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NEWS RELEASE

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FOR RELEASE _____ September 18, 2012 _____

Auditor of State David A. Vaudt today released a report on a special investigation of the City of Blencoe for the period January 1, 2008 through September 30, 2011. The special investigation was requested by City officials as a result of concerns regarding certain financial transactions and financial reports which were not properly submitted by Kym Harris, the former City Clerk.

Vaudt reported the procedures identified approximately \$71,142.00 of property tax which was not levied, \$2,426.45 of unsupported disbursements and \$343.72 of improper disbursements. Vaudt reported it was not possible to determine if additional amounts were improperly disbursed because adequate records were not maintained. The estimated \$71,142.00 of property tax could not be levied because Ms. Harris did not file a certified budget for the City by the statutory deadline.

Vaudt also reported the unsupported disbursements identified include \$1,845.43 of payments to Ms. Harris and \$458.95 of checks issued to petty cash. The improper disbursements identified include personal purchases of a camera and software, finance charges and late fees.

The report also includes recommendations to strengthen the City's internal control and overall operations, such as all disbursements should be properly approved by the City Council prior to payment and documented in the minutes. In addition, Vaudt recommended all payments should be supported by invoices or other supporting documentation which is maintained in a systematic and logical manner. Vaudt also recommended improving segregation of duties and performing bank reconciliations and independent review of bank statements.

A copy of the report has been filed with the Monona County Attorney's Office, the Attorney General's Office and the Division of Criminal Investigation. The report is available for review in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/specials/1222-0631-BE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF BLENCOE
FOR THE PERIOD
JANUARY 1, 2008 THROUGH SEPTEMBER 30, 2011**

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Auditor of State's Report

To the Honorable Mayor and
Members of the City Council:

At your request, we conducted a special investigation of the City of Blencoe. We have applied certain tests and procedures to selected financial transactions of the City for the period January 1, 2008 through September 30, 2011. Based on discussions with City officials and a review of relevant information, we performed the following procedures:

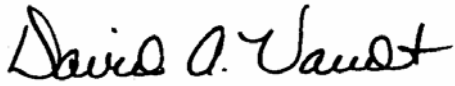
- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Examined records available in the City Clerk's office to determine if they supported the City's financial transactions.
- (3) Examined bank statements for the City's checking and savings accounts to identify any unusual activity. We also examined copies of redeemed checks, deposit slips and related documents for propriety.
- (4) Scanned all disbursements and examined selected transactions to determine if they were properly approved, were for appropriate purposes and were supported by adequate documentation.
- (5) Obtained monthly statements for certain credit card accounts to determine if payments made on the credit card accounts were for appropriate purposes.
- (6) Confirmed payments to the City by the State of Iowa and Monona County to determine whether they were properly deposited to the City's accounts.
- (7) Reviewed activity in the former City Clerk's personal bank accounts.

These procedures identified approximately \$71,142.00 of property tax which was not levied because the former City Clerk did not file a certified budget for the City by the statutory deadline, \$2,426.45 of unsupported disbursements and \$343.72 of improper disbursements. We are unable to determine if additional amounts were improperly disbursed because adequate records were not maintained. Several internal control weakness and items of non-compliance were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** through **D** of this report.

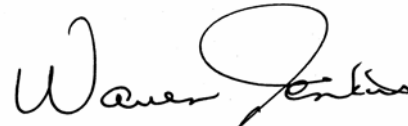
The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Blencoe, other matters might have come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

Copies of this report have been filed with the Division of Criminal Investigation, the Monona County Attorney's Office and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the City of Blencoe during the course of our investigation.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 2, 2012

City of Blencoe

Investigative Summary

Background Information

The City of Blencoe is located in Monona County and, according to the 2010 census, has a population of approximately 225. Kym Harris became City Clerk on January 1, 2008 and held that position until she resigned on September 6, 2011. The City Clerk's job duties and responsibilities include:

- 1) Receipts – collecting, preparing and making bank deposits and posting to the accounting records,
- 2) Disbursements – making purchases, receiving certain goods and services, presenting proposed disbursements to the City Council, maintaining supporting documentation, preparing, signing and distributing checks and posting to the accounting records,
- 3) Payroll – calculating payroll amounts, preparing, signing and distributing checks and posting to the accounting records,
- 4) Reporting – preparing City Council minutes and financial reports.

The City's primary revenue sources are taxes from Monona County and the State of Iowa. The City also bills households in town for water and sewer services and collects fees for rental of the Community Center. All collections are to be deposited in the City's checking account. All City disbursements are to be made by checks prepared by the City Clerk after the disbursements are approved by the City Council. Ms. Harris signed all of the checks issued from the City's checking account.

