

**Report on Agreed Upon Procedures  
for the  
City of Swaledale**

**For the Period  
January 1, 2005 through July 31, 2005**

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES

To the Honorable Mayor and  
Members of the City Council:

We have performed the procedures enumerated in the attached pages, which were agreed to by the Management of the City of Swaledale to the financial transactions performed by the City Clerk of the City of Swaledale for the period January 1, 2005 through July 31, 2005, solely to assist the City in determining the accuracy and propriety of the City Clerk's records and transactions. The City's management is responsible for the selected records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding sufficiency of the procedures described in the attached supplement for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on City of Swaledale's financial statements or specified elements, accounts, or items thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Mayor and Members of the City Council, and is not intended to be and should not be used by anyone other than these specified parties.

August 19, 2005

*Gardiner Thomsen, P.C.*

## City of Swaledale

### Detailed Findings

#### Improper Disbursements

Payroll - Ms. Highley was to be paid \$350.00 per month gross wages for the hours worked. Between January 1, 2005 and July 28, 2005, 28 checks totaling \$8,670.45 were issued to Ms. Highley. See **Exhibit A**. Of the 28 checks, 7 checks totaling \$1,865.05 issued by Ms. Highley to herself indicate the specific time period for which she was paid. The description on 18 unauthorized paychecks totaling \$5,314.86 are less specific. Three checks having no description total \$1,490.51.

We noted the paychecks for March through July were redeemed prior to the date they were recorded in the accounting records. We noted the returned checks for the undesignated checks were missing from the returned checks with the bank statements, and the stubs for the same checks were missing from the checkbook. We also noted the undesignated checks were written in groups of 2, 3 or 6 and cleared in the same manner. We noted check #7074 was returned for insufficient funds on August 2, 2005 and payment was stopped on August 5, 2005. Per discussion with bank personnel, Ms. Highley did not receive cash for check #7074.

Of the 28 disbursements, 7 were included in the payroll register and taxes and other withholdings were deducted from the gross pay recorded in the register. The City also contributed the employer's share of FICA and IPERS for these payments. No taxes or employee contributions were withheld on the remaining 21 checks.

#### City Receipts

The City's primary revenue sources are property taxes collected by the County and remitted to the City, property tax replacement, local option sales and services tax and street construction funds from the State of Iowa and water billings.

We examined the information provided by Cerro Gordo County and the State of Iowa to determine if any of these funds were not properly deposited to the City's accounts. We traced all funds from the County and the State to their proper deposit in the City's checking account.

We noted a deposit for "coffee money" recorded in the check register and on a duplicate deposit slip, however the original deposit slip was not returned in the bank statement and the deposit was not credited to the City account. Per discussion with the person in charge of the coffee money, the coffee money was turned over in cash to the City Clerk for deposit. See **Exhibit B**.

## City of Swaledale

### Detailed Findings (Continued)

Only three receipts written to customers for cash payments could be located for the seven month period.

The City Public Works employee is responsible for reading water meters each month for each residence or business receiving water. He records the month's water usage in a register that is used by the City Clerk to enter the usage information into the City's Excel spreadsheet. The spreadsheet is used to prepare the monthly bills to customers. Because we were unable to locate any monthly reconciliations prepared by Ms. Highley for the billings, we attempted to reconcile the amount billed to the amount collected and subsequently deposited for the seven month period. While we were able to trace collections recorded on the spreadsheet for most customers to a deposit to the City's bank account, there were adjustments and credits made that could not be traced to a deposit or to other supporting documentation explaining the necessity and accuracy of the posting. We were unable to determine whether additional amounts may have been misappropriated from utility collections during the time period of our procedures because adequate receipt records were not available. In addition, there was no record of utility meter deposits for utility customers.

We noted for one particular utility customer, payments applied to the account for which no deposits were made. Also, original deposit slips were altered before the deposit was made, the duplicate deposit slip recording a different amount. See **Exhibit C**.

We traced utility payments applied to Ms. Highley's account on the billing register to deposit slips and ultimately to a deposit. We noted three utility payments applied for which no deposit was made. See **Exhibit D**.

## City of Swaledale

### Recommended Control Procedures

As part of our procedures, we reviewed the procedures used by the City of Swaledale to perform bank reconciliation functions and process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from error or irregularities. These procedures provide that the actions of one individual will act as a check on those of another and provide a level of assurance that errors or irregularities will be noted 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 of Swaledale's internal 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. The Clerk had control over each of the following areas for the City:

- (1) Receipts – collecting, depositing, and posting
- (2) Disbursements – check preparation, distribution and recording
- (3) Payroll – preparation and distribution
- (4) Checking and savings – ability to transfer from one account to another

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the functions listed above should be segregated. In addition, Council Members should review financial records, perform reconciliations, and examine supporting documentation for accounting records on a periodic basis. Dual signatures on checks should be required. The bank accounts should not be reconciled by the persons who are authorized to sign checks. The checking accounts should be reconciled on a monthly basis.

(B) Payroll Records – There were no timesheets or adequate documentation maintained for the City Clerk to record hours worked.

Recommendation - Timesheets or other adequate documentation should be prepared by each City employee and reviewed by an independent party for reasonableness and approval. The approval should be indicated by a signature or other documentation. In addition, the payroll register should be periodically reviewed by a Council Member for reasonableness and compared to payroll information recorded in the accounting records. It should be determined that payroll reports are correctly and timely filed, and that payroll tax deposits are correctly and timely deposited.

