

# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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David A. Vaudt, CPA  
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NEWS RELEASE

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FOR RELEASE \_\_\_\_\_ February 18, 2011 \_\_\_\_\_

Auditor of State David A. Vaudt today released a report on the City of Truesdale for the period July 1, 2006 through December 31, 2010. The procedures performed were requested by City officials as a result of a citizens' petition pursuant to section 11.6(3) of the *Code of Iowa* or were performed to address additional concerns identified during fieldwork.

Vaudt reported the procedures identified \$5,162.69 of improper and unsupported disbursements. The \$4,424.03 of improper disbursements include unauthorized checks issued to the City Clerk, Melissa Nielsen, between July 1, 2006 and December 31, 2010. The improper disbursements also include late fees and interest paid to the Iowa Public Employees' Retirement System because required contributions were not made in a timely manner by Ms. Nielsen. The unsupported disbursements of \$738.66 include 3 disbursements which were not supported by appropriate documentation, but the disbursements appear reasonable based on the vendors and the amount of the payments.

Vaudt also reported the City receives collections for utility services provided to the residents of the City. However, monthly utility reconciliations were not performed and billing records and delinquent account information were not retained. As a result, it was not possible to determine if all utility fees were properly billed, collected and deposited to the City's accounts.

In addition, Vaudt reported the City entered into a financing arrangement for \$8,127.00 with a vendor for tile repair performed in 2007. Because the obligation exceeded \$5,000.00, the City's Municipal Code required the City Council to adopt a resolution for the project or affirmatively pass a motion in favor of the public improvement. However, the required resolution was not adopted and the City Council did not approve the invoices or the financing arrangement. In addition, a portion of the repair was related to work done on property owned

by a Council Member. Minutes of City Council meetings did not document the City Council ensured it was appropriate to satisfy the repair done on property owned by a Council Member with public funds. Vaudt recommended the minutes of City Council meetings clearly document decisions made by the City Council and any actions taken.

Vaudt's report also includes recommendations to strengthen the City's controls and procedures over payroll and other disbursements, receipts, investments, financial reporting and implementing procedures to conduct and document independent reviews of transactions, records and reports. Vaudt also recommended the City establish procedures to reconcile monthly utility records and bank statements to City records.

A copy of the report is available for review in the City's 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/0922-0092-BC00.pdf>.

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**REPORT ON THE  
CITY OF TRUESDALE**

**FOR THE PERIOD  
JULY 1, 2006 THROUGH DECEMBER 31, 2010**

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## City of Truesdale

### Officials

<u>Name</u>	<u>Title</u>	<u>Term</u>
Stan Buchholz	Mayor	Jan 2006 - Jan 2010
Linda Anderson	Council Member	Jan 2006 - Jan 2010
Rachel Jacobs (Retired)	Council Member	Jan 2006 - Sept 2007
Chris Barrickman (Appointed)	Council Member	Oct 2007 - Nov 2009
Barry Meyer	Council Member	Jan 2006 - Jan 2010
Tina Shannon	Council Member	Jan 2006 - Jan 2010
James Weiland	Council Member	Jan 2006 - Jan 2010
Stan Buchholz	Mayor	Jan 2010 - Dec 2011
Steve Bovero	Council Member	Jan 2010 - Dec 2011
Barry Meyer	Council Member	Jan 2010 - Dec 2011
Tina Shannon	Council Member	Jan 2010 - Dec 2011
Linda Walker	Council Member	Jan 2010 - Dec 2011
James Weiland	Council Member	Jan 2010 - Dec 2011
Melissa Nielsen	Clerk	Resigned Jan 2011
Rachel Jacobs	Clerk	Appointed Jan 2011
John Murray	Attorney	Indefinite

**City of Truesdale**



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Auditor of State's Report

To the Honorable Mayor and  
Members of the City Council:

As a result of a citizens' petition pursuant to section 11.6(3) of the *Code of Iowa* and at your request, we have performed the following procedures, which were agreed to by the City of Truesdale, solely to assist you in evaluating the operations of the City for the period July 1, 2006 through December 31, 2010. The City of Truesdale's management is responsible for the operating practices and procedures followed by the City. 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 representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Based on discussions with City officials and personnel and a review of relevant information, we performed the following procedures for the period July 1, 2008 through June 30, 2009, unless otherwise specified.

- (1) Obtained an understanding of and attempted to determine the propriety of the City paying 2 invoices from Rural Utility Solutions (Iowa Lakes Regional Water) in the amounts of \$1,439.46 and \$6,688.33.
- (2) Obtained an understanding of and attempted to determine the responsibility for and reimbursement of costs, if any, associated with the repositioning of construction materials as a result of an alleged violation of the Municipal Code.
- (3) Reviewed fiscal years 2009 and 2010 contracts for snow removal services, including City Council approval. In addition, we requested documentation related to costs associated with a fiscal year 2010 sewer cap repair, including City Council approval.
- (4) Reviewed City Council minutes for fiscal year 2008 through fiscal year 2010 for compliance with Chapter 21 of the *Code of Iowa*.
- (5) Tested certain disbursements to determine if they were properly approved, recorded and accounted for.
- (6) Tested certain receipts to determine if they were properly recorded and deposited to the City's bank account.
- (7) Requested and reviewed bank reconciliations to determine if the balances reconciled to the City's accounting records.
- (8) Reviewed the fiscal year 2009 Annual Financial Report submitted to the State for accuracy and completeness.

