



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

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NEWS RELEASE

FOR RELEASE

June 18, 2021

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Emerson, Iowa, for the period July 1, 2019 through December 31, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank reconciliations, the lack of independent review of utility reconciliations, a lack of support for certain disbursements, and errors in the Annual Financial Report. Sand provided the City with recommendations to address each of the findings.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF EMERSON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH DECEMBER 31, 2020

City of Emerson



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May 27, 2021

Officials of the City of Emerson
Emerson, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Emerson, Iowa, for the period July 1, 2019 through December 31, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Emerson throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

| | <u>Page</u> |
|--|----------------|
| Officials | 3 |
| Auditor of State's Independent Report on Applying Agreed-Upon Procedures | 4-5 |
| Detailed Findings and Recommendations: | <u>Finding</u> |
| Fiduciary Oversight | A 7 |
| Segregation of Duties | B 7 |
| Journal Entries | C 7 |
| Change/Petty Cash Fund | D 8 |
| Annual Financial Report (AFR) | E 8 |
| Bank Reconciliations | F 8 |
| Monthly City Clerks Report | G 8 |
| Reconciliation of Utility Billings, Collections and Delinquent Accounts | H 8 |
| Unsupported Disbursements | I 9 |
| Payroll | J 9 |
| Credit Cards | K 10 |
| Check Signers | L 10 |
| Recycling Fee | M 10 |
| Investment Register | N 10 |
| Staff | 11 |

City of Emerson

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|---------------------------------------|----------------------|-------------------|---------------------|
| David Galley, Jr. (Resigned Sep 2019) | Mayor | Nov 2016 | Jan 2020 |
| Stephanie Latta (Elected) | Mayor | Nov 2019 | Jan 2022 |
| Ann Roth | Council Member | Jan 2018 | Jan 2022 |
| Larry Johnson | Council Member | Jan 2018 | Jan 2022 |
| 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 |
| Mary Bolton | City Clerk/Treasurer | | Indefinite |
| Matt Woods | Attorney | | Indefinite |



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Emerson for the period July 1, 2019 through December 31, 2020, 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.

Certain procedures we performed were for the period July 1, 2019 through June 30, 2020 and other procedures were for the period July 1, 2019 through December 31, 2020 as noted below. Procedures performed are summarized as follows:

1. We observed selected City Council meeting minutes for the period of July 1, 2019 to December 31, 2020 for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of 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 observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed 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 scanned 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 observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.

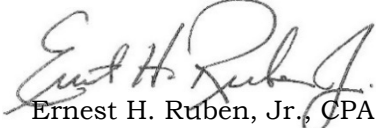
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions 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. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. For the period July 1, 2019 to December 31, 2020, we traced selected disbursements to 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 traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
15. For the period of July 1, 2019 to December 31, 2020, we traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 findings and 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.


Ernest H. Ruben, Jr., CPA
Director

May 27, 2021

Detailed Findings and Recommendations

City of Emerson

Detailed Findings and Recommendations

For the period July 1, 2019 through December 31, 2020

- (A) Fiduciary Oversight – The City Council has a fiduciary responsibility to provide oversight of the City’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring and reviewing pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

- (B) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Investments – handling and recording
- (3) Long-term debt – recordkeeping, compliance, and debt payment process.
- (4) Receipts – opening mail, collecting, recording, depositing, 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.

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

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

City of Emerson

Detailed Findings and Recommendations

For the period July 1, 2019 through December 31, 2020

- (D) Change/Petty Cash Fund – Surprise cash counts are not performed by an independent person.

Recommendation – An independent person should perform surprise cash counts to ensure the amount allowed in the change/petty cash fund is properly maintained.

- (E) Annual Financial Report (AFR) – Chapter 384.22 of the Code of Iowa requires the City’s AFR include a “Summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The beginning fund balance was understated by \$1,134; receipts were understated by \$3,712; disbursements were overstated by \$2; and the ending fund balance was understated by \$4,848 when compared to the City records.

Recommendation – The City should ensure receipts, disbursements and beginning and ending fund balances agree to the amounts recorded in the City’s records.

