

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

Contact: David A. Vaudt
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE _____ March 18, 2013 _____

Auditor of State David A. Vaudt today released a report on a special investigation of the City of Muscatine for the period July 1, 2008 through March 8, 2012. The special investigation was requested by City officials following their internal review, which was conducted as a result of concerns regarding the alteration of a public housing receipt by Diane Fry, the former Senior Accounting Clerk.

Vaudt reported the special investigation identified \$18,054.70 of undeposited collections, comprised of \$15,444.70 from the public housing program and \$2,610.00 of General Fund collections, such as yard waste bag fees and tattoo inspection fees. The City originally identified \$15,519.70 of undeposited collections, of which \$15,456.70 could be verified. An additional \$2,598.00 of undeposited collections was identified by the special investigation.

Tenant accounts were maintained both electronically and through the use of manual ledgers prepared by Ms. Fry. Tenants received a computer-generated receipt for all payments made. Ms. Fry had the access and ability to alter both the electronic accounts and manual ledgers, as well as the receipts. Of the total \$18,054.70 of undeposited collections identified:

- \$5,321.42 resulted from receipt alteration,
- \$4,246.42 resulted from manual ledger alteration,
- \$2,901.00 resulted from deposit alteration,
- \$1,872.00 resulted from computer system alteration and
- \$3,713.86 resulted from a combination of receipt, manual ledger, deposit and computer system alteration.

Vaudt also reported it was not possible to determine if additional collections were not properly deposited because adequate records were not available.

In addition, Vaudt reported the special investigation identified 7 payments received by the City for yard waste bags, tattoo inspections, cigarette permits and amusement licenses totaling

\$2,610.00 which should have been deposited to the City's General Fund. Rather, they were deposited to the City's public housing program in place of cash payments received from tenants. Although the substitution of City General Fund collections for tenant payments restored the loss to the public housing program, the \$2,610.00 identified represents undeposited collections of the City's General Fund.

At the conclusion of the City's review but prior to the Office of Auditor of State's investigation, City officials decided to restore the loss to the public housing program using funds from the City's General Fund. As a result, the City issued 3 payments totaling \$10,531.08 from the General Fund. However, the special investigation determined an additional \$4,913.62 should be paid from the General Fund to fully restore the public housing program.

Vaudt reported Ms. Fry was subsequently arrested and charged with theft in the first degree and felony misconduct in office on July 31, 2012. She pled guilty on February 22, 2013.

This report includes recommendations to strengthen the City's internal controls and overall operations, such as performing an independent comparison of the deposit reports to the deposit slips for public housing receipts, performing an independent review of the accounts receivable billings for yard waste bags, tattoo inspections, cigarette permits and amusement licenses and accounting for the numerical sequence of the permit numbers for cigarette permits and amusement licenses.

Subsequent to the City's review, City officials made certain improvements to the City's operations related to public housing. Specifically, the use of manual ledgers for tenant rent payments was discontinued, the numerical sequence of receipt numbers issued to tenants is accounted for and the ability to delete a transaction from the computer system has been removed.

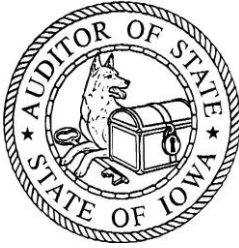
Copies of this report have been filed with the Muscatine Police Department, the Division of Criminal Investigation, the Muscatine County Attorney's Office and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1020-0653-BE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF MUSCATINE
FOR THE PERIOD
JULY 1, 2008 THROUGH MARCH 8, 2012**

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Auditor of State's Report

To the Honorable Mayor and Members
of the City Council:

As a result of alleged improprieties regarding certain public housing collections and at your request, we conducted a special investigation of the City of Muscatine. We have applied certain tests and procedures to selected financial transactions of the City for the period July 1, 2008 through March 8, 2012. Based on a review of relevant information and discussions with City officials and personnel, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Reviewed the "Missing Funds Summary" prepared by City officials and the supporting documentation obtained from the City to verify the completeness and accuracy of the findings identified.
- (3) Reviewed select tenant accounts not included on the "Missing Funds Summary" prepared by City officials to determine if payments posted to the accounts had been properly recorded and deposited.
- (4) Reviewed payments made by the City from the General Fund to the public housing program to determine if they were properly calculated.

As a result of these procedures, we identified \$18,054.70 of undeposited collections. The City originally identified \$15,519.70, of which \$15,456.70 could be verified. An additional \$2,598.00 of undeposited collections was identified by our investigation. We were unable to determine if additional collections were not properly deposited because adequate records were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibit A** of this report.


Diane Fry, the former Senior Accounting Clerk, was arrested and charged with theft in the first degree and felony misconduct in office on July 31, 2012. She pled guilty on February 22, 2013.

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 Muscatine, other matters might have come to our attention that would have been reported to you.

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

We would like to acknowledge the assistance extended to us by personnel of the City of Muscatine during the course of our investigation.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 29, 2013

City of Muscatine
Investigative Summary

Background Information

The City of Muscatine is located in Muscatine County and has a population of approximately 23,000 according to the 2010 census. Diane Fry had been employed by the City for 34 years and held the position of Senior Accounting Clerk at the time her employment with the City was terminated on March 8, 2012. As Senior Accounting Clerk, Ms. Fry was responsible for:

- 1) Public Housing – back-up for collection of tenant payments and posting charges and payments to the manual ledgers and HAPPY, the specialized software used for the public housing program, and
- 2) Accounts Receivable – creation of vendor accounts, preparation of invoices for yard waste bag and tattoo inspection fees, issuance of cigarette permits and amusement licenses, back-up for collection of yard waste bag and tattoo inspection fees, collection of cigarette permit and amusement license fees, issuance of past due statements and posting to the accounting records.

In addition to the Senior Accounting Clerk, the City's Finance and Records Department employs a Finance Director, Accountant, 2 full-time Accounting Clerks and 1 part-time Accounting Clerk. The 3 Accounting Clerks were primarily responsible for collection of tenant payments and yard waste bag and tattoo inspection fee payments, as well as issuance of receipts to the payees. If all Accounting Clerks were unavailable (i.e., during the lunch hour), Ms. Fry would collect payments received in the office. In addition, 1 of the 2 full-time Accounting Clerks was primarily responsible for preparing deposits and the other took the deposits to the City's bank.

The City's Public Housing Department provides low-income housing assistance to families in Muscatine County. There are currently 3 housing developments, including Clark House, Sunset Park and Hershey Manor. Clark House and Sunset Park are owned and managed by the City. HAPPY includes an account for each tenant and automatically calculates the monthly rent owed by each tenant based on the income information entered by the Housing Managers. HAPPY also generates receipts for tenant payments. Miscellaneous fees, such as security deposits, pet deposits and late fees, were entered in HAPPY by Ms. Fry. The City is the managing agent for Hershey Manor and tenant accounts of this development are currently included in another public housing software program. However, during Ms. Fry's tenure, all tenant