.

City of Emerson

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Cole L. Hocker, Staff Auditor
Michaela M. Goergen, Assistant Auditor


Marlys K. Gaston, CPA
Director