OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834
www.auditor.iowa.gov

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE: August 31, 2026

Contact: Pam Bormann – (515) 281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Essex, Iowa, for the period July 1, 2024 through June 30, 2025. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 8 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility reconciliations, disbursements exceeding budgeted amounts and a deficit fund balance. Sand provided the City with recommendations to address each of the findings.

Four of the findings discussed above are repeated from the prior year. 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 website at Audit Reports - Auditor of State.

CITY OF ESSEX

AUDITOR OF STATE'S INDEPENDENT REPORT ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD JULY 1, 2024 THROUGH JUNE 30, 2025

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Rob Sand
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July 8, 2026

Officials of the City of Essex
Essex, 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 Essex, Iowa, for the period July 1, 2024 through June 30, 2025. 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 Essex 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,

Rob Sand
Auditor of State

Table of Contents

City of Essex

Officials

Name	Title	Term Expires
Calvin Kinney	Mayor	Jan 2026
Jeff Eshelman	Council Member	Jan 2026
Nicole Wenstrand	Council Member	Jan 2026
Patricia Ballinger	Council Member	Jan 2028
Betty Lou Franks	Council Member	Jan 2028
Dennis Gresham	Council Member	Jan 2028
Mary Ohnmacht	City Clerk/Treasurer	(Resigned May 2025)
Catherine Moore	City Clerk/Treasurer	Indefinite
Mahlon Sorenson	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 Essex for the period July 1, 2024 through June 30, 2025, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Essex'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 City of Essex's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, 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 may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes 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 were in place and incompatible duties, from a control standpoint, were 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, journal entries 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 were properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2025 Annual Financial Report to determine whether it was completed timely and accurately reflected the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We observed 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. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts for accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. 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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Essex's management to perform this agreed-upon procedures engagement and conducted our engagement 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. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Essex and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 Essex 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.

Pam Bormann

Pam Bormann, CPA
Deputy Auditor of State

July 8, 2026

Detailed Findings and Recommendations

A. 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. Accounting system – performing all general accounting functions, including journal entries and having custody of City assets.
2. Cash – handling petty cash, handling, collecting, depositing, reconciling and recording.
3. Investments – investing, detailed recordkeeping, custody and reconciling earnings.
4. Receipts – opening mail, collecting, depositing, journalizing, recording, reconciling and posting.
5. Long-term debt – recordkeeping, compliance and debt payment processing.
6. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
7. Payroll – entering rates in the system, recordkeeping, preparing and distributing.
8. Utilities – entering rates in the system, billing, collecting, depositing, recording, reconciling, posting and maintaining accounts receivable.
9. Financial reporting – preparing and reconciling.
10. Computer systems – performing all general accounting functions and controlling all data input and output.
11. 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. Bank Reconciliations – Monthly bank reconciliations were performed, reviewed and approved; however, the two reconciliations observed did not include current balances for four certificates of deposit. In addition, an accurate detailed list of outstanding checks was not prepared and reviewed each month.

Recommendation – The monthly bank reconciliations should include all accounts, including current balances for certificates of deposit. In addition, an accurate detailed listing of outstanding checks and deposits in transit should be prepared, maintained and reviewed each month. The independent review performed should include a review for accuracy of the reconciliation.

C. 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 should be documented by the signature or initials of the reviewer and the date of the review.

D. Financial Condition – The General Fund had a deficit balance at June 30, 2025 of $1,837.

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

E. Payroll – Timesheets were maintained by the City; however, four of five timesheets observed did not include supervisory approval of hours worked.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review and approval should be documented by the supervisor's signature or initials and the date approved.

F. Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of the property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City had no tax increment financing (TIF) debt outstanding at June 30, 2025. The City had cash on hand of $47,902 at June 30, 2025 in the Special Revenue, Urban Renewal Tax Increment Fund to pay the TIF debt outstanding. Therefore, the City had $47,902 more cash on hand than needed to pay the TIF debt outstanding, Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

During the year ending June 30, 2025 the City transferred $69,822 to the Enterprise, Sewer Fund. The transfer did not represent TIF payments, loans, advances, indebtedness or bonds and, accordingly, was not an allowable use of tax incrementing financing collections.

Recommendation – The City should consult legal counsel and its municipal advisor to determine the disposition of the excess monies in the Special Revenue, Urban Renewal Tax Increment Fund. If the City has no further tax increment financing debt, the excess should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa. The City should also reimburse the Special Revenue, Urban Renewal Tax Increment Fund from the Enterprise, Sewer Fund.

G. Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

H. Local Option Sales Tax – The City's local option sales tax (LOST) ballot requires the LOST collections be used 30% for recreation development, 40% for infrastructure and 30% for community betterment as determined by the City Council. The City has not properly tracked the use and unspent balances of LOST collections to demonstrate the compliance with ballot requirements.

Recommendation – The City should establish procedures to track the use of LOST collections and unspent balance to ensure LOST collections are being used in accordance with the ballot.

I. Interfund Transfers – Section 545-2 of the City Finance Committee Rules requires "A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred."

Five of seven resolutions observed did not include the purpose of each transfer.

Recommendation – The resolutions approving all fund transfers should include the information required by Section 545-2 of the City Finance Committee Rules.

J. Certified Budget – Disbursements during the year ended June 30, 2025 exceeded the amounts budgeted in the business type activities function. 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.

K. Clothing Allowance – The City has a policy to reimburse employees for clothing. The policy states "The City of Essex recognizes the need to provide clothing and/or uniforms to full time employee in order to promote safety, prevent damage to personal items, and to help promote identification in the field." The policy allows reimbursement up to $200 for clothing for each employee. For the year ended June 30, 2025, $792 was reimbursed to employees under the City's clothing policy. Clothing reimbursements were not processed through payroll and, accordingly, the proper tax withholdings were not applied to the reimbursements.

Recommendation – The City should contact the Internal Revenue Service (IRS) to determine the disposition of the unreported compensation and should establish procedures to ensure clothing allowance reimbursements are processed through payroll and proper tax withholdings are applied.

City of Essex

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Deputy
Alexander N. Kawamura, CPA, Manager
April R. Davenport, Senior Auditor
Dmitriy D. Holthaus, CPA, Assistant Auditor