While performing the procedures described above, we identified certain concerns which warranted further investigation. As a result, for the periods specified, we:

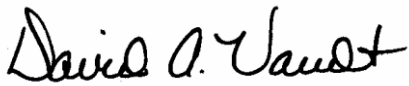
- (1) Attempted to reconcile utility billings to collections for the period July 1, 2008 through June 30, 2009. In addition, we attempted to estimate a reasonable monthly utility deposit and compared this estimate to recorded and actual deposits for the period July 1, 2008 through June 30, 2009.
- (2) Reconciled monthly disbursements from the City's bank account to general ledger activity for the period July 1, 2008 through June 30, 2010.
- (3) Reviewed the City's Clerk's payroll payments for the period July 1, 2004 through December 31, 2010 and related W-2 Wage and Tax statements for calendar years 2006 through 2009.
- (4) Obtained and reviewed reports from the Iowa Public Employees' Retirement System (IPERS) for the period July 1, 2006 through November 30, 2010 to determine if the proper amount of contributions had been remitted for the City Clerk.

These procedures identified \$5,162.69 of improper and unsupported disbursements. We were unable to determine if all utility fees were properly billed, collected and deposited because adequate records for utility billings and receipts were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary of this report. Unless reported in the Investigative Summary, 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 operations of the City of Truesdale, the objective of which would be the expression of an opinion on the financial statements of the City of Truesdale. Accordingly, we do not express such an opinion. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Truesdale, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Buena Vista County Attorney's Office, the Iowa Attorney General's Office, the Buena Vista County Sheriff's Office and the Iowa Division of Criminal Investigation. Copies of this report have also been provided to the Internal Revenue Service, the Iowa Department of Revenue and the Iowa Public Employees Retirement System.

We would like to acknowledge the assistance extended to us by the officials and personnel of the City of Truesdale during this engagement.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 11, 2011



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City of Truesdale

**Background Information**

The City of Truesdale is located in Buena Vista County and has a population of approximately 90. The City maintains office hours at City Hall each Monday through Wednesday from 8:30 a.m. to 10:30 a.m. and has one part-time employee. As the City Clerk, Melissa Nielsen was responsible for:

- 1) Receipts – collecting, posting to the accounting records, preparing deposits and depositing collections to the bank.
- 2) Disbursements – authorizing and making purchases, receiving certain goods and services, presenting proposed disbursements to the Council, maintaining supporting documentation, preparing checks, signing checks, distributing checks and posting to the accounting records.
- 3) Payroll – calculating, preparing checks, signing checks, distributing checks and posting to the accounting records.
- 4) Reporting – receiving the bank statements and reconciling the bank accounts, preparation of Council minutes and financial reports, including the monthly Clerk’s report.
- 5) Utilities - preparing utility billings, collecting payments and posting payments to customer accounts.

Ms. Nielsen resigned effective January 11, 2011. According to Ms. Nielsen, she was employed as the City Clerk for approximately 10 years.

The City’s primary revenue sources include local option sales tax and road use tax from the State of Iowa and property tax collected by Buena Vista County and remitted to the City. Revenue is also received throughout the year from households and businesses in the City for water, sewer and garbage services.

According to Mayor Stan Buchholz, disbursements were made by checks which required both his signature and Ms. Nielsen’s signature prior to December 31, 2010. Invoices were submitted to Ms. Nielsen, who placed them in a vendor file folder before approval. Prior to the Council meeting, Ms. Nielsen prepared a listing of the bills for the Council’s approval. According to the Mayor, the listing included all vendor invoices, reimbursement requests and payroll disbursements.

Also according to the Mayor, the Council approves the bill listing but does not review individual invoices unless there is a question about a specific disbursement. Ms. Nielsen prepared and signed checks after the bill listing was approved by the Council. The checks were then provided to the Mayor for counter-signature. After the Mayor signed the checks, Ms. Nielsen distributed them to the vendors.

As a result of a citizens’ petition pursuant to section 11.6(3) of the *Code of Iowa* and at the request of the Mayor and City Council, in August 2010 the City Attorney requested the Office of Auditor of State conduct certain agreed-upon procedures. As discussed in the Auditor of State’s report, while performing the agreed upon procedures, certain concerns which warranted further investigation were identified. As a result, we performed each procedure detailed in the Auditor of State’s report for the periods specified.

## Detailed Findings

The procedures identified \$5,162.69 of improper and unsupported disbursements during the period July 1, 2006 through December 31, 2010. We were unable to determine if all utility fees were properly billed, collected and deposited because adequate utility records were not maintained. The improper and unsupported disbursements are summarized in **Table 1**.