## City of Swaledale

### Recommended Control Procedures (Continued)

- (C) Reconciliation of Utility Billings – Utility billings, collections and delinquent accounts were not reconciled.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies. The Council should review the reconciliations and monitor delinquencies. The City should enforce the shut off procedures it has in place for unpaid accounts.

- (D) Accounting Policies and Procedures Manual – The City does not have an 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 personnel by providing job descriptions.
- (2) Help achieve uniformity in accounting and in the application of City policies.
- (3) Provide City personnel with a schedule of the various reports required throughout the year, including dates and the agencies to which the reports are due.

**Exhibit A**

Payroll Disbursements to Stacey Highley  
For the period January 1, 2005 through July 31, 2005

Per Accounting Records

<b>Date of Check</b>	<b>Check Number</b>	<b>Description</b>	<b>Amount</b>	<b>Pay Period</b>	<b>Date Cleared</b>
01/27/2005	6652	Wages Jan 05	\$93.43	January 2005	01/31/2005
02/08/2005	6865	Wages Feb 05	295.27	February 2005	02/08/2005
03/24/2005	6904	Wages March	295.27	March 2005	03/16/2005
04/29/2005	6943	Wages April	295.27	April 2005	04/18/2005
06/01/2005	4973	Wages May	295.27	May 2005	04/19/2005
06/28/2005	7012	Wages June	295.27	June 2005	04/27/2005
07/27/2005	7039	Wages July	295.27	July 2005	07/18/2005
			<hr/> 1,865.05		
02/28/2005	6907	Wages	295.27		03/01/2005
04/30/2005	6987	Wages	295.27		05/03/2005
04/30/2005	6988	Wages	295.27		05/03/2005
04/20/2005	6989	Wages	295.27		04/22/2005
04/20/2005	6990	Wages	295.27		04/22/2005
04/20/2005	6991	Wages	295.27		04/22/2005
03/23/2005	6993	Wages	295.27		03/25/2005
03/22/2005	6994	Wages	295.27		03/23/2005
03/02/2005	6995	Wages	295.27		03/03/2005
03/02/2005	6996	Wages	295.27		03/03/2005
03/02/2005	6997	Wages	295.27		03/03/2005
03/02/2005	6998	Wages	295.27		03/03/2005
03/02/2005	6999	Wages	295.27		03/03/2005
03/02/2005	7000	Wages	295.27		03/03/2005
07/1/2005	7028	Wages	295.27		07/05/2005
6/28/2005	7029	Wages	295.27		06/29/2005
07/01/2005	7030	Wages	295.27		07/05/2005
07/27/2005	7074	Wages	295.27	Payment	Stopped
			<hr/> 5,314.86		
07/14/2005	7075	No Description	295.27		07/18/2005
07/14/2005	7102	No Description	295.27		07/18/2005
03/24/2005	6992	No Description	900.00		03/28/2005
			<hr/> 1,490.54		
			<hr/> <hr/> 8,670.45		

**Exhibit B**

Deposit Recorded in General Checking, Not Deposited  
For the Period January 1, 2005 through July 31, 2005

Per Accounting Records

<b>Date of Duplicate Deposit Slip</b>	<b>Date Recorded in Check Register</b>	<b>Description</b>	<b>Amount</b>
7/13/2005	07/28/2005	“Coffee Money”	\$136.00

**Exhibit C**

Water Account – Cash Utility Payment  
For the Period January 1, 2005 through July 31, 2005

Per Accounting Records – Customer Tim Wise

<b>Billing Period</b>	<b>Current Billing</b>	<b>Delinquent Billing</b>	<b>Penalty Applied</b>	<b>Total Due</b>	<b>Payments Applied</b>	<b>Findings</b>
January 2005	\$82.15	\$105.37		\$187.52	\$50.00	Cash deposited 02/01/2005
February 2005	82.36	137.52		219.88	120.00	Original deposit slip \$100.00 Duplicate Deposit Slip \$120.00 \$100.00 deposited 3/15/2005
March 2005	74.71	219.88	21.99	316.58	100.00 97.00	Cash deposited 4/5/2005 Cash not deposited
April 2005	74.07	196.58	19.66	93.31	103.00	Cash deposited 5/18/2005
May 2005	46.41	93.31	9.34	46.06	50.00	Cash deposited 9/2005
June 2005	45.98	46.06	4.60	42.04		
July 2005	46.41	46.24		92.65		
August 2005	46.30	92.65		46.30	92.65	Collected in August 2005
Difference on deposit and payment applied 3/15/2005					20.00	
Difference on deposit and payment applied April Billing					<u>97.00</u>	
<b>Payments applied but not deposited</b>					<b><u>\$ 117.00</u></b>	

**Exhibit D**

City Clerk's Utility Account  
For the Period January 1, 2005 through July 31, 2005

Per Accounting Records			
<b>Billing Period</b>	<b>Amount</b>	<b>Payments Applied by Clerk</b>	<b>Findings</b>
January 2005	\$45.98	\$45.98	Deposited 01/20/2005
February 2005	54.70	54.70	Not deposited
March 2005	55.35	55.35	Deposited 03/22/2005
April 2005	47.27	47.27	Deposited 04/27/2005
May 2005	47.05	47.05	Deposited 05/19/2005
June 2005	64.49	64.49	Not deposited
July 2005	47.27	47.27	Not deposited
Total Utility Billings		362.11	
Payments Recorded and Deposited		<u>195.65</u>	
<b>Payments Recorded and Not Deposited</b>		<b><u>\$166.46</u></b>	