



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

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**NEWS RELEASE**

FOR RELEASE

October 28, 2020

Contact: Ernest Ruben  
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Swan's Periodic Examination Report dated March 14, 2017. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2018 through February 28, 2019.

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 the City corrected one of the findings and partially corrected four of the findings in the Periodic Examination Report dated March 14, 2017 and one finding is reported as "no longer valid," twelve of the findings are reported as "not corrected." Twelve additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Swan's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**CITY OF SWAN**

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

**FOR THE PERIOD  
JUNE 1, 2018 THROUGH FEBRUARY 28, 2019**

**City of Swan**



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Rob Sand  
Auditor of State

September 30, 2020

Officials of the City of Swan  
Swan, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report on the Status of Periodic Examination Findings and Recommendations for the City of Swan for the period June 1, 2018 to February 28, 2019.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Swan throughout the follow-up 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". The signature is stylized and written in a cursive-like font.

Rob Sand  
Auditor of State

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**City of Swan**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Robert Harding	Mayor	Jan 2018	Jan 2020
Janet Downing	Council Member	Jan 2018	Jan 2020
Bill Gobbel	Council Member	Jan 2018	Jan 2020
Stacy Harding	Council Member	Jan 2018	Jan 2020
David Heywood	Council Member	Jan 2018	Jan 2020
Danny Wallace	Council Member	Jan 2018	Jan 2020
Sarah Heywood	City Clerk/Treasurer		Indefinite
Nick Bailey	City Attorney		Indefinite

**City of Swan**



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Auditor of State's Independent 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 March 14, 2017 on the City of Swan, Iowa, covering the period January 1, 2016 through December 31, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

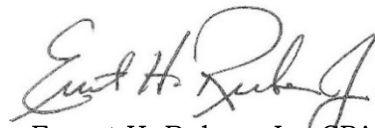
This report includes the findings and recommendations from the City's Periodic Examination Report dated March 14, 2017 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2018 through February 28, 2019.

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.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated March 14, 2017. 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 Swan during the course of our follow-up 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

September 30, 2020



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

City of Swan

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through February 28, 2019

**Findings Reported in the Periodic Examination Report dated March 14, 2017:**

(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, recording and reconciling.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – entering rates into the system, recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.

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. In addition, see finding (S).**

(B) Bank Reconciliations – The City’s monthly bank reconciliations are performed by a private CPA firm. The bank reconciliations do not include the City’s investment balances and the City does not maintain the investment accounts in their accounting system. The City does not review the monthly bank reconciliations. In addition, the City does not maintain controls over unused and voided checks. Voided checks are not retained and unused checks are kept in an unlocked drawer at City Hall.

Recommendation – The City should establish procedures to ensure investment account balances are included in the general ledger and monthly bank reconciliations. Variances, if any, should be reviewed and resolved timely. An independent person from the City should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. In addition, the City should retain voided checks and unused checks should be stored in a secure location.

**Current Status – Partially corrected. Unused checks are safeguarded. The recommendation is partially repeated.**

City of Swan

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through February 28, 2019

- (C) Timely Deposits – During our procedures in March 2017, we observed undeposited checks dated January 30, 2017 in the City Hall safe.

Recommendation – The City should establish procedures to ensure all receipts are deposited intact and timely.

**Current Status – Not corrected. During our follow-up procedures in April 2019, we observed an undeposited check dated March 3, 2019 in the City Hall safe. The recommendation is repeated.**

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although the City’s software prepares monthly reconciliations of utility billings, collections and delinquent accounts, the City does not verify the billings, collections, and other reconciling items and the reconciliations are not independently reviewed. In addition, delinquent account listings are not maintained.

Recommendation – A listing of delinquent accounts should be prepared monthly and provided to the City Council. The City should establish procedures to ensure the system generated reconciliations of billings, collections, delinquent accounts and other reconciling items are accurate. The City Council or an 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 – Not corrected. The recommendation is repeated.**

- (E) 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, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 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. 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.

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

- (F) City Council Meeting Minutes – The City Council meeting minutes are not posted in three public places within fifteen days of the meeting, including a list of claims allowed and the purpose for each claim, as required by Chapter 372.13(6) of the Code of Iowa. In addition, City Council meeting minutes are not signed as required by Chapter 380.7 of the Code of Iowa and do not indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and post City Council minutes in three public places within fifteen days of the meeting, including the list of claims allowed and the purpose of each claim, as required. Meeting minutes should also be signed and should indicate the vote of each member present, as required.

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

City of Swan

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through February 28, 2019

- (G) Disbursements – Supporting documentation is not provided to the City Council during their monthly review and approval of claims. Also, supporting documentation is not cancelled to prevent reuse.

Recommendation – Supporting documentation should be provided to the City Council for review and approval monthly. In addition, supporting documentation should be cancelled to prevent duplicate payments.