**Table 1**

Description	Table/ Page Number	Amount		
		Improper	Unsupported	Total
Unauthorized payroll	<b>Table 3</b>	\$ 3,963.28	-	3,963.28
Interest and late fees	<b>Page 10</b>	460.75	-	460.75
Unsupported disbursements	<b>Page 11</b>	-	738.66	738.66
Total		\$ 4,424.03	738.66	5,162.69

Each finding is discussed in detail in the following sections of this report.

**Unauthorized Payroll** – As the City Clerk, Ms. Nielsen was responsible for preparing City disbursements, including payroll. She recorded payroll information on a monthly disbursement ledger and printed payroll checks. Payroll checks were to be signed by Ms. Nielsen and the Mayor.

Ms. Nielsen was authorized by the City Council to be paid once each month. According to the minutes from the May 10, 2004 Council meeting, Ms. Nielsen was to be paid \$320.00 per month. As the City Clerk, Ms. Nielsen was required to participate in the Iowa Employees' Retirement System (IPERS). As a member of IPERS, contributions were to be withheld from Ms. Nielsen's gross pay each month and, as Ms. Nielsen's employer, the City was required to provide a statutorily established contribution. In addition, Ms. Nielsen was required to withhold FICA tax from her gross pay.

**Table 2** summarizes Ms. Nielsen's authorized monthly gross pay, the required withholdings for IPERS and FICA and the resulting authorized net pay for fiscal years 2007 through 2011. Ms. Nielsen did not withhold state or federal income tax from any of the checks she issued to herself. As a result, withholding amounts for state and federal income tax have not been included in the **Table**.

**Table 2**

Description	Fiscal Year Ended June 30,				
	2007	2008	2009	2010	2011
Authorized monthly gross pay	\$ 320.00	320.00	320.00	320.00	320.00
Less:					
IPERS contributions <sup>^</sup>	(11.84)	(12.48)	(13.12)	(13.76)	(14.40)
FICA withholdings (7.65%)	(24.48)	(24.48)	(24.48)	(24.48)	(24.48)
Authorized monthly net pay	\$ 283.68	283.04	282.40	281.76	281.12

<sup>^</sup> - The employee's share of IPERS contributions was 3.7%, 3.9%, 4.1%, 4.3% and 4.5% for fiscal years 2007, 2008, 2009, 2010 and 2011, respectively.

We reviewed the payroll checks Ms. Nielsen issued to herself and determined the net amount of the checks issued prior to November 2006 was properly calculated at \$283.68 (excluding federal and state income taxes which should have been withheld). However, beginning with her November 2006 payroll check, Ms. Nielsen began preparing her payroll checks for \$295.68 rather than \$283.68. As illustrated by **Table 2**, Ms. Nielsen's authorized net pay decreased each year from 2007 through 2011 because the amount she should have withheld for IPERS contributions increased. However, Ms. Nielsen continued to prepare her payroll checks for \$295.68 until she resigned on January 11, 2011, except for the monthly payroll check Ms. Nielsen issued to herself in December 2007, which was for \$345.68.

The checks Ms. Nielsen issued to herself from July 1, 2006 through December 31, 2010 are listed in **Exhibit A**. As illustrated by the **Exhibit**, Ms. Nielsen did not prepare her payroll checks on the same date each month. Some checks were issued at the beginning of the month while others were issued at the end or in the middle of the month.

We also determined Ms. Nielsen issued 11 unauthorized checks for \$295.68 to herself between July 1, 2006 and December 31, 2010. Of the 11 checks identified, 10 were not included in the disbursement listings provided to Council for review and approval. For the remaining check, the disbursement listing provided to Council did not include the check numbers of the approved disbursements. However, the listing included only 1 check to Ms. Nielsen for \$295.68, even though 2 checks were issued to her for that amount.

**Exhibit A** compares the amounts of the paychecks Ms. Nielsen issued to herself to the authorized monthly net pay. The **Exhibit** also illustrates the amount Ms. Nielsen received in excess of her authorized salary for each check issued from November 2006 through December 2010. We also compared the total amount Ms. Nielsen was authorized to receive to the amount she actually received. This comparison is illustrated in **Table 3**. As illustrated by the **Table**, from July 1, 2006 through December 31, 2010 Ms. Nielsen received \$3,963.28 more than she was authorized.

**Table 3**

Description	Fiscal Year Ended June 30,					Total
	2007	2008	2009	2010	2011 <sup>^</sup>	
Authorized monthly net pay ( <b>Table 1</b> )	\$ 283.68	283.04	282.40	281.76	281.12	
x Number of months per year	12	12	12	12	6	
Authorized annual net pay	3,404.16	3,396.48	3,388.80	3,381.76	1,686.72	15,257.92
Amount actually received	3,500.16	4,485.20	5,026.56	4,139.52	2,069.76	19,221.20
Unauthorized payroll	\$ 96.00	1,088.72	1,637.76	757.76	383.04	3,963.28

<sup>^</sup> - Through December 30, 2010

Because we identified unauthorized payments to Ms. Nielsen, we also reviewed the checks issued to her during fiscal years 2005 and 2006. We determined she received only 12 checks during those years. The amounts appeared reasonable.