- (F) Bank Reconciliations – Monthly bank to book reconciliations were not performed. We attempted to prepare a bank reconciliation at June 30, 2020. The bank statement balance was \$4,390 higher than the general ledger.

Recommendation – The City should establish procedures to ensure all bank and investment account balances are reconciled to the general ledger monthly and variances 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.

- (G) Monthly City Clerk’s Report – Monthly financial reports provided to the City Council did not include a comparison of actual disbursements to budget by function.

Recommendation – To provide better control over budgeted disbursements and provide the opportunity for timely amendments to the budget, monthly financial reports to the City Council should include a comparison of total disbursements by function to the certified budget.

- (H) Reconciliation of Utility Billings, Collections, and Delinquent Accounts – While utility billings, collections, and delinquent accounts were reconciled throughout the year, there is no evidence an independent review of the reconciliations is performed.

Recommendation – Procedures should be established to require independent review of the utility reconciliations. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Emerson

Detailed Findings and Recommendations

For the period July 1, 2019 through December 31, 2020

- (I) Unsupported Disbursements – An effective internal control system provides for internal controls related to ensuring all disbursements are properly supported. Invoices and other supporting documentation were not always available to support disbursements. Seven of forty-five disbursements traced were unsupported as follows:

| Paid to | Purpose | Amount |
|----------------------|--|--------|
| State Hygienic Lab | Water testing | \$ 129 |
| BNSF Railway Company | South Avenue lease | 92 |
| Domain Listings | City website | 228 |
| E-Stop | Fuel | 567 |
| Emerson Automotive | Parts and labor for vehicle door latch, service call and tire repair | 526 |
| Hach Company | Chlorine and supplies | 378 |
| Iowa DNR | Water allocation permit | 95 |

Additionally, one transaction traced was recorded in the accounting system after the check had been cashed by the vendor.

Recommendation – All disbursements should be supported by invoice or other supporting documentation. The City should ensure all disbursements are entered into the accounting software as they are disbursed.

- (J) Payroll – During our review of payroll, we noted the following:

- a) Although timecards are prepared by employees, the timecards are not reviewed and approved by a supervisor. In addition, there is no independent review of vacation, sick leave, or comp time usage or balances.
- b) For one employee timesheet traced, the timesheet hours did not agree with the hours paid. The employee was under paid \$35.
- c) One salaried employee does not prepare a timesheet for supervisory approval.
- d) Timesheets for two employees either did not total correctly or did not match the hours the employee was paid. The two employees were under paid by a total of \$39.

Recommendation – All employees including salaried employees should prepare timesheets. Timesheets should be accurate and include the employee's signature and should be reviewed and approved by appropriate supervisory personnel prior to the preparation of payroll. The approval should be documented by the signature or initials of the approver and the date of the approval. All timesheets should be retained.

Procedures should be established to ensure timesheet hours agree to the number of hours paid.

City of Emerson

Detailed Findings and Recommendations

For the period July 1, 2019 through December 31, 2020

- (K) Credit Cards – The City has credit cards for use by employees while on official City business; however, the City does not maintain a log of employees or officials who have credit cards.

Recommendation – In order to facilitate who has a credit card and to ensure credit cards are returned upon termination, the City should maintain a log of credit card holders. Also, the City should periodically review the list of credit card holders to ensure there is still an official City business purpose.

- (L) Check Signers – Two authorized check signers on City bank accounts were not removed upon leaving employment with the City.

Recommendation – The City should ensure authorized signers are updated on all accounts when necessary.

- (M) Recycling Fee – The City charges a monthly fee to users for recycling service; however, the rate was not approved by City ordinance as required by Chapter 384.84 of the Code of Iowa.

Recommendation – All utility rates should be approved by ordinance as required by Chapter 384.84 of the Code of Iowa.

- (N) Investment Register – Although an investment register was maintained, it was not updated to reflect all changes in investments.

Recommendation – An investment register which includes the cost, description, date purchased, interest rate, maturity date, and identifying number for each investment should be maintained and updated as necessary to reflect current status of investments.

City of Emerson

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Lesley R. Geary, CPA, Manager
Nicholas J. Gassman, Senior Auditor
Brett S. Gillen, CPA, Senior Auditor
Taran E. McCusker, CPA, Staff Auditor