In late August 2011, a representative of the City contacted the Division of Criminal Investigation regarding concerns identified with the City's financial transactions. Specifically, the special agent who spoke with the City representative was told late payments, penalties and late fees had been identified for payments to the City's vendors and the City had lost property tax because the City Clerk had not filed certain financial reports in a timely manner. The special agent was also told supporting documentation was not available for a number of payments and the City Council had not approved the payments.

Amid concerns raised by City officials, Ms. Harris resigned, effective September 6, 2011. At approximately the same time, City officials requested the Office of Auditor of State perform an investigation of the City's financial transactions. As a result of that request, we performed the procedures detailed in the Auditor of State's Report for the period January 1, 2008 through September 30, 2011.

Detailed Findings

These procedures identified approximately \$71,142.00 of property tax which was not levied because the former City Clerk did not file a certified budget for the City by the statutory deadline, \$2,426.45 of unsupported disbursements and \$343.72 of improper disbursements. We are unable to determine if additional amounts were improperly disbursed because adequate records were not maintained.

CONDITION OF THE CITY'S FINANCIAL RECORDS

During our fieldwork, we identified several concerns with the condition of the City's financial records. When we initially visited the City, the former City Clerk's Office was very disorganized. A number of receipts, invoices, bank records and other documents were scattered around the room rather than filed in an organized manner. Prior to our return to the City, City representatives did as much as possible to organize the materials in a systematic manner.

In addition, information recorded in the City's accounting system was not completely accurate. We compared the information recorded in the City's accounting system to images of checks and deposits included with the City's bank statements. We also traced images of checks included in the bank statements to disbursements recorded in the City's accounting system to determine the accuracy of transactions recorded by the former City Clerk. During our comparison, the following concerns were identified.

- For all 313 checks reviewed, the vendors and amounts were properly recorded in the City's accounting system. However, for 77 of the 313 checks traced from the check images to the City's accounting system, the check number was improperly recorded in the City's financial records.
- Check numbers were used more than once in the City's accounting system. For instance, check number 10400 was recorded as paid to Heiman Fire Equipment on September 7, 2010 for \$60.80. Check number 10400 was also recorded as paid to Allied Systems on October 4, 2010 for \$4,044.32.

Using the image of check number 10400 included with the City's bank statement, we determined check number 10400 was issued to Allied Systems for \$4,044.32. Heiman Fire Equipment received check number 10368 for \$60.80 issued on August 2, 2010.

- The City's bank statements included checks which were not recorded in the accounting system.

It is not apparent why the information was not correctly recorded in the City's accounting system by the former City Clerk. However, based on the vendor and amount of the checks being recorded accurately and the lack of significant findings in other areas of our testing, it does not appear the former City Clerk purposely miscoded the check numbers in an effort to conceal improper financial transactions in the City's checking account.

REVENUE SOURCES

As previously stated, the City's primary revenue sources include taxes from the State of Iowa and Monona County. In addition, the City collects receipts for providing water, sewer and garbage services to residents. We reviewed documentation related to these sources to determine if collections were properly deposited.

Property Tax – We confirmed payments to the City by Monona County to determine if they were properly deposited to the City's checking account. We determined all payments received from the County during the fiscal years tested, 2009 and 2011, were properly deposited to the City's checking account.

However, a certified budget for the City was not submitted to Monona County for the fiscal year ended June 30, 2012 by the statutory deadline. As a result, the County could not levy any property tax for the City. As a result, the City did not receive any property tax for the fiscal year ended June 30, 2012. Using the levy rate from the most recent certified budget submitted by the City, a representative of the Iowa Department of Management estimated

the City would have been eligible to receive approximately \$71,142.00 of property tax for fiscal year 2012. The City is not able to recover these funds.

The estimated \$71,142.00 is included in **Exhibit A** as property tax not levied.

Taxes from the State of Iowa – The majority of collections from the State of Iowa are road use tax and local option sales tax. We confirmed all payments to the City by the State of Iowa to determine if they were properly deposited to the City’s bank account. We determined all payments from the State of Iowa during the fiscal years tested, 2009 and 2011, were properly deposited to the City’s checking account.

Utility Collections – As previously stated, the City Clerk has primary responsibility for billing, assessing penalties and collecting and depositing payments. According to City officials we spoke with, payments for utilities are received through the mail or dropped off at City Hall.