On December 22, 2010, representatives of the Buena Vista County Sheriff's Office interviewed Ms. Nielsen regarding the unauthorized checks she issued to herself. During the interview, she acknowledged she had received more than 1 check per month on several occasions during her employment by the City. She also stated after the "audit issue came up" she began looking at the number of unauthorized payroll checks she had issued herself and discovered there were more than what she had recalled. The \$3,963.28 of unauthorized payroll summarized in **Table 3** is included in the total improper disbursements listed in **Table 1**.

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**IPERS Contributions** – Because a payroll register which summarized the amount of Ms. Nielsen’s gross pay and the amounts she withheld for each paycheck was not available, we were unable to determine if Ms. Nielsen withheld the proper amount from each paycheck for the contributions she was required to make to IPERS. However, we obtained a report from IPERS which listed the amount of gross pay reported by Ms. Nielsen and the amount of employer and employee contributions paid on behalf of Ms. Nielsen. With the exception of the quarter ended December 31, 2006, the proper amount of gross pay was reported to IPERS for July 1, 2006 through November 30, 2010. For the quarter ended December 31, 2006, \$320.00 was reported as Ms. Nielsen’s total gross pay. However, during the quarter, Ms. Nielsen was authorized and received \$320.00 of gross pay per month, for a total of \$960.00.

The report from IPERS also illustrated the proper amount of employer and employee contributions were paid for the amount of gross pay reported. However, because Ms. Nielsen’s gross pay for the quarter ended December 31, 2006 was underreported, the employer’s contributions and the employee’s contributions were \$24.96 and \$35.52, respectively, less than required.

Using the information obtained from IPERS, we determined the City incurred \$400.00 of interest and \$60.75 of late fees because Ms. Nielsen did not remit contributions to IPERS in a timely manner. The interest and late fees are included in the total improper disbursements listed in **Table 1**.

**Receipts** - As previously stated, the City’s primary revenue sources include taxes from the State of Iowa and Buena Vista County. The taxes are electronically deposited to the City’s account by the State and County.

Revenue is also received from utility collections for water, sewer and garbage fees billed to each household and business and other miscellaneous fees. As previously stated, Ms. Nielsen was responsible for preparation of monthly utility billings and collection and deposit of payments. According to Ms. Nielsen, each month she prepared a listing of account billings and tracked each subsequent payment manually. Once all payments were received, the manual listing was discarded. Because the billing and payments records were not properly maintained, we were unable to determine the accuracy or completeness of billings, collections and subsequent deposit of collections.

We also determined the minimum monthly amount of utility fees which were to be billed to the City’s customers. Using the number of accounts recorded in the City’s records, we determined the total minimum amount to be billed, collected and deposited each month for utilities. We determined the amount deposited exceeded the minimum amount expected for the period July 1, 2008 through June 30, 2009.

In addition, we reviewed the receipt records prepared between July 1, 2008 and June 30, 2009 which included utility deposits. The receipt records included the names for individual accounts. During our review, we were unable to locate a utility payment for the Truesdale Bar and Grill for 4 months. The Truesdale Bar and Grill is owned by Ms. Nielsen. We were also unable to locate a utility payment for 1 month for Ms. Nielsen’s personal residence. However, the payment appeared to have been deposited in a subsequent month. Although the payment was made, according to the City’s records, the \$5.00 late fee established by City ordinance was not paid. Because we are unable to determine which accounts, if any, should have been assessed late fees but were not, we did not include any uncollected late fees in **Table 1**.

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## **RECOMMENDED CONTROL PROCEDURES**

As part of our fieldwork, we reviewed the procedures used by the City of Truesdale to perform bank reconciliations 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 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 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 Truesdale's internal controls and to help ensure statutory compliance with the *Code of Iowa* and City laws and regulations.

(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. The City Clerk has control over each of the following areas with no compensating controls:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Receipts – collecting, depositing, journalizing, posting and reconciling.
- (3) Disbursements, including payroll – check writing, signing, posting and reconciling.
- (4) Financial reporting – preparing reports for monthly Council meetings, annual financial reports and any other reports necessary.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including periodic random review of transactions, records and reports by an independent reviewer. Evidence of reviews should be indicated by initials of the independent reviewer and the date of the review.

(B) Supporting Documentation – Certain disbursements, including payroll, were not consistently provided to the City Council for approval prior to disbursement. The City does not have a written disbursement approval policy allowing certain bills to be paid prior to Council approval. In addition, 3 of 21 payments to vendors tested were not supported by original invoices or other supporting documentation. The 3 payments include \$230.72 paid to the Buena Vista County Sheriff's Office, \$480.00 paid to Sun Shine Services and \$27.94 paid to Wal-Mart. Based on the vendors and the amount of the payments, the payments appear reasonable.

Recommendation - Supporting documentation should be required and maintained for all disbursements and disbursements should be approved by the Council prior to payment.

In addition, the City should consider adopting a written disbursement policy to allow payment of certain routine, repetitive bills, such as utility payments, prior to Council approval. A listing of all disbursements paid prior to Council approval should be provided to the Council at the next Council meeting for review and approval.