**Current Status – Not corrected. During the period reviewed, supporting documentation for disbursements was not provided to the City Council for their review prior to approval. However, although a list of claims was provided to the City Council, the list did not include sufficient detail, providing the vendor, dollar amount and purpose and did not include all claims paid by the City. A list of claims allowed should be provided to the City Council and should include the vendor, dollar amount and the purpose of the claim. A City Council member should compare the listing of claims to be paid to the supporting documentation prior to City Council approval. Also, supporting documentation was not cancelled to prevent duplicate payments. The recommendation is repeated.**

- (H) Transfers – The City does not maintain a complete listing of interfund transfers, including supporting documentation. Transfers are not approved by the City Council.

Recommendation – A complete listing of transfers should be prepared, maintained and supported and transfers should be approved by the City Council.

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

- (I) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

**Current Status – Corrected. The City maintained employee theft insurance coverage during the period reviewed.**

- (J) Certified Budget – Disbursements during the year ended June 30, 2016 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.” Also, a proof of publication for the notice of public hearing on the fiscal year 2016 budget was not available to support compliance with Chapter 384.16(3) of the Code of Iowa.

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. Also, the notice of public hearing for authorization of the budget should have been posted in accordance with Chapter 384.16(3) of the Code of Iowa.

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through February 28, 2019

**Current Status – Partially corrected. Disbursements did not exceed amounts budgeted during the year ended June 30, 2018. However, the City did not post the notice of public hearing on the fiscal year 2018 budget as required by Chapter 384.16(3) of the Code of Iowa. The recommendation is partially repeated.**

- (K) Independent Contractor – The City’s Clerk’s son is paid \$100 per month for reading City meters and an hourly rate for snow removal. During the period January 1 through December 31, 2016, the City Clerk’s son was paid a total of \$1,228. The meter reading payments are made through accounts payable, rather than payroll. However, the individual does not appear to meet Internal Revenue Service (IRS) guidelines to be paid as an independent contractor. In addition, Chapter 71 of the Code of Iowa states, in part, “It shall hereafter be unlawful for any person elected or appointed to any public office or position under the laws of the state or by virtue of the ordinance of any city in the state, to appoint as deputy, clerk, or helper in said office or position to be paid from the public funds, any person related by consanguinity or affinity, within the third degree, to the person elected, appointed or making said appointment, unless such appoint shall first be approved by the officer, board, council or commission whose duty it is to approve the bond of the principal; provided this provision shall not apply in cases where such person appointed receives compensation at the rate of six hundred dollars per year or less ...” The City Clerk’s son earned more than \$600 during calendar year 2016. Documentation of City Council approval to hire the City Clerk’s son was not available.

Recommendation – The City should consult legal counsel to determine the disposition of this matter. In addition, future payments for meter readings, if employment is properly authorized, should be made through payroll and subject to payroll taxes and withholdings.

**Current Status – No longer valid. During the period reviewed, the City Clerk’s son no longer performed meter readings or snow removal for the City. However, the City Clerk’s son became a City Council Member beginning January 2018 and performed other services for the City. See finding (V).**

- (L) Payroll Returns and Taxes – Wages were not reported on IRS Forms W-2 and 941. Additionally, IRS Form 1099 was not prepared for contract labor paid in excess of \$600.

Recommendations – The City should ensure all payroll tax returns and IRS Forms W-2 and 1099 are properly completed and filed.

**Current Status – Partially corrected. During the period reviewed, wages were reported on IRS Forms W-2 and 941. However, the City did not prepare IRS Form 1099 for contract labor paid in excess of \$600. The recommendation is partially repeated. In addition, see finding (Z).**

- (M) 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 City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City 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.

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

City of Swan

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through February 28, 2019

- (N) Uniform Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent should be followed.

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

- (O) Garbage Rates – While the City attempted to increase garbage rates in August 2016, the increased rates were not approved by 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.

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

- (P) Monthly City Clerk's Report – The monthly City Clerk's reports provided to the City Council do not include a comparison of actual disbursements to the certified budget by function.

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

**Current Status - Not corrected. The recommendation is repeated. In addition, see finding (X)**

- (Q) Payroll – Hours worked are not reviewed and approved by supervisory personnel. Written approval is not required for payroll deductions. There is no independent review of wages and withholding rates entered into the system. An independent person does not test wages and withholdings to ensure proper payroll calculations. The City did not maintain documentation of approval of the wage rate for City employees, Council members or the Mayor.

Recommendation – Hours worked by City employees should be reviewed and approved by a supervisor prior to the preparation of payroll. Written approval should be retained for all payroll deductions. An independent person should periodically review and test wage and withholding rates entered in the system for proper calculations. Evidence of testing should be retained. The City Council should approve pay rates for City employees at the time of hiring and when raises occur. In addition, the City Mayor and Council member pay rates should be approved by ordinance as required by Chapter 372.13(8) of the Code of Iowa.

**Current Status – Partially corrected. The City Ordinance establishing the wage rates for the Mayor and City Council was located. However, the City Council approval of the City Clerk's pay rate, including the hourly for attending City Council meetings which is higher than the rate for other City Clerk duties was not documented in the minutes record. Also, during the period reviewed, the hours worked by the City Clerk were not reviewed and approved by a supervisor. Currently, there are no payroll deductions. There is no independent review of the wage and withholding rates for proper calculations. The recommendation is partially repeated.**

City of Swan

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through February 28, 2019

- (R) Initial Receipts Listing – An initial listing of collections was not prepared.