Billing statements are sent out monthly. The billing statements reflect the current amount and any past due amounts owed. The amounts on the billing statements are prepared by the City Clerk based on the meter readings. The former City Clerk did not prepare utility reconciliations.

We compared the amount of utility collections recorded in the City’s accounting system to the amount deposited to the bank. The amounts agreed for calendar years 2008 and 2009. However, the amount deposited to the bank exceeded the amount recorded in the City’s accounting system during calendar years 2010 and 2011.

We also analyzed the composition of the utility collections deposited to the bank during calendar year 2011 and determined a portion of each month’s deposits included cash. The amount of cash deposited did not increase after Ms. Harris’ resignation.

Because receipts are not available to determine the amount of utility billings collected and the former City Clerk did not prepare monthly reconciliations of the amounts billed, collected and delinquent, we are unable to determine the amount of utility collections which should have been deposited. As a result, we have not included any utility collections in **Exhibit A**.

Community Center Rental Fees – As previously stated, the City collects fees for the rental of the Community Center. According to City representatives we spoke with, the fee was \$50.00 for 6 hours or \$80.00 for a whole day. In addition, a \$100.00 deposit is required. However, fees were not charged when the Community Center was used for events such as Fire Department fundraisers, Boy Scout activities, Community Club activities, Senior Citizens activities and for City purposes.

During our fieldwork, lease agreements and calendars which show when the Community Center was reserved for an event were found in the City Clerk’s office. Using the information recorded on the calendars, we determined \$9,100.00 of rental fees should have been collected between May 1, 2008 and August 31, 2011. According to the City’s accounting system, \$8,420.00 of rental fees were deposited during this time. We were able to trace these collections to bank deposits. However, the amount deposited is \$680.00 less than the calculated amount of rental fees.

We are unable to definitively determine if the \$9,100.00 of calculated rental fees should have been collected by the former City Clerk. The fees for use of the Community Center were not consistently applied to all groups using the facility. As a result, we may have included fees in our calculation which were not actually charged or collected.

In addition, lease agreements were not available for each event recorded on the calendars. This may be because events were cancelled but not removed from the calendars, the party was not charged for the use of the facility or the lease agreement was misplaced.

Additionally, we identified occasional gaps in the fees recorded in the City's accounting system. For some months, the lack of deposits appeared reasonable because there were no events scheduled on the calendar for that month. For some months, there were a number of deposits recorded during the month following the gap, indicating the fees weren't collected and/or deposited in a timely manner. The gaps may also result from timing differences between the event and collection and/or deposit of the related fees.

Because lease agreements were not available for each event recorded on the calendars and receipts were not issued for collection of rental fees, we are unable to definitively determine the amount of rental fees which should have been deposited. As a result, we have not included any rental fees in **Exhibit A**.

IMPROPER AND UNSUPPORTED DISBURSEMENTS

As previously stated, we identified several concerns with the condition of the City's financial records. The former City Clerk's Office was very disorganized. A number of receipts, invoices, bank records and other documents were scattered around the room rather than organized in the file cabinets located in the room. While City representatives did as much as possible to organize the materials in a systematic manner, it was clear a number of documents, such as invoices, receipts and billings, may have been previously lost or destroyed.

In order to test disbursements from the City's checking account for the period January 1, 2008 through September 30, 2011 in a systematic way, we obtained a listing of payments sorted by vendor and scanned for any unusual vendors based on the type of business, amounts of payments and frequency of payments. We then attempted to trace payments to the 37 selected vendors to the related documentation.

For the 37 vendors tested, we did not find any supporting documentation for the 10 vendors listed below. The number of payments to the vendors and the amounts of the payments varied by vendor.

American Cancer Society	Continental Research Corp	Iowa Western CC
Bernie's Lawn & Garden	Fosters	Lowe's
CD & F Electronics	GE/Money Bank	Northwest Iowa CC
Consolidated Electrical Distributors		

For 13 vendors, we found supporting documentation for some, but not all, disbursements. In most cases, the most recent disbursements were supported, but the older disbursements were not. The 13 vendors are:

B & B Services	Hawkins	O'Reily Auto
Bomgaars Supply	JD Credit	Onaway Wireless
Farm Plan/Vetters	Menards	Schroder Services
Fiesta Foods	Northside Shop	Walmart
Handy Hank Hardware		

Because the 13 vendors tested may have provided goods or services which are appropriate for City operations, we have not included any of the disbursements for which adequate support was not available in **Exhibit A**.