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- (C) Bank Reconciliations – The City Clerk’s general ledger and disbursement register were not always reconciled to the bank accounts and investments on a monthly basis. Performing timely and accurate reconciliations of the City’s records results in accurate and reliable financial information for the City Council’s management decisions and to others relying on these reports.

Recommendation – To improve financial accountability and control, the City’s accounting records should be reconciled to the bank accounts and investments on a monthly basis and the reconciliations should be retained. Any variances should be investigated and resolved in a timely manner. Monthly reconciliation is a fundamental duty of the City Clerk and should be prioritized by the City Clerk and City Council. Procedures should be implemented to perform an independent review of the monthly reconciliation to ensure the reconciliation is accurate and completed in a timely manner. Evidence of the independent review should be indicated by initials of the independent reviewer and the date of the review.

- (D) Reconciliation of Utility Billings, Collections and Delinquencies – City records of utility billings, collections and delinquencies were not maintained by the City Clerk. Section 372.13(5) of the *Code of Iowa* states, in part, “City records and documents, or accurate reproductions, shall be kept for at least five years” except for certain specified exceptions. As previously noted, according to Ms. Nielsen, she prepared a listing of account billings and tracked each payment manually. Once all payments were received, the manual listing was discarded.

Recommendation – City records of utility billings, collections and delinquencies should be maintained by the City. In addition, procedures should be established to ensure utility billings are reconciled to subsequent collections and delinquencies for each billing period. The monthly reconciliations should be retained. The Council, or other independent reviewer designated by the Council, should review the reconciliations and monitor delinquencies. Delinquencies should not be written off without Council approval.

- (E) Annual Financial Report – Section 384.22 of the *Code of Iowa* states, in part, “Not later than December 1 of each year, a city shall publish an annual report as provided in section 362.3 containing a summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the city, and the legal debt limit of the city for the current fiscal year. The report shall be prepared on forms and pursuant to instructions prescribed by the auditor of state. A copy of this report must be filed with the auditor of state not later than December 1 of each year.”

The Annual Financial Reports submitted to the Auditor of State for fiscal years 2008 and 2009 had material errors in the beginning and ending fund balances. The beginning and ending fund balances on the Annual Financial Reports for fiscal years 2008 and 2009 were understated when compared to the City’s general ledger and balances on the year-end bank statements.

Recommendation – The City should review and reconcile the Annual Financial Report with the City’s general ledger and balances per the year-end bank statements for fiscal year 2010 and make appropriate corrections prior to submitting the report to the State.

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- (F) Non-compliance with Municipal Code - Tile Repair – The City of Truesdale Municipal Code Title I section 9.02(1) states “A resolution must be adopted to spend public funds in excess of five thousand dollars (\$5,000) on any one project, or a motion to accept public improvements and facilities upon their completion, also requires an affirmative vote of not less than a majority of all the council members.” During fiscal year 2008, the City received 2 invoices from Rural Utility Solutions (Iowa Lakes Regional Water) for tile repair performed in the fall of 2007. Both invoices were dated March 31, 2008. One invoice in the amount of \$6,688.33 named the “City of Truesdale - tile repair” as the customer. A second invoice in the amount of \$1,439.46 named “City of Truesdale – Tina Shannon” as the customer. Ms. Shannon is a member of the City Council.

In August 2008, the City entered into a financing arrangement with Iowa Lakes Regional Water (ILRW) in the amount of \$8,127.00 for the payment of both invoices and assumed the responsibility for making the required payments of \$200.00 per month. From August 11, 2008 through June 15, 2010, 24 monthly payments of \$200.00, which total \$4,800.00, have been made. The payments continued into fiscal year 2011. As a result of interest applied to the account, the balance remaining as of June 30, 2010 totaled \$4,291.00.

Although reference was made to the invoices in the minutes of Council meetings, a resolution was not adopted as required by the Municipal Code and the Council did not approve payment of either invoice or the initial financing arrangement with Iowa Lakes Regional Water. In addition, there appeared to be minimal, if any, attempt by officials to determine the validity or propriety of the invoice addressed to Council Member Shannon and submitted to the City of Truesdale for payment.

Specifically, according to the City Council minutes:

- The April 14, 2008 minutes stated, in part: “2 bills were submitted by ILRW one for the work at Tina Shannon’s and one for the work done for the tile outside of town. These bills were tabled until there is some clarification for the work that was done.”
- The July 15, 2008 minutes stated, in part: “the City received a bill for \$8,117.79 for the tile at Tina’s and the tile at Mosbac’s. Meg [the City Clerk] will call Elizabeth [ILRW] to see what can be done as far as a payment plan.” (Actual amount was \$8,127.79.) During August 2008, the first payment of \$200.00 was made.
- The May 11, 2009 minutes stated, in part: “Barry stated that the reason he says nay is because he feels that the tile that was plugged that some of the \$ should have been paid by Tina. Linda agreed.” Council did not take further action.

We interviewed various individuals involved with the invoicing and payment process and attempted to ascertain the circumstances and propriety of these invoices and related transactions and agreement.

