



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

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**NEWS RELEASE**

FOR RELEASE

February 13, 2017

Contact: Marlys Gaston  
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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Stanwood's Periodic Examination Report dated November 19, 2014. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2015 through April 30, 2016.

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. While three of the sixteen findings reported in the Periodic Examination Report dated November 19, 2014 have been corrected, two have been partially corrected and one is no longer valid, ten of the sixteen findings are repeated in this report and are reported as "not corrected". Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Stanwood's Report on the Status of Periodic Examination Findings and Recommendations 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 <https://auditor.iowa.gov/reports/1422-0140-EFPF>.

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**CITY OF STANWOOD**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON THE STATUS OF PERIODIC EXAMINATION  
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD  
JUNE 1, 2015 THROUGH APRIL 30, 2016**

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**City of Stanwood**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Greg Wagner	Mayor	Jan 2012	Jan 2016
Dusty McAtee	Council Member	Jan 2012	Jan 2016
Todd Sawyer	Council Member	Jan 2012	Jan 2016
Bob Burgess	Council Member	Jan 2014	Jan 2018
Dee Ann Koberle	Council Member	Jan 2014	Jan 2018
Al Robinson	Council Member	Jan 2014	Jan 2018
Stephanie VonBehren	City Clerk		Indefinite
Megan R. Dimitt	Attorney		Indefinite

**City of Stanwood**



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Independent Accountant's Report on the Status of Periodic  
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated November 19, 2014 on the City of Stanwood, Iowa covering the period November 1, 2013 through October 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date November 19, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

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.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

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 Stanwood and other parties to whom the City of Stanwood 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 Stanwood during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Mary Mosiman*  
MARY MOSIMAN, CPA  
Auditor of State

May 17, 2016

**Report on the Status of Periodic Examination  
Findings and Recommendations**



City of Stanwood

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2015, through April 30, 2016

**Findings Reported in the Periodic Examination Report dated November 19, 2014:**

- (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) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
  - (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - (4) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
  - (5) Debt – recording, compliance and debt payment processing.
  - (6) Journal entries – preparing and journalizing.
  - (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
  - (8) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
  - (9) Computer system – performing all general accounting functions, controlling all data input and output and having custody of assets.
  - (10) Financial reporting – preparing and reconciling.

For the Stanwood City Fire Department account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements - preparing, recording and reconciling.
- (3) Cash – handling, reconciling 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.

**Current Status – Not corrected. The recommendation is repeated.**

City of Stanwood

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2015, through April 30, 2016

- (B) Monthly Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to the bank and investment account balances throughout the year.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger balances monthly and the reconciliations should subsequently be reviewed by an independent person. The reviews should be documented by the signature or initials of the reviewer and the date of the review. Variances, if any, should be reviewed and resolved timely.

**Current Status – Not corrected. During the period reviewed, cash and investment balances were not reconciled to the general ledger. We performed a reconciliation of the April 30, 2016 balances and found the total fund balance included in the financial report provided to the City Council was \$318 more than the bank and investment balance. The recommendation is repeated.**

- (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. The review should be documented by the signature or initials of the reviewer and the date of the review.

**Current Status – Partially Corrected. A delinquent account listing is prepared, however there is no evidence delinquent accounts are monitored by an independent person and procedures have not been established to reconcile utility billings, collections and delinquent accounts. The recommendation is partially repeated.**

- (D) Investments Records – An investment record/register is not maintained for each investment.

Recommendation – An investment record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

**Current Status – Corrected. For the period reviewed, the City Treasurer’s Report included an investment record for each investment.**

- (E) Deposits and Investments – 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 as required by Chapter 12B.10B of the Code of Iowa.

**Current Status – Not corrected. The City has drafted an investment policy however, the policy has not been formally adopted by the City Council.**

City of Stanwood

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2015, through April 30, 2016

- (F) 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 of the four monthly meetings reviewed were not published within fifteen days.

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

**Current Status – Not corrected. For the period reviewed, minutes for one of four monthly meetings were not published within fifteen days. The recommendation is repeated.**

- (G) Annual Urban Renewal Report (AURR) – The beginning and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the December 1, 2013 Levy Authority Summary of the AURR did not agree with the City’s general ledger. The ending cash balance was reported as \$685 but the actual balance was \$2,625. Also, the receipts reported were understated and the disbursements reported were overstated. In addition, the FY13 Annual Urban Renewal Report was not approved by the City Council.

Recommendation – The City should ensure cash balances, receipts and disbursements reported on the AURR Levy Authority Summary agree with the City’s records. Also, the AURR should be approved by City Council each year before submittal.

**Current Status – Not corrected. The Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) cash balances reported on the December 1, 2015 Levy Authority Summary agreed to the City’s general ledger. However, the beginning cash balance of the TIF Fund on the December 1, 2015 Levy Authority Summary did not agree to the ending cash balance reported on the December 1, 2014 Levy Authority Summary. Also, total disbursements on the December 1, 2015 Levy Authority Summary did not agree with City records and the AURR was not approved by the City Council. The recommendation is repeated. In addition, see finding (Q).**

- (H) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government, capital projects and business type activities 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 as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Current Status – Not corrected. Disbursements for the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government, capital projects and business type activities functions. The recommendation is repeated.**

City of Stanwood

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2015, through April 30, 2016

- (I) Tax Increment Financing (TIF) – 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 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.