We also found supporting documentation for some, but not all, disbursements to Discover. As a result, we contacted the credit card company to obtain additional information. We also performed additional procedures for checks which appeared unusual in nature. These checks included payments to Ms. Harris, payments for a Staples credit card, purchases from office supply vendors and certain payments for payroll taxes. Our findings are described in the following paragraphs.

Payments to Kym Harris – Using images of checks issued from the City’s checking account, we identified 76 checks issued to Ms. Harris between January 1, 2008 and September 30, 2011. Of the 76 checks identified, 49 related to payroll and appear to be reasonable.

The remaining 27 checks to Ms. Harris total \$1,845.43 and, based on the memo portion of some of the checks, appear to be for mileage expenses. The checks are listed in **Exhibit B**.

None of the payments listed in **Exhibit B** were supported by adequate documentation which provided verification of travel. Reasons for travel were not documented and the payments were not approved by an independent individual. Of the 27 payments identified, 10 were supported by a printout from a website showing driving directions to a particular town/destination. However, because the event and the location were not documented and an independent party did not approve the payment, we were unable to verify the information Ms. Harris prepared was accurate and the payment was appropriate.

During our fieldwork, we identified a number of certificates located in City Hall which indicated Ms. Harris attended a number of training events. However, documentation of the costs to attend the events, such as the number of miles driven or other costs incurred, were not available.

For 4 of the 27 payments, we also identified a check issued on the same day to either the Iowa League of Cities or the Iowa Municipal Finance Officers Association for an amount which indicates the payment was for a workshop or other form of training. However, because we were unable to determine the location of the workshop or training, we were not able to substantiate the amount of the check to Ms. Harris.

Because the event and the location of travel were not documented and an independent party did not approve any of the payments tested, we were unable to verify the non-payroll payments to Kym Harris were proper and an appropriate use of City funds. As a result, the \$1,845.43 of payments are included in **Exhibit A** as unsupported disbursements.

Discover Credit Card – After Ms. Harris’ resignation, a City representative identified several checks issued from the City’s checking account to Kym Harris’ personal Discover credit card account. As a result, we subpoenaed copies of Ms. Harris’ personal Discover credit card statements. During the period of our review, Ms. Harris and/or her husband held 2 Discover credit card accounts. Using the monthly statements we obtained from Discover and bank statements for the City’s checking account and Ms. Harris’ personal account, we traced all payments on the credit card accounts to the bank accounts from which they were issued.

We identified 7 checks totaling \$1,371.98 which were issued from the City’s checking account to pay a portion of the balance due on Ms. Harris’ personal Discover credit card account. The 7 checks are listed in **Exhibit C**. The amount of each check was traced to

the approved disbursement listing included with the City Council's meeting minutes. The remaining payments on the Discover credit card account were made from Ms. Harris' personal bank account.

As illustrated by **Exhibit C**, specific purchases at certain vendors could be identified for 6 of the 7 checks. The purchases identified include 3 from Intuit Payroll, a software vendor, 1 purchase was from Office Depot and 1 was from Staples office supply stores. Supporting documentation was not available for these purchases, but, based on the vendor and amount of the purchases, they were determined to be reasonable for the City's operations.

The purchases identified also included 2 items from Amazon.com. Based on documentation located at City Hall, Ms. Harris purchased a WebEasy 8 Professional® software package and a Kodak EasyShare® Z1485 digital camera with her Discover credit card. The software is advertised as an e-commerce tool to build your own webstore and maintain an e-commerce site. According to City representatives, these items were not for the City's operations and were not found in City Hall. As a result, these items are included in **Exhibit A** as improper disbursements.

Exhibit C illustrates a specific purchase could not be identified for check number 10111. We identified the \$77.72 payment listed in **Exhibit C** by reviewing images of the redeemed checks issued from the City's checking account. Because we were unable to obtain and review Ms. Harris' credit card statement for October 2009 and a \$77.72 purchase was not identified on the previous month's statement, we were unable to determine a vendor and the propriety of the purchase. As a result, the payment is classified as an unsupported disbursement.

Exhibit C includes check number 10230 for \$138.57. The **Exhibit** illustrates a specific purchase could not be identified for \$44.35 of the check. The \$275.00 portion of the check is described in the City's accounting system as "INTUIT012010." This corresponds with the purchase from Intuit on Ms. Harris' Discover credit card. The \$44.35 portion of the check is described in the City's accounting system as "RIY41421." Neither the description nor the amount correspond with purchases included on Ms. Harris' credit card statements. Because we are unable to identify a vendor and determine the propriety of this portion of the payment, the \$44.35 is classified as an unsupported disbursement. The unsupported disbursements totaling \$122.07 are included in **Exhibit A**.