Pursuant to Article III, Section 31 of the Constitution of the State of Iowa, public funds may only be spent for the public benefit. Several court cases and opinions of the Iowa Attorney General address and provide guidance regarding this public purpose criteria. The City Council minutes record did not document, and we were otherwise unable to determine, the public purpose regarding the invoice and related payments for repairs on property owned by Council Member Tina Shannon.

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Recommendation – The City should consult legal counsel regarding the validity and propriety of the invoices. The City should review and the City Council should consider and document the public purpose served in the Council minutes, including the Constitutional criteria regarding the public benefit from these payments and the financing arrangement.

In the future, the Council minutes should clearly document the decisions and Council action taken, if any. The Iowa Attorney General provided the following guidance in a “Sunshine Advisory Bulletin dated May 2002:

“Accurate minutes of public meetings are a key tool for conducting the public's business in an open and accountable fashion. Minutes are a vital organizational tool for any government body, and they are a crucial way for citizens to review or examine public action taken on their behalf.

Minutes create a permanent record -- accessible upon request -- of who met, when they met, what they decided, and by what votes. Iowa's Open Meetings Law (Ch. 21 of the Iowa Code) spells out the basic requirements for minutes.”

The Iowa League of Cities also provided guidance regarding minutes record documentation in an article dated February 2009, which states, in part, “the amount of additional detail must be determined by each city council. While the minimal requirements may have too little historical value, a full transcript of the meeting may be too long and significantly increase publication costs. The best approach is to strive for something in the middle with the minutes providing the legally required content and enough additional information to be of historical and functional value without being too lengthy.”

(G) Council Minutes and Proceedings – Section 21.3 of the *Code of Iowa* states:

“Meetings of governmental bodies shall be preceded by public notice as provided in section 21.4 and shall be held in open session unless closed sessions are expressly permitted by law. Except as provided in section 21.5, all actions and discussions at meetings of governmental bodies, whether formal or informal, shall be conducted and executed in open session.

Each governmental body shall keep minutes of all its meetings showing the date, time and place, the members present, and the action taken at each meeting. The minutes shall show the results of each vote taken and information sufficient to indicate the vote of each member present. The vote of each member present shall be made public at the open session. The minutes shall be public records open to public inspection.”

Although the minutes of Council proceedings are maintained, the minutes record did not always include information sufficient to indicate the vote of each member present. Throughout fiscal year 2009 minute records, motions were made and seconded. However, no subsequent vote, if any, was documented. Also, various resolutions, such as resolutions 09-006 and 09-009, documented in the April 13, 2009 and June 8, 2009 minutes, respectively, included documentation indicating a motion was made and seconded by Council Members. However, no subsequent vote, if any, was documented.



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Council minutes were not always signed by the City Clerk. Section 380.7 of the *Code of Iowa* states, in part, “The city clerk shall...authenticate all measures except motions with the clerk's signature and certification as to time and manner of publication, if any. The clerk's certification is presumptive evidence of the facts stated therein.”

Also, section 372.13 of the *Code of Iowa* states, in part:

“Within fifteen days following a regular or special meeting of the council, the clerk shall cause the minutes of the proceedings of the council, including the total expenditure from each city fund, to be published in a newspaper of general circulation in the city. The publication shall include a list of all claims allowed and a summary of all receipts and shall show the gross amount of the claims. The list of claims allowed shall show the name of the person or firm making the claim, the reason for the claim, and the amount of the claim. If the reason for the claims is the same, two or more claims made by the same vendor, supplier, or claimant may be consolidated if the number of claims consolidated and the total consolidated claim amount are listed in the statement. However, the city shall provide at its office upon request an unconsolidated list of all claims allowed.... The provisions of this subsection are applicable in cities in which a newspaper is published, or in cities of two hundred population or over, but in all other cities, posting the statement in three public places in the city which have been permanently designated by ordinance is sufficient compliance with this subsection.”

Although a list of claims paid by the City is posted in 3 public places as designated by the City's Municipal Code, the list of claims posted does not include the reason or purpose of the claim as required.

Recommendation – The City should comply with section 21.3 of the *Code of Iowa* related to the proper proceedings and documentation of Council meetings. In addition, all minutes should be signed to authenticate the record. While not required, we also recommend the Mayor sign the minutes to authenticate the record and help ensure the minutes are accurate and completed timely. Also, the City should comply with section 372.13(6) of the *Code of Iowa* and include the reason or purpose of the claim on the monthly listing of claims and postings for each claim.

- (H) Contracted Snow Removal – Because of concerns expressed by citizens of the City, we requested documentation related to payments made for snow removal during the 2008/2009 and 2009/2010 snow seasons. We were provided the following documents.
- a) A bid for contracted snow removal dated September 10, 2008 was provided as support for the removal of snow throughout the City at a rate of \$75.00 per hour. However, according to City officials, a formal contract with the vendor was not prepared or provided. As a result, specific terms of the agreement could not be determined. According to the Mayor, the agreement covered a 2-year period. Discussion of the bid from this vendor, along with 2 other bids, was documented in the October 2008 minutes. The minutes also include a motion to hire the individual, which was seconded. However, the minutes did not document the vote of each Council member present. As previously stated, section 21.3 of the *Code of Iowa* requires “The minutes shall show the results of

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each vote taken and information sufficient to indicate the vote of each member present.”

