



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

April 28, 2014

Contact: Andy Nielsen

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Auditor of State Mary Mosiman today released an examination report on the City of Swea City, 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 control procedures to obtain the maximum internal control possible. The City should also comply with the budget amendment requirements of Chapter 384.18 of the Code of Iowa before disbursements exceed the budget.

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/1322-0525-BL0F.pdf>.

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

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City of Swea City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mitchell Hauskins	Mayor	Jan 2014
Tamara Crookshank	Council Member	Jan 2014
Michael Lockwood	Council Member	Jan 2014
James Blekfeld	Council Member	Jan 2016
Emily Eisenmann	Council Member	Jan 2016
Debra Ellman	Council Member	Jan 2016
Gay Ernster	City Clerk	Indefinite
Scott Buchanan	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 Swea City 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 of Swea 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 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 2013 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 and 12B.10B and 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 audit of the City of Swea City, 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 of Swea 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 of Swea City and other parties to whom the City of Swea 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 Swea City 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

January 9, 2014

Detailed Recommendations

City of Swea City

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) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
- (2) Cash and petty cash – bank reconciling, initiating and recording cash receipt and disbursement transactions. Bank reconciliations were not reviewed by an independent person.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long term debt – recording and reconciling.
- (5) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting. No initial receipt listing is prepared.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, reconciling and recording.
- (8) Payroll – recordkeeping, preparing and distributing.
- (9) Financial reporting – preparing, reconciling and distributing.

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. Initial listings should be prepared and reviewed by an independent person. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – The bank reconciliation for one month could not be located. There was no evidence of independent review of the bank reconciliations.

Recommendation – The City should establish procedures to ensure bank reconciliations are prepared monthly and the review of the reconciliation is documented by the signature or initials of the reviewer and the date of the review. Variances, if any, should be reviewed and resolved timely.

(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, document the review by the signature or initials of the reviewer and the date of the review and monitor delinquent accounts.

City of Swea City

Detailed Recommendations

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

- (D) Improper Receipt Posting – Of the receipts reviewed, one local option sales tax (LOST) receipt for \$7,098 was recorded in the General Fund rather than the Special Revenue, Local Option Sales Tax Fund. In addition, one receipt was not deposited timely.

Recommendation – The City should develop policies and procedures to ensure receipts are recorded in the proper fund and deposited timely. The City should make a corrective transfer to correct the error.

- (E) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Phil Albers, Ambulance Director, Insurance Agent	Insurance	\$39,930

In accordance with Chapter 362.5(k) of the Code of Iowa, the transaction with Philip Albers may represent a conflict of interest since the transaction was more than \$2,500 and the transaction was not competitively bid.

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

- (F) Financial Condition – At June 30, 2013, the Enterprise, Water Utility Fund had a deficit balance of \$46,740. This appears to violate the City’s water revenue note provisions which require the notes be paid solely and only out of the future net revenues of the utility.

Recommendation – The City should investigate alternatives to eliminate the deficit to return the fund to a sound financial position and comply with the revenue note provisions.

- (G) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, community and economic development and general government functions. 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.

- (H) Payroll – Time cards are not always approved and initialed by the employee’s supervisor.

Recommendation – Time cards should be approved and initialed by the employee’s supervisor or by an independent official who is not involved with payroll.

- (I) Dumpsters – The City owns dumpsters of varying sizes which are located at various locations throughout the City. The City does not bill users of the dumpsters on a regular basis.

Recommendation – Dumpster usage should be billed on a regular basis along with other utilities.

City of Swea City

Detailed Recommendations

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

- (J) City Council Minutes – 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 two meetings tested were not published within fifteen days.

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

- (K) Credit Cards – The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. In addition, the City is using a debit card for certain transactions.

Recommendation – The City should remove the debit card capabilities to ensure disbursements are not automatically deducted from the City's bank account. The City should adopt a formal written policy regulating the use of City Credit cards. The policy, as a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges. The credit cards should only be used for City business and should only be signed by authorized individuals. All charges should be reviewed and scrutinized before being paid.

- (L) Accounting Procedures Manual - The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Ensure City accounts are appropriately utilized.

- (M) Computer System – The City does not have a written disaster recovery policy or written policies over general computer usage and security.

Recommendation – The City should develop a written disaster recovery policy and a computer usage and security policy in order to improve the City's control over its computer system.

- (N) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the State Treasurer's Office annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the State Treasurer's Office as required.

City of Swea City

Staff

This examination was performed by:

Donna F. Kruger, CPA, Manager
Elissa R. Olson, Staff Auditor
Ramona E.F. Daly, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State