If it was necessary for Ms. Harris to make purchases for the City using her personal credit card, the City should have reimbursed Ms. Harris upon presentation of appropriate documentation rather than paying her credit card company directly. In addition, appropriate documentation should have been maintained by the City to support all the purchases.

Staples Credit Card – We also reviewed all activity on the City's Staples credit card account. The activity is listed in **Exhibit D**. As illustrated by the **Exhibit**, only 2 purchases were made using the credit card during the period of our review. Of the 2 purchases, 1 was for anti-virus software and 1 included a multi-function copier which was observed in City Hall. Both purchases are an appropriate use of City funds.

However, because the City Clerk did not pay the credit card balance in a timely manner, the City incurred \$161.00 of late fees and \$38.02 of finance charges. Payment of late fees and finance charges are not a proper use of City funds. As a result, the total of \$199.02 is included in **Exhibit A** as improper disbursements.

A total of 5 checks were issued from the City's checking account for the purchases, late fees and finance charges. All of the payments were included in the minutes of City Council meetings or in the approved disbursement listing. However, the City Council may not have

been provided sufficient information to know the payments were for late fees and finance charges.

When the multi-function copier was purchased, a digital video camera was also purchased for \$79.99. However, a \$79.99 coupon was applied to the purchase so the City did not incur any cost for the digital video camera. According to the invoice, both the copier and the digital video camera were shipped to Ms. Harris' personal address.

Purchases from Office Supply Vendors – Quill is an on-line office supply store which frequently offers free products for purchases meeting certain criteria. During our review of invoices from Quill, we determined several free items were received as a result of purchases paid for by the City. The free items are listed in **Table 1**.

Invoice Date	Description per Invoice
04/15/06	The survival guide working mom
06/04/09	2 Gb mp3 player
03/09/11	Carnation coffeemate frnch van 2 pc bamboo spoonula set
05/17/11	Rice krispy treats 2.13 oz
8/17/11	Jelly Belly bin with scoop and 9 oz bag 49 Flavors

We also identified a free picnic mat included on an invoice from Reliable Office Supplies. A purpose for the City to have a picnic mat could not be identified.

None of the free items identified were located in City Hall, but some of the items may have been used by the City in the Clerk's Office or in the attached Community Center. Other items appear more personal in nature. None of the invoices which included free promotional items appear to include any inappropriate items purchased for the City or an excessive amount of products.

Because excess purchases were not identified and the City did not incur any additional costs for the free items identified, we have not included an improper cost in **Exhibit A**.

Payroll Taxes – A letter to the City from the Internal Revenue Service (IRS) located in City Hall stated it had no record of receiving tax returns from the City for the 8 quarters between October 1, 2008 and September 30, 2010. The letter was dated November 12, 2010.

During our review of checks issued from the City's checking account, we identified 8 sequential checks to the IRS/U.S. Treasury on November 18, 2010. The checks are listed in **Table 2**. Each check was redeemed on December 3, 2010 and included a notation of the City's taxpayer identification number in the memo portion. It appears the checks are related to payroll taxes for the quarters identified in the letter from the IRS and were prepared by Ms. Harris after receiving the notification letter. The payments were not remitted in a timely manner. Because the City's records were not maintained in a systematic manner, we were unable to determine if additional letters notifying the City of the lack of payment were received prior to the letter dated November 12, 2010.

Table 2

Check Number	Date	Amount
10452	11/18/10	\$ 2,339.35
10453	11/18/10	2,021.46
10454	11/18/10	2,185.00
10455	11/18/10	2,127.10
10456	11/18/10	2,170.38
10457	11/18/10	2,392.62
10458	11/18/10	2,242.98
10459	11/18/10	2,384.06
Total		<u>\$ 17,862.95</u>

Because the letter does not indicate the City incurred any penalties for not submitting the payments in a timely manner, we have not included an amount in **Exhibit A**.

Petty Cash – We reviewed checks issued from the City’s checking account which were payable to Petty Cash to determine the propriety of the payments. We identified 6 payments totaling \$458.95 for which supporting documentation could not be located. Because sufficient documentation was not available to determine the propriety of the payments, the \$458.95 is included in **Exhibit A** as unsupported disbursements.

We also identified \$1.25 for Snuggle fabric softener and \$4.88 for soda in the receipts used to support a petty cash reimbursement. Because these are not typical expenses for a City, the \$6.13 total is included in **Exhibit A** as improper disbursements.