During the current year, the City paid principal and interest on its 2012 general obligation bonds from the Special Revenue, Tax Increment Financing Fund through transfers to the Debt Service Fund. However, based on a review of the County Auditor’s “Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation” prepared in November 2012, the 2012 general obligation bond principal and interest had not been certified to the County Auditor as a TIF obligation. The City has one internal loan for \$65,000 certified for TIF purposes.

Recommendation – The City should certify the 2012 general obligation bond principal and interest and the internal loan, including past principal and interest, which are expected to be repaid with TIF collections to the County Auditor as TIF obligations. The amounts already paid should then be decertified.

**Current Status – No longer valid. Additional information obtained during the follow-up procedures identified the purpose of the 2012 general obligation bond was to acquire a fire truck. See additional finding (R) for resulting finding since a fire truck is not an allowable use of TIF funds.**

- (J) Credit Cards – The City has credit cards for use by various employees while on City business. 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.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit card and for what purposes, as well as the types of supporting documentation required to support the purchase.

**Current Status – Corrected. The City adopted a credit card use policy in January 2016 that addresses the recommendation.**

- (K) Other Long-Term Debt Issuances – The City filed Internal Revenue Service form 8038-G, Information Return for Tax-Exempt Governmental Obligations, indicating it has written procedures to monitor compliance with the arbitrage, yield restrictions and rebate agreements for tax-exempt bonds under Section 148 of the Internal Revenue Service rules. The City was unable to provide these written procedures.

Recommendation – The City should establish written procedures to comply with the Section 148 rules.

**Current Status – Corrected. The City has adopted written compliance procedures.**

City of Stanwood

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2015, through April 30, 2016

- (L) Financial Condition – The City had a deficit balance of \$738 in the Special Revenue, Emergency Fund at October 31, 2014.

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

**Current Status – Partially Corrected. The Special Revenue, Emergency Fund is no longer in a deficit position at April 30, 2016. However, beginning in March 2016, the Capital Projects Fund had a deficit balance of \$53,161. According to City personnel, the deficit will be eliminated with reimbursements from the Iowa Department of Transportation. The recommendation is repeated.**

- (M) Transfer and Journal Entries – Transfers and journal entries occurring during the period reviewed were not approved.

Recommendation – All interfund transfers should be documented by approval in the City Council minutes or in the City's budget, as applicable. Journal entries should be approved by an independent person and the approval should be documented by the signature or initials of the reviewer and the date of approval.

**Current Status – Not corrected. The recommendation is repeated.**

- (N) Payroll – Although time cards are maintained for all employees, there was no indication time cards for one of the four individuals had been reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.

Recommendation – Time cards should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of approval.

**Current Status – Not corrected. The recommendation is repeated.**

- (O) Petty Cash and Change Fund – The petty cash and change fund are not maintained at an authorized amount. The petty cash drawer included additional funds from garbage stickers. The receipts from garbage stickers were not deposited and recorded in the financial accounting system in timely manner.

Recommendation – The petty cash and change fund should be maintained at an authorized amount. All receipts, including garbage sticker sales, should be deposited intact and recorded timely in the financial accounting system.

**Current Status – Not corrected. The recommendation is repeated.**

City of Stanwood

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2015, through April 30, 2016

- (P) Separately Maintained Records – The Stanwood Fire Department maintains a bank account for activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

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.

**Current Status – Not corrected. The recommendation is repeated.**

**Additional Findings as a result of Follow-up Procedures:**

- (Q) Annual Urban Renewal Report – While the Special Revenue, Tax Increment Financing (TIF) Fund ending cash balance of \$27,283 reported on the December 1, 2015 Levy Authority Summary agrees with City records, the balance exceeds the amount reported as TIF debt outstanding by \$24,436. This may be an indication the City has collected more TIF receipts than needed for outstanding TIF obligations.

In addition, the amount reported as TIF debt outstanding on the Levy Authority Summary did not agree with the City’s records.

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.

Recommendation – The City should review the Levy Authority Summary in the December 1, 2015 AURR for accuracy to ensure amounts reported agree with the City’s records and to determine whether TIF receipts in excess of the amount needed to repay the City’s TIF obligations were collected. If excess TIF receipts were collected, the City should consult TIF legal counsel to determine the disposition of the excess, including repayment to the County Treasurer for reapportionment as required by Chapter 24.21 of the Code of Iowa, if needed.

- (R) Tax Increment Financing Fund Disbursements – Chapters 403.19(10)(b) and 403.22 of the Code of Iowa provide monies in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable low to moderate income (LMI) assistance.

During the period reviewed and in prior periods, the City paid principal and interest on the 2012 general obligation bonds from the TIF Fund through transfers to the Debt Service Fund. However, the proceeds from the 2012 general obligation bond were used to acquire a fire truck, a purpose which does not qualify for payment from the TIF Fund.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund for current and prior principal and interest payments on the 2012 general obligation bonds incorrectly made from the TIF Fund.

City of Stanwood

Staff

This engagement was performed by:

Ernest H. Ruben, Jr, CPA, Manager  
Erin J. Sietstra, Staff Auditor

  
Marlys K. Gaston, CPA  
Director