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NEWS RELEASE

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FOR RELEASE _____ May 13, 2010 1:00 p.m.

Auditor of State David A. Vaudt today released a report on the City of Van Wert for the period July 1, 2008 through June 30, 2009. The procedures were performed at the request of City officials as a result of concerns regarding the accounting for and reporting of City financial information.

Vaudt's report includes recommendations to strengthen the City's controls and procedures. Specifically, Vaudt recommended the City segregate duties over receipts, disbursements and financial reporting, establish procedures to reconcile sewer billings, collections and delinquencies and maintain adequate supporting documentation for all disbursements.

A copy of the 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/specials/index.html>.

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**REPORT ON THE
CITY OF VAN WERT
FOR THE PERIOD
JULY 1, 2008 THROUGH JUNE 30, 2009**

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Auditor of State's Report

To the Honorable Mayor and
Members of the City Council:

At the request of City officials, we conducted certain tests and procedures to selected financial transactions to assist you in evaluating the operations of the City for the period July 1, 2008 through June 30, 2009. Based on discussions with City personnel and a review of relevant information, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Examined activity in the City's bank accounts to identify any unusual activity.
- (3) Examined bank reconciliations to determine if balances reconciled to the City's accounting records.
- (4) Scanned all disbursements from the City's accounts and examined selected transactions to determine if they were appropriate, properly approved and supported by adequate documentation.
- (5) Examined payroll disbursements and employee reimbursements issued to the former City Clerk to determine if the amounts disbursed were appropriate.
- (6) Reviewed the 2009 Annual Financial Report and 2009 City Street Financial Report to determine if the amounts reported were accurate.
- (7) Confirmed payments to the City by the State of Iowa to determine whether they were properly deposited to the City's accounts.

As a result of these procedures, we identified several findings and recommendations which should be considered by the City. Our detailed findings and recommendations are presented in the Detailed Findings and Recommendations section of the report.

The procedures we performed do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Van Wert, other matters might have come to our attention that would have been reported to you.

We would also like to acknowledge the assistance extended to us by personnel of the City of Van Wert. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 2, 2010

City of Van Wert

Detailed Findings and Recommendations

The City of Van Wert is located in Decatur County and has a population of 231. Doris Loy began employment as the City Clerk on July 14, 2008 and was terminated on April 13, 2009. Kim White began employment with the City on May 18, 2009 and was employed during the period of our fieldwork.

We reviewed the procedures used by the City to process receipts and disbursements. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from errors and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the City's controls.

- (A) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another.

Both Ms. Loy and Ms. White had control over each of the following areas:

- (1) Investments – investing, recording and custody.
- (2) Receipts – collecting, posting, deposit preparation and depositing.
- (3) Sewer Receipts – billing, collecting, posting, deposit preparation and depositing.
- (4) Disbursements – check preparation, signing, posting and distribution.
- (5) Payroll – check preparation, signing, posting and distribution.
- (6) Reporting – receipt of the bank statements and preparation of bank reconciliations and the City's financial statements.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the functions listed above should be segregated. City officials should establish control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and elected officials. Council Members should review financial records, perform reconciliations and examine supporting documentation for accounting records on a periodic basis. Evidence of various reviews should be indicated by initials of the independent reviewer and the date of the review.

- (B) Bank Reconciliations – Because supporting documentation could not be located for the period Ms. Loy was the City Clerk, we were unable to determine if monthly reconciliations of the Clerk's balances to the bank accounts and investments were prepared. In addition, Ms. White did not prepare bank reconciliations for the months of May and June 2009.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner and a listing of

outstanding checks should be prepared each month and retained. In addition, a designated member of the City Council or the Mayor should review and approve the bank statements and prepared reconciliations.

- (C) Pre-numbered Receipts – Pre-numbered receipts were not issued for collections.

Recommendation – Pre-numbered receipts should be issued and maintained for all collections. In addition, City officials should ensure someone independent of the preparation of receipts and bank deposits periodically compares the receipts to amounts actually deposited to the bank.

- (D) Reconciliation of Sewer Billings, Collections and Delinquencies – Because supporting documentation could not be located for the period Ms. Loy was the City Clerk, we were unable to determine if sewer billings, collections and delinquencies were reconciled each month. In addition, Ms. White did not prepare reconciliations of sewer billings, collections and delinquencies for the months of May and June 2009.

Recommendation – City officials should establish procedures which ensure sewer billings, collections and delinquencies are reconciled in a timely manner each month. In addition, the Council should review and approve the reconciliations and monitor delinquent accounts.

- (E) Supporting Documentation – We scanned disbursements between July 1, 2008 and June 30, 2009 to determine if proper documentation was maintained to support the payments. We were unable to locate the majority of the supporting documentation for disbursements between July 2008 and April 2009. Based on the vendors to which payments were issued, the amount and the frequency of disbursements, we did not identify any payments which clearly appear to be improper or not meet the test of public purpose as defined in an Attorney General's opinion dated April 25, 1979. However, we identified certain payments to vendors, such as Napa Auto Parts, Osceola Farm & Home and Sport Wade, which could be for business purposes or personal in nature. Because no supporting documentation was available, we were unable to determine if these purchases were proper.