ADDITIONAL CONCERNS

City Council Minutes - In accordance with section 380.7(4) of the *Code of Iowa*, the City Clerk is to authenticate all measures (except motions) taken by the City Council with the City Clerk’s signature. Also, section 372.13(6) of the *Code of Iowa* requires minutes of each City Council meeting be published or posted in 3 public places within 15 days of the meeting. In addition, the publication is to include a list of all claims allowed and a summary of all receipts. The list of claims allowed is to include the name of the person or firm making the claim, the reason for the claim and the amount of the claim.

During our review of the minutes of City Council meetings, we determined Ms. Harris did not authenticate the minutes of City Council meetings with her signature. Also, starting in March 2008, the minutes no longer documented review and approval of the previous month’s minutes.

In addition, the minutes for City Council meetings held from March 2008 through December 2009 were not posted until October 2011 and the minutes from July 2011 through October 2011 did not include a disbursement listing approved by the City Council.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Blencoe 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 or 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's internal controls.

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. The City Clerk has control over each of the following areas:
- 1) Receipts – collecting, preparing and making bank deposits and posting to the accounting records,
 - 2) Disbursements – making purchases, receiving certain goods and services, presenting proposed disbursements to the City Council, maintaining supporting documentation, preparing, signing and distributing checks and posting to the accounting records,
 - 3) Payroll – calculating payroll amounts, preparing, signing and distributing checks and posting to the accounting records,
 - 4) Reporting – preparing City Council minutes and financial reports.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. The duties within each function listed above should be segregated between the City Clerk, the Mayor and City Council Members.

In addition, the City Council should review financial records, reconciliations and supporting documentation on a periodic basis. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

- (B) Financial Accounting Records – The former City Clerk's office was very disorganized. A number of receipts, invoices, bank records and other documents were scattered around the room rather than filed in an organized manner. As a result, a number of financial records and supporting documents may have been lost or destroyed prior to our review.

In addition, check numbers and issue dates recorded in the City's accounting system did not consistently agree with the checks actually issued by the City. Also, certain check numbers were recorded more than once in the City's accounting system and certain checks which were issued from the City's checking account were not recorded in the City's accounting system.

Additional concerns identified include:

- 1) Amounts deposited to the bank were not recorded in the accounting system.
- 2) Not all disbursements were supported by invoices or other appropriate documentation.
- 3) No one performed an independent review of the disbursements issued from the City's checking account.

- 4) Some disbursements were not approved or documented in the minutes of City Council meetings.
- 5) Monthly bank account reconciliations could not be located or were not prepared.

Recommendation – The City Council should implement procedures to ensure all disbursements are properly approved by the City Council prior to payment and documented in the minutes. All payments should be supported by invoices or other supporting documentation which is maintained in a systematic and logical manner.

All checks should be prepared and signed by the City Clerk and reviewed and countersigned by the Mayor or a Council Member. The review should include comparing invoices and supporting documentation to the check.

In addition, the City Council should implement procedures to ensure the City Clerk records the City's financial transactions accurately and in a timely manner. The City's records should periodically be reviewed by an independent party.

(C) Administrative Responsibilities – The former City Clerk failed to carry out a number of her responsibilities, including:

- 1) Consistently preparing monthly financial reports for City Council review, including a detail of receipts, disbursements, fund and account balances and a budget to actual comparison.
- 2) Consistently preparing a listing of bills, including supporting documentation, for City Council approval.
- 3) Using pre-numbered receipts for all collections.
- 4) Preparing monthly bank reconciliations for City Council review and approval.

The Mayor and City Council members did not take action to require Ms. Harris to provide monthly financial information.

In addition, the former City Clerk did not submit a certified budget for the City to Monona County for the fiscal year ended June 30, 2012 by the statutory deadline. As a result the County could not levy any property tax for the City. The former City Clerk also submitted the City's annual financial report approximately 6 months after the statutory deadline. Because the report was eventually filed, the City did not forego any taxes received from the State.

Recommendation – The City Council should develop policies and procedures to ensure all reports are prepared and submitted in a timely manner. The City Council should also require the use of pre-numbered receipts.

In addition, an independent party should periodically review the pre-numbered receipts issued to ensure they are sequentially accounted for and all amounts recorded on the receipts are deposited to the City's checking account in a timely manner.

(D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts are not reconciled on a periodic basis.

