



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ January 13, 2014 _____ Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an examination report on the City of Emerson, Iowa for the period July 1, 2012 through June 30, 2013. The examination was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its internal controls to obtain the maximum internal control possible and establish procedures to ensure proper documentation of disbursements. The City should also comply with closed session requirements of the Code of Iowa and the water revenue bond requirements.

A copy of the examination 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/1322-0616-BLOF.pdf>.

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CITY OF EMERSON
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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City of Emerson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Erickson	Mayor	Jan 2014
Garu Cjrostemsem	Council Member	Jan 2014
Robert Delisi	Council Member	Jan 2014
David Galley	Council Member	Jan 2014
Judith Magers	Council Member	Jan 2015
Carl Newsome	Council Member	Jan 2015
Jackie Porter	Clerk/Treasurer	Indefinite
Matthew G. Woods	Attorney	Indefinite



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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Emerson pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

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 security 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 (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2012 Annual Financial Report (AFR) 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 CFC recommended chart of accounts.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting, consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 audit of the operations of the City of Emerson, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City, 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 and other parties to whom the City 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 Emerson during the course of our examination. 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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 27, 2013

Detailed Recommendations

City of Emerson

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing with no independent review.

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 evidenced by the signature or initials of the reviewer and the date of the review.

(B) City Fire Department – The following were noted for the Fire Department:

- All accounting functions are handled by one individual without adequate compensating controls.
- Bank reconciliations are reviewed annually rather than monthly.
- Proper supporting documentation for disbursements is not maintained.

Recommendation - The Fire Department should segregate accounting duties to the extent possible, bank reconciliations should be reviewed monthly and proper supporting documentation should be maintained for disbursements.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. 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. In addition, the City should ensure undeposited collections are properly supported and documentation is maintained.

City of Emerson

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(D) Payroll – City employees are required to complete time cards. The City Council approves all pay increases. The following were identified:

- Although time cards are maintained for all employees, there was no indication the time cards had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll. In addition, employees do not sign their time cards.
- Employee vacation and compensatory time hours are not adequately tracked or reviewed.
- The hiring salary and subsequent wage increase for the City Clerk was not documented in the City Council minutes. In addition, annual salary increases for all City employees were approved based upon a percentage and the actual approved wages were not documented in the City Council minutes.

Recommendation – Time cards and vacation and compensatory time should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be evidenced by the signature or initials of the reviewer and the date of the review. The City should adhere to its policy for compensated absences. Salaries of employees should be adequately documented in the City Council minutes.

(E) 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. Also, the Employee Handbook requires overtime hours to 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 approved. Work schedules have not been established for City employees and the procedures prescribed by the Employee Handbook were not followed for overtime hours.

Recommendation – Work schedules should be established for City employees and the procedures prescribed by the Employee Handbook should be followed.

(F) Library – The Library allows citizens to order books and materials using library vendor accounts to benefit from the City Library's discounts and non-tax status.

Recommendation – The City should establish policies to preclude citizens from ordering books and materials using the City's non-tax status. The City should contact the vendor to determine whether private citizens may use the City's library vendor discounts.

(G) Prenumbered Receipts – Prenumbered receipts were not issued for all collections and an initial listing of collections was not prepared.

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

City of Emerson

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (H) Financial Records – The Library has a separate savings account. In August 2012, the librarian withdrew \$165 from the savings account to purchase items. Supporting documentation for this withdrawal was not maintained. In addition, the cash withdrawal was incorrectly coded as a negative receipt.

Recommendation – The City should establish policies regarding the proper coding of disbursements by the Library and ensure all withdrawals from the savings account are properly supported.

- (I) Health Savings Account – In lieu of providing a group health insurance policy, the City Council approved providing up to \$6,000 to reimburse individual employees for health insurance premiums and/or deductibles.

During the year ended June 30, 2012, one employee established a Health Savings Account (HSA) at Houghton State Bank. Contributions to an HSA must comply with federal guidelines. We were unable to review the information necessary to determine if the HSA established by the employee complied with federal requirements. In addition, the employee received the contribution and was not required to provide documentation the contribution was deposited to the HSA. The Employee Handbook does not offer an HSA as an option in lieu of a health insurance policy.

Recommendation – If the City offers an HSA in the future, the City should establish policies and procedures and take appropriate steps to ensure the HSA has been established in compliance with federal guidelines. The employee should provide documentation the contribution was deposited to the HSA.

- (J) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, the resolution naming official depositories adopted by the City Council on January 7, 2013 does not indicate the deposit limit by individual institution for the checking and savings accounts as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (K) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance at June 30, 2013 of \$18,399.

Recommendation – The City should investigate alternatives to eliminate the deficit to return the fund to a sound financial position.

- (L) City Council Minutes – The following were identified:

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

City of Emerson

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- Minutes for the March 11, 2013 City Council meeting were not printed and signed as required by Chapter 380.7 of the Code of Iowa.
- The City did not publish annual gross salaries for the year ended June 30, 2013 as required by an Attorney General's opinion dated April 12, 1978.
- The City Council went into closed sessions on July 8, 2013, July 25, 2013 and July 29, 2013. The specific exemption under Chapter 21.5 of the Code of Iowa was not identified or documented as required.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. The City should also comply with Chapter 21 of the Code of Iowa. In addition, the City should ensure the minutes, list of claims, summary of receipts, total disbursements by fund and annual individual gross salaries are published as required.

- (M) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, culture and recreation and community and economic development functions before the budget was amended on May 22, 2013. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (N) Revenue Bonds – The provisions of the water revenue bond resolution require the City produce net operating revenues equal to at least 110% of the principal and interest on the bonds as they become due. For the year ended June 30, 2013, the City's Enterprise, Water Fund had a net loss of \$3,888.

Recommendation – The City should consult legal counsel and review the City's utility rates to ensure the rates are adequate to produce the required net operating revenues.

- (O) Bank Loan Agreement – On April 27, 2011, the City entered into a bank loan for \$24,686 for a tractor. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

- (P) Separately Maintained Records – The Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

City of Emerson

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (Q) I-JOBS Funding – As part of the 2009 I-JOBS legislation, cities receiving I-JOBS funding were required to identify and report quarterly to the Iowa Department of Transportation the specific projects or activities undertaken, their status and the amount of I-JOBS funding spent to date. In addition, cities were required to expend the I-JOBS funding received within two years of receipt. The City did not submit the required reports and the City did not appropriately track expenditures related to the I-JOBS funding within two years as required.

Recommendation – The City should contact the Iowa Department of Transportation to determine the disposition of this matter.

- (R) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Fire Department does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The Fire Department should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (S) Debt Service – For the year ended June 30, 2012 and for two months of the year ended June 30, 2013, the City collected a debt service levy of \$6,027 without appropriate general obligation debt.

Recommendation – The City should consult legal counsel regarding this matter.

- (T) Financial Reporting – Chapter 312.14 of the Code of Iowa requires all cities to submit the Street Financial Report (SFR) to the Iowa Department of Transportation annually. The Street Financial Report submitted in September 2012 did not agree with the City's financial records.

Recommendation – The City should consult with the Iowa Department of Transportation and an appropriate adjustment to the Street Financial Report should be completed to agree with the City's financial records.

City of Emerson

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

Staff

This examination was performed by:

Deborah J. Moser, CPA, Manager
Dorothy O. Stover, Senior 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" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State