We also scanned reimbursements to Ms. Loy between July 1, 2008 and June 30, 2009. We identified 9 reimbursements to Ms. Loy totaling \$831.57. We located supporting documentation for 5 mileage reimbursements which total \$257.40. In addition, we identified 2 transactions, totaling \$128.70, which appear to be reimbursement for mileage as they are the same amount as the documented trips to the bank in Osceola. While these amounts are consistent with other documented reimbursements, documentation was not available to allow us to make a determination whether these 2 was proper. In addition, we were unable to determine the purpose of the remaining 2 reimbursements totaling \$445.47 because supporting documentation was unavailable.

The City provides sewer utilities for its citizens. We were unable to locate supporting documentation for sewer receipts. As a result, we are unable to determine if all collections were properly deposited.

Recommendation – The Council should implement policies requiring adequate supporting documentation be maintained at the City. In addition, the documentation should be reviewed by someone independent of other disbursement responsibilities prior to payment. Disbursements should not be approved unless adequate supporting documentation is available. The City should also consider developing a record retention policy.

- (F) Blank Check Signing – Through discussions, City officials indicated blank checks were signed prior to approval of disbursements.

Recommendation – The Council should implement procedures to ensure signing blank checks is prohibited.

- (G) Payroll – We reviewed payments to Ms. Loy between July 1, 2008 and June 30, 2009 for payroll. Time sheets were not completed by Ms. Loy. However, based on the timing, frequency and amount of the payments for payroll, we did not identify any disbursements which appeared to be improper. Time sheets were also not completed by Ms. White.

Recommendation – Time sheets should be completed by the City Clerk to document all hours worked. Time sheets should be reviewed and approved by the Mayor or another individual who would be able to determine if the information recorded was correct. The review and approval should be documented by a signature or initials.

- (H) Financial Statements – The monthly financial statements prepared by Ms. Loy and Ms. White were not reviewed by someone independent of their preparation. In addition, a comparison of budget to actual information was not provided to the Council.

Recommendation – The financial statements prepared by the City Clerk should periodically be reviewed by someone independent of their preparation. Monthly reports to the Council should include, at a minimum, beginning of month fund balances, a summary of receipts, a summary of disbursements by function with a comparison to budget and end of month fund balances.

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

Recommendation – To provide better financial information and control, the chart of accounts endorsed by the City Finance Committee should be used for recording the City's financial transactions.

- (J) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual or an employee handbook.

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

- (1) Aid in training additional or replacement personnel by providing job descriptions.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures, such as mileage reimbursements and scheduled pay dates for City employees.
- (3) Save time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (K) Minutes – Chapter 21 of the *Code of Iowa* requires minutes be kept of all meetings of governmental bodies. During our review of minutes, we determined:

- (1) Minutes did not include a list of claims allowed, total disbursements from each fund and a summary of all receipts as required by Chapter 372.13(6) of the *Code*.

- (2) The minutes were not always properly signed by the City Clerk or Mayor to authenticate the record as required by section 380.7(4) of the *Code*.
- (3) Minutes for the April, May and June 2009 Council meetings could not be located.
- (4) Minutes were not published within 15 days of the meeting in accordance with section 372.13(6) of the *Code*.

Recommendation – The Council should ensure the minutes include a list of claims allowed, an explanation of the claims, total disbursements from each fund and a summary of all receipts. The Council and City Clerk should continue to ensure the minutes include the date, time and place, the members present and the action taken at each meeting. The minutes should also show the results of each vote taken and information sufficient to indicate the vote of each member present.

The Council should ensure it is provided accurate bill listings and all actions taken to approve bills and transfers are properly recorded in the minutes. Also, the minutes should be signed to authenticate the record, the minutes should be maintained at City Hall and an official copy should be kept in the Council meeting book. The Council should ensure minutes are published within 15 days after the meeting.

- (L) Financial Reports – By comparing the amounts the State of Iowa provided to the City for Road Use Tax (RUT) and Local Option Sales Tax (LOST) to the amounts recorded in the RUT and LOST funds in the City's monthly financial reports, we identified several instances in which RUT and LOST collections were incorrectly recorded in the General fund or the Sewer fund. As a result, the activity and balances reported for the General, Sewer, RUT and LOST funds were incorrect.

The improper postings also resulted in incorrect preparation of the 2009 City Street Financial Report and incorrect ending fund balances reported in the City's 2009 Annual Financial Report.

We compared the ending balances reported in the City's 2009 Annual Financial Report to the ending balances on the City's bank statements at June 30, 2009. The total ending balances reported on the City's 2009 Annual Financial Report equaled the ending balances reported on the City's bank statements at June 30, 2009.

Recommendation – City officials should implement procedures which ensure all RUT and LOST collections are recorded in the proper funds. City officials should also implement procedures which ensure the fund balances reported on the Annual Financial Report agree with the amount listed on the City's Monthly Financial Report at June 30.


The July 1, 2009 balances should be corrected when the 2010 Annual Financial Report is filed. In addition, the City should ensure the Road Use Tax ending balance reported on the City Street Financial Report reconciles to the amount listed on the City's Monthly Financial Report at June 30. The City should contact a representative of the Department of Transportation to determine what steps should be taken to resolve information previously reported in error.

Report on the
City of Van Wert

Staff

This engagement was performed by:

Annette K. Campbell, CPA, Director
James R. Wittenwyler, Staff Auditor



Tamera S. Kusian, CPA
Deputy Auditor of State