- b) Documentation was provided for a 28E maintenance agreement, dated October 12, 2009, between Buena Vista County and the City of Truesdale. The agreement provided for the County to plow snow on designated City streets as needed and apply sand and/or sand salt mixture as needed for the 2009/2010 snow season. The agreement specified the County’s responsibility for the County Road System was a priority over the City’s streets. This agreement was included in the minutes of the October 2009 Council meeting. However, the minutes did not document the vote of each Council member present which, as previously stated, is required.
- c) We also requested documentation related to a separate agreement with Mark Nielsen, the husband of the City Clerk, and costs associated with hiring Mr. Nielsen for snow removal services during the 2009/2010 snow season. Mr. Nielsen also serves as the Fire Chief for the City of Truesdale. No supporting documentation for the contract or hiring the City Clerk’s husband/Fire Chief was provided. However, the City Clerk provided an invoice for \$780 representing 12 hours of snow removal on December 24 and 26, 2009. The invoice was paid in January 2010. No reference was made in the Council minutes regarding this contract or Council approval of the \$65.00 hourly rate for snow removal. The City disbursement register is presented for approval by the City Council each month. The January 2010 disbursement register included this payment.

Section 71.1 of the *Code of Iowa*, regarding nepotism, 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 appointment 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...” Section 71.2 of the *Code of Iowa* states, “No person so unlawfully appointed or employed shall be paid or receive any compensation from the public money and such appointment shall be null and void and any person or persons so paying the same or any part thereof, together with their surety, shall be liable for any and all moneys so paid.”

Section 362.5(2) of the *Code of Iowa* states, in part, “A city officer or employee shall not have an interest, direct or indirect, in any contract or job of work or material or the profits thereof or services to be furnished or performed for the officer's or employee's city. A contract entered into in violation of this section is void.” However, according to section 362.5(3)(k) of the *Code of Iowa*, “The provisions of this section do not apply to:... Contracts not otherwise permitted by this section for the purchase of goods or services by a city having a population of two thousand five hundred or less, which benefit a city officer or employee, if the purchases benefiting that officer or employee do not exceed a cumulative total purchase price of two thousand five hundred dollars in a fiscal year.”

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Recommendation – City contracts should be obtained and retained for all services bid. It is unclear whether the maintenance agreement with Buena Vista County was in lieu of or in addition to the 2008 snow removal agreement noted above. In addition, we were unable to determine if or whether the Clerk’s husband was hired by the City Council. The City should review the minutes to ensure compliance with section 21.3 of the *Code of Iowa*. City business should be presented during the monthly meetings and actions taken, if any, should be recorded in the Council minutes, including the vote of each member present.

The payment to Mr. Nielsen does not appear to be a conflict of interest pursuant to section 362.5(11) of the *Code of Iowa* because it was less than \$2,500 during the fiscal year. However, because there is inadequate documentation to determine whether Mr. Nielsen performed the snow removal as a City employee or as an independent contractor, the City should consult legal counsel regarding the nepotism provisions of Chapter 71 of the *Code of Iowa*.

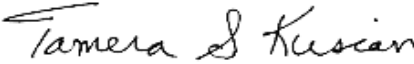
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City of Truesdale

Staff

This engagement was performed by:

Annette K. Campbell, CPA, Director  
Suzanne R. Dahlstrom, CPA, Manager  
Daryl L. Hart, Assistant Auditor

  
Tamera S. Kusian, CPA  
Deputy Auditor of State

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**Exhibits**

**Exhibit A**Report on the City of Truesdale  
Checks to Melissa Nielsen

For the period July 1, 2006 through December 31, 2010

<b>Per Check</b>				
<b>Check Date</b>	<b>Check Number</b>	<b>Amount</b>	<b>Authorized Net Pay</b>	<b>Unauthorized Payroll</b>
07/13/06 /	3637	\$ 283.68	283.68	-
08/14/06	3658	283.68	283.68	-
09/11/06	3668	283.68	283.68	-
10/09/06	3688	283.68	283.68	-
11/12/06	3697	295.68	283.68	12.00
12/11/06	3718	295.68	283.68	12.00
01/07/06	3746	295.68	283.68	12.00
02/12/07	3770	295.68	283.68	12.00
03/08/07 /	3783	295.68	283.68	12.00
04/09/07	3806	295.68	283.68	12.00
05/14/07	3820	295.68	283.68	12.00
06/11/07	3839	295.68	283.68	12.00
Subtotal fiscal year 2007		3,500.16	3,404.16	96.00
07/02/07	3841	295.68	283.04	12.64
07/24/07	3868 *	295.68	-	295.68
08/11/07	3886	295.68	283.04	12.64
09/10/07	3903	295.68	283.04	12.64
10/01/07	3904	295.68	283.04	12.64
10/07/07	3930 ^	295.68	-	295.68
11/12/07	3947	295.68	283.04	12.64
12/07/07	3953 ~	345.68	283.04	62.64
01/03/08	3969	295.68	283.04	12.64
02/01/08	3998	295.68	283.04	12.64
03/02/08	4014	295.68	283.04	12.64
03/10/08	4031	295.68	283.04	12.64
04/13/08	4060 ##	295.68	-	295.68
05/11/08	4072	295.68	283.04	12.64
06/09/08	4088	295.68	283.04	12.64
Subtotal fiscal year 2008		4,485.20	3,396.48	1,088.72