Recommendation – Procedures should be established to ensure utility billings are reconciled to subsequent collections and delinquent accounts for each billing period. The City Council, or other independent person designated by the City Council, should review the reconciliations and monitor delinquent accounts. Delinquent accounts should not be written off without City Council approval.

- (E) City Council Minutes - In accordance with section 380.7(4) of the *Code of Iowa*, the City Clerk is to authenticate all measures (except motions) taken by the City Council with the Clerk's signature. During our review of the minutes of City Council meetings, we determined Ms. Harris did not authenticate the minutes of City Council meetings with her signature. Also, starting in March 2008, the minutes no longer documented review and approval of the previous month's minutes.

Also, section 372.13(6) of the *Code of Iowa* requires minutes of each City Council meeting be published or posted in 3 public places within 15 days of the meeting. The publication is to include a list of all claims allowed and a summary of all receipts. The list of claims allowed is to include the name of the person or firm making the claim, the reason for the claim and the amount of the claim. We determined the minutes for City Council meetings held from March 2008 through December 2009 were not posted until October 2011. Also, the minutes from July 2011 through October 2011 did not include a disbursement listing approved by the City Council.

Recommendation - Minutes of all City Council meetings should be prepared in accordance with requirements established by the *Code of Iowa*. Specifically, adequate minutes of meetings should be prepared and published or posted within 15 days of the meeting. The minutes should also be provided to the City Council for review and approval during the subsequent meeting. The City Council should ensure the minutes:

- include an adequate description of all actions taken and discussions held at the meetings, including a detailed listing of all individual bills approved,
- include monthly financial reports and
- are signed and maintained in a secure location.

- (F) Credit Card Payments - We identified 7 payments on the former City Clerk's personal credit card account made with City funds. All 7 payments were approved by the City Council even though the payments included the purchase of 2 personal items. In addition, we were unable to determine the propriety for a portion of the remaining payments.

Recommendation - If it was necessary for the City Clerk to make purchases for the City using a personal credit card, the City should have reimbursed the City Clerk upon presentation of appropriate documentation rather than paying the credit card company directly. In addition, appropriate documentation should be maintained by the City to support all the purchases.

- (G) Free Promotional Items - During our review of invoices from an on-line office supply store, we determined several free items were received as a result of purchases paid for by the City.

Recommendation - The City Council should develop a policy regarding the disposition of any free promotional materials received as a result of purchases from vendors. The disposition should not personally benefit City employees. In addition, the City Council should implement procedures to periodically review invoices from certain vendors to identify any free items received.

- (H) Petty Cash - We identified 6 payments which were described as reimbursements to the City's petty cash fund for which supporting documentation could not be located. We also identified receipts used to support a petty cash reimbursement which included items which are not typical for a City's operations.

Recommendation - The City Council should implement procedures to ensure all petty cash reimbursements are appropriate. The City's petty cash fund should be established on an imprest basis. The petty cash fund should have an established amount.

All disbursements from petty cash should be supported by appropriate documentation and the documentation should be “bundled” and used as support to replenish the petty cash to the established balance. Only authorized payments should be made from petty cash and it should not be used as a change account from which employees may cash personal checks.

- (I) Travel reimbursements – We identified a number of payments to the former City Clerk which, based on the memo portion of some of the checks, appear to be for travel expenses. The payments were not supported by adequate documentation which provided verification of travel.

Recommendation – The City Council should implement procedures to ensure all reimbursements to employees are supported by appropriate documentation and they are reviewed and approved by an independent party who is in a position to attest to the accuracy of the information.

Reimbursements for mileage should include a complete description of the location traveled to, the reason for the travel and, if possible, documentation of the meeting/training agenda or other verification of a meeting. Also, any additional costs should be supported by appropriate receipts.

- (J) Payroll Taxes - We identified 8 sequential checks to the Internal Revenue Service/U.S. Treasury which appear related to payroll taxes for various periods. The payments were not remitted in a timely manner.

Recommendation – The City Council should implement procedures to ensure the City Clerk makes all payments in a timely manner and penalties are not incurred.

- (K) Submission of Certified Budgets – The City did not certify a budget to the Monona County Auditor for the fiscal year ended June 30, 2012 by the statutory deadline. Submission of a certified budget in a timely manner is required to levy property tax. Because the City did not certify a budget to the County, it will not receive approximately \$71,142.00 of property tax.

Recommendation – The Council should establish a procedure to ensure the budget is certified to the County and the Iowa Department of Management in a timely manner for each fiscal year in order to receive State funds and property tax.