Recommendation – An initial listing of collections should be prepared and compared to the bank deposit and the accounting records by an independent person. Evidence of this review should be documented.

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

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

- (S) 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) Investments – recordkeeping, custody of investments and reconciling earnings.
- (2) Utilities – entering rates into the system and maintaining detailed accounts receivable records.

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.

- (T) City Council Meeting Minutes – The published City Council meeting minutes do not include a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should ensure published meeting minutes include a summary of all receipts, as required.

- (U) Disbursements - Supporting documentation was not maintained for 24 of the 43 transactions tested. Since support was not maintained, we were unable to determine the public purpose of three payments to Amazon for a total of \$210, two payments to the City Clerk for a total of \$125 and one payment to the U.S. Post Office for a total of \$85.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

- (V) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer's tenure in office, but may be reimbursed for actual expenses incurred.” In addition, an Attorney General's Opinion dated August 15, 2018 clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8) (2018) bars city elected officials from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow

City of Swan

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through February 28, 2019

city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion, Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j) and (k) (2018), is retracted.”

During the period June 1, 2018 through February 28, 2019, a City Council Member was compensated a total of \$700 to perform daily water testing at two locations in the City. The Council Member is compensated \$100 each month. This compensation violates Chapter 372.13(8) of the Code of Iowa.

Recommendation – The City should seek reimbursement for the \$700 improperly paid to the City Council member.

- (W) Annual Financial Report – While the fiscal year 2018 Annual Financial Report (AFR) total ending fund balance agrees to the June 30, 2018 bank balance of \$107,319 and the June 30, 2018 City Clerk’s report, the allocation of fund balances between governmental (general and special revenue) and business-type activities (enterprise) do not agree to the June 30, 2018 City Clerk’s report. In addition, the June 30, 2018 AFR ending balance does not include \$16,166 of investment accounts.

Recommendation – The City should establish procedures to ensure the total ending fund balance reported in the AFR includes all bank and investment accounts. In addition, the AFR beginning and ending fund balances, by fund, should agree with City records.

- (X) Monthly City Clerk’s Report – A City Clerk’s report is not submitted to the City Council monthly. In addition, the financial reports provided to the City Council did not include a comparison of total disbursements for all funds to the certified budget.

Recommendation – A City Clerk’s report should be prepared and submitted to the City Council each month for review and approval. The City Clerk’s report should include a comparison of total disbursements for all funds to the certified budget by function to provide better control over budgeted disbursements and provide the opportunity for timely amendments to the budget.

- (Y) Debit Card – The City has a debit card for use by employees while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. Debit cards provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (Z) IPERS Withholding – During the period reviewed, the City did not use the correct IPERS withholding rates.

Recommendation – The City should contact IPERS to determine the disposition of the City using the incorrect IPERS withholding rate. The City should establish procedures to ensure the proper withholding rates are used. An independent person should review and test all withholding rates including IPERS for proper calculations.



City of Swan

Report on the Status of Periodic Examination Findings and Recommendations

For the period June 1, 2018 through February 28, 2019

- (AA) Mayor and City Council Payroll – The Mayor and City Council are not paid through payroll.

Recommendation – All compensation to City officials and employees should be paid through the City’s payroll system. This will ensure withholdings are properly applied and an accurate record of compensation is maintained.

- (BB) Independent Contractor – The City pays \$230 monthly to an individual to read utility meters. During the period June 1, 2018 through February 28, 2019 the individual was paid \$2,040. The individual is paid through accounts payable, rather than payroll, and IRS Form 1099 was not prepared for contract labor paid in excess of \$600.

In addition, this individual was paid a mileage reimbursement, and is a factor that may indicate the individual is a City employee and not an independent contractor.

Recommendation – The City should complete Internal Revenue Service (IRS) Form SS-8 to determine and document worker status for purposes of federal employment taxes and income withholding. If the individual is determined to be an employee of the City and not an independent contractor, payments for meter readings should be made through payroll and subject to payroll taxes and withholdings. If the individual is determined to be an independent contractor, amounts in excess of \$600 should be properly reported on IRS form 1099.

- (CC) Phone and Mileage Reimbursements – The City Clerk received \$15 per month for phone reimbursement. In addition, the City reimbursed the City Clerk for mileage. The City does not have a policy for phone or mileage reimbursements. In addition, supporting documentation does not exist to support mileage reimbursements which includes dates of travel, destination, total mileage incurred and the reason for the travel.

Recommendation – The City should adopt a written policy to document the public purpose and to allow for phone reimbursements, including the reimbursement rate. Also, the City should adopt a mileage reimbursement policy, documenting the mileage reimbursement rate and requiring sufficient supporting documentation be retained. Supporting documentation should include, at a minimum, the date of travel, total miles, destination and the purpose of the travel. This will help document the travel is for City business and meets the public purpose criteria.

- (DD) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

City of Swan

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director  
Michelle B. Meyer, CPA, Manager  
Selina V. Johnson, CPA, Senior Auditor