Report on the City of Truesdale  
Checks to Melissa Nielsen

For the period July 1, 2006 through December 31, 2010

Check Date	Per Check		Authorized Net Pay	Unauthorized Payroll
	Check Number	Amount		
07/08/08	4091	295.68	282.40	13.28
07/18/08	4118 ^	295.68	-	295.68
08/11/08	4131	295.68	282.40	13.28
08/31/08	4132 ^	295.68	-	295.68
09/08/08	4149	295.68	282.40	13.28
10/13/08	4164	295.68	282.40	13.28
11/10/08	4184	295.68	282.40	13.28
12/08/08	4202	295.68	282.40	13.28
12/29/08	4206 ^	295.68	-	295.68
01/19/09	4247	295.68	282.40	13.28
02/07/09	4249	295.68	282.40	13.28
02/16/09	4266 ^	295.68	-	295.68
03/09/09	4281	295.68	282.40	13.28
04/12/09	4302	295.68	282.40	13.28
05/01/09	4313	295.68	282.40	13.28
05/31/09	4324	295.68	282.40	13.28
06/08/09	4341	295.68	282.40	13.28
Subtotal fiscal year 2009		5,026.56	3,671.20	1,355.36
07/13/09	4371 ^	295.68	-	295.68
08/10/09	4386	295.68	281.76	13.92
09/01/09	4388	295.68	281.76	13.92
09/21/09	4401 ^	295.68	-	295.68
10/12/09	4421	295.68	281.76	13.92
11/01/09	4430	295.68	281.76	13.92
11/09/09	4438	295.68	281.76	13.92
12/14/09	4456 ^	295.68	-	295.68
01/11/10	4480	295.68	281.76	13.92
02/08/10	4496	295.68	281.76	13.92
03/10/10	4507	295.68	281.76	13.92

**Exhibit A**Report on the City of Truesdale  
Checks to Melissa Nielsen

For the period July 1, 2006 through December 31, 2010

<b>Check Date</b>	<b>Per Check</b>		<b>Authorized Net Pay</b>	<b>Unauthorized Payroll</b>
	<b>Check Number</b>	<b>Amount</b>		
04/12/10	4527	295.68	281.76	13.92
05/13/10	4543	295.68	281.76	13.92
06/14/10	4564	295.68	281.76	13.92
Subtotal fiscal year 2010		4,139.52	3,099.36	1,040.16
07/12/10		295.68	281.12	14.56
08/02/10		295.68	281.12	14.56
08/13/10	^	295.68	-	295.68
09/12/10		295.68	281.12	14.56
10/11/10		295.68	281.12	14.56
11/08/10		295.68	281.12	14.56
12/02/10		295.68	281.12	14.56
Subtotal fiscal year 2011#		2,069.76	1,686.72	383.04
Total		\$ 19,221.20	15,257.92	3,963.28

/ - Check date not available. Date listed is when the check cleared the City's bank account.

\* - Disbursement listing approved by the Council did not include check numbers. However, the listing included only 1 check to Melissa Nielsen for \$295.68. This check is the second payment of the month to her for that amount.

^ - Check was not included on the disbursement listing approved by the Council and was the the second payment of the month.

~ - Check was issued for \$50.00 more than checks issued during other months.

## - Check was not included on the disbursement listing approved by the Council in April 2008. However, the disbursement listing approved by the Council included check number 4031 which was dated March 10, 2008.

# - Through December 31, 2010.



## City of Truesdale

## Interest and Late Fees

For the period July 1, 2006 through December 31, 2010

<b>Month</b>	<b>Amount</b>		
	<b>Interest</b>	<b>Late Fee</b>	<b>Total</b>
October 2008	\$ 20.00	-	20.00
October 2008	-	20.25	20.25
November 2008	20.00	-	20.00
November 2008	-	20.25	20.25
December 2008	20.00	-	20.00
February 2009	20.00	-	20.00
April 2009	20.00	-	20.00
May 2009	20.00	-	20.00
July 2009	-	20.25	20.25
September 2009	20.00	-	20.00
October 2009	20.00	-	20.00
December 2009	20.00	-	20.00
January 2010	20.00	-	20.00
February 2010	20.00	-	20.00
March 2010	20.00	-	20.00
April 2010	20.00	-	20.00
May 2010	20.00	-	20.00
June 2010	20.00	-	20.00
July 2010	20.00	-	20.00
August 2010	20.00	-	20.00
September 2010	20.00	-	20.00
October 2010	20.00	-	20.00
November 2010	20.00	-	20.00
Total	\$ 400.00	60.75	460.75