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Exhibits

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Summary of Findings
For the period January 1, 2008 through September 30, 2011

Description	Exhibit/Table/ Page Number	Property Tax not Levied	Disbursements		Total
			Unsupported	Improper	
Property tax not levied	Pages 6 and 7	\$ 71,142.00	-	-	71,142.00
Unsupported and improper disbursements:					
Payments to Kym Harris	Exhibit B	-	1,845.43	-	1,845.43
Discover credit card	Exhibit C	-	122.07	138.57	260.64
Staples credit card	Exhibit D	-	-	199.02	199.02
Petty cash	Page 12	-	458.95	6.13	465.08
Subtotal		-	2,426.45	343.72	2,770.17
Total		\$ 71,142.00	2,426.45	343.72	73,912.17

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Checks to Kym Harris
For the period January 1, 2008 through September 30, 2011

Per the Check

Check Number	Date	Memo	Amount
5793	03/03/08	91.8 to Lawton, 221.92 Storm Lake, 313.72 miles @ .47	\$ 221.92
5853	06/02/08	mileage	66.08
5877	06/30/08	mileage	82.18
5919	08/11/08	mileage	89.64
5946	09/08/08	mileage	49.25
5967	10/06/08	mileage	17.30
5987	11/03/08	None	34.16
6008	12/08/08	None	75.00
6016	12/08/08	mileage	99.53
6093	03/02/09	mileage	73.71
10037	06/01/09	None	42.98
10073	06/30/09	None	51.00
10093	08/03/09	None	41.94
10174	10/22/09	None	48.41
10232	02/19/10	None	54.05
10276	04/05/10	None	44.18
10324	06/07/10	None	54.12
10344	07/06/10	None	53.24
10409	09/17/10	None	96.46
10404	10/04/10	None	53.12
10437	11/01/10	None	44.18
10471	12/07/10	None	77.43
10506	01/03/11	None	54.12
10542	03/07/11	None	96.24
10567	04/04/11	None	83.42
10587	05/04/11	None	53.12
10626	06/06/11	None	88.65
Total			<u>\$ 1,845.43</u>

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Payments to Discover Credit Card
For the period January 1, 2008 through September 30, 2011

Per Check			Vendor *	Description ^	Amount		
Date	Number	Amount			Reasonable	Unsupported	Improper
02/02/09	6070	\$ 239.00	Intuit	Payroll software	\$ 239.00	-	-
05/07/09	10015	190.79	Office Depot	None	190.79	-	-
09/16/09	10111	77.72	Unknown	None	-	77.72	-
12/30/09	10193	138.57	Amazon.com	Web Easy 8 Professional software	-	-	42.41
			Amazon.com	Kodak EasyShare Z1485 Digital Camera	-	-	96.16
02/19/10	10230	319.35	Intuit	Payroll software	275.00	-	-
			Unknown	None	-	44.35	-
12/07/10	10469	107.55	Staples	None	107.55	-	-
03/07/11	10540	299.00	Intuit	Payroll software	299.00	-	-
Total		<u>\$ 1,371.98</u>			<u>\$ 1,111.34</u>	<u>122.07</u>	<u>138.57</u>

* - Per Discover credit card statement.

^ - Based on available supporting documentation.

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Staples Credit Card Activity
For the period January 1, 2008 through September 30, 2011

Per Check			Per Staples Credit Card Statement					
Check #	Date	Amount	Closing Date	Description of item purchased	Purchase*	Late Fee^	Finance Charge^	Payment
			03/13/11	Anti-virus	\$ 199.99	-	-	-
10574	04/04/11	\$ 199.99	04/12/11		-	29.00	3.70	199.99
			05/13/11		-	15.00	2.00	-
10593	05/04/11	32.70	06/12/11	Brother DCP 8085DN multi function copier	399.99	39.00	9.92	32.70
10639	06/06/11	49.70	07/13/11		-	39.00	11.54	49.70
10649	07/11/11	48.92	08/12/11		-	39.00	10.86	48.92
8284	08/23/11	467.69	09/12/11		-	-	-	467.69
Total		<u>\$ 799.00</u>			<u>\$ 599.98</u>	<u>161.00</u>	<u>38.02</u>	<u>799.00</u>

* - Determined to be a reasonable use of City funds.

^ - Improper use of City funds. Late fees and finance charges total \$199.02.

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Staff

These procedures were performed by:

Annette K. Campbell, CPA, Director
Melissa J. Knoll-Speer, Senior Auditor II
Tina R. Stuart, Senior Auditor II



Tamera S. Kusian, CPA
Deputy Auditor of State