



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ June 4, 2007 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an agreed upon procedures report on the City of Emerson, Iowa for the period July 1, 2005 through June 30, 2006. The agreed upon procedures were performed at the request of the City Council.

Vaudt recommended the City establish segregation of duties over cash, receipts and disbursements and follow the Employee Handbook to establish employee work schedules and pay for overtime hours worked. Vaudt also recommended the City establish procedures to reconcile utility billings, collections and delinquencies and record all receipts and disbursements properly by category. The City's responses are included in the report.

A copy of the 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 <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF EMERSON

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

**FOR THE PERIOD
JULY 1, 2005 THROUGH JUNE 30, 2006**

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City of Emerson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Calvin Pearson	Mayor	Jan 2006
Bob Delisi	Council Member	Jan 2006
Bob Huntsman	Council Member	Jan 2006
Bob Wilkinson	Council Member	Jan 2006
Don Lee	Council Member	Jan 2008
Chuck Moyers	Council Member	Jan 2008
(After January 2006)		
Calvin Pearson	Mayor	Jan 2008
Max Austin (Appointed Jan 1, 2007)	Council Member	Jan 2008
Don Lee	Council Member	Jan 2008
Chuck Moyers	Council Member	Jan 2008
Bob Delisi	Council Member	Jan 2010
Bob Huntsman	Council Member	(Resigned Dec 31, 2006)
Bob Wilkinson	Council Member	Jan 2010
Michelle Faxon	Clerk	Indefinite
Bonnie Elkins	Treasurer	Indefinite
Joe Wearin	Attorney	Indefinite

City of Emerson



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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 following procedures, which were agreed to by the City of Emerson, solely to assist you in evaluating the operations of the City for the period July 1, 2005 to June 30, 2006. The City of Emerson's management is responsible for the operating practices and procedures followed by the City. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this 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 were as follows:

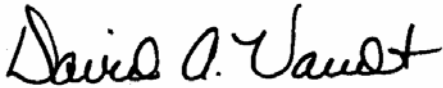
1. We obtained an understanding of the City's internal controls over cash, receipts, disbursements and payroll.
2. We tested certain receipts to determine if they were properly recorded, accounted for and deposited timely.
3. We tested certain delinquent utility accounts to determine if the City was attempting to collect those accounts.
4. We tested certain disbursements to determine if they were properly recorded and accounted for.
5. We tested certain payroll transactions to determine if authorized salary or hourly pay rates were used to determine gross pay, gross pay was correct, FICA and IPERS withholdings were correct, Federal and State tax withholdings were reasonable and endorsement and cancellation on checks were proper.

Based on the performance of the procedures described above, we noted an instance of non-compliance with the Code of Iowa. Also, we identified various recommendations for the City. Our recommendations and the instance of non-compliance are described in the Detailed Recommendations of this report. Unless reported in the Detailed Recommendations, no other items of non-compliance were noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Emerson, the objective of which would be the expression of an opinion on the financial statements of the City of Emerson. Accordingly, we do not express such an opinion. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Emerson, other 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 Emerson and other parties to whom the City of Emerson 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 assistance extended to us by personnel of the City of Emerson. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 27, 2007

Detailed Recommendations

City of Emerson

Detailed Recommendations

July 1, 2005 through June 30, 2006

(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. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City of Emerson:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Disbursements – purchasing, check signing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of various reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – We will comply with the recommendation.

Conclusion – Response accepted

(B) Payroll Timesheets and Approval – Employees of the City are not required to prepare timesheets. Accordingly, there is no independent review or approval of the time recorded by employees for which they are paid.

Recommendation – The employees of the City should be required to prepare timesheets and there should be an independent review and approval of time paid to employees.

Response – We will comply with the recommendation.

Conclusion – Response accepted.

(C) Scheduling and Overtime – The Employee Handbook requires a member of the City Council to act as a department head to schedule all hours to be worked. Furthermore, the Employee Handbook requires overtime hours be reviewed as of the first day of each month and be paid at the end of the following month unless compensatory time off has been given. Work schedules have not been established for City employees and the Employee Handbook requirements were not followed for overtime hours.

Recommendation – The Employee Handbook should be followed to establish employee work schedules and to pay for overtime hours.

Response – We will comply with the recommendation.

Conclusion – Response accepted.

- (D) Disbursements – The City does not receive copies of the back of electronically retained checks from the bank as required by Chapter 554D.114(5) of the Code of Iowa.

Recommendation – The City should obtain copies of the backs of electronic checks from the bank as required by Chapter 554D.114(5) of the Code of Iowa.

Response – The City contacted the bank to resolve this issue and will begin to receive fronts and backs of electronic copies of checks.

Conclusion – Response accepted.

- (E) Prenumbered Receipts – Prenumbered receipts were not issued for all collections and an initial listing of collections was not prepared. Also, collections were not always deposited timely.

Recommendation – Prenumbered receipts should be issued for all collections or an initial listing of collections should be prepared. These should be compared to the bank deposit and the accounting records by an independent person, and evidence of this review should be documented. All collections should be deposited timely.

Response – The City will require prenumbered receipts for all cash collections. In addition, the City will require an initial listing of collections by check. A person independent of collections and bank deposit duties will compare the collections to the bank deposit and document this review. Bank deposits will be made timely.

Conclusion – Response accepted.

- (F) Delinquent Account Notices – The City Clerk was not able to locate delinquent notices sent to customers in May 2006.

Recommendation – The City should maintain all records to document actions taken by the City.

Response – We will comply with the recommendation.

Conclusion – Response accepted.

- (G) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled throughout the year. Delinquent account listings were prepared but were not reviewed by the City Council.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month, and someone independent of billing customers and handling and recording collections should review the reconciliations and document the review performed. The City Council should review the delinquent account listings and document the review.

Response – We will comply with the recommendation.

Conclusion – Response accepted.

- (H) Utility Billings – Utility customers read their own water meters and report readings to the City for billing. The City does not periodically read customer water meters for verification. Section 92.04(1) of the City ordinance book states the Superintendent shall periodically obtain current readings on all water meters.

Recommendation – The City should read customer water meters at least annually to verify readings are accurate and billings are correct.

Response – We will comply with the recommendation.

Conclusion – Response accepted.

- (I) Classification of Receipts and Disbursements – Receipts and disbursements are not properly classified by receipt and disbursement categories as required to conform to the chart of accounts.

Recommendation – The City should properly classify receipts and disbursements by category.

Response – We will comply with the recommendation.

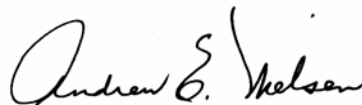
Conclusion – Response accepted.

City of Emerson

Staff

This agreed upon procedures engagement was performed by:

Kay F. Dunn, CPA, Manager
Melissa M. Wellhausen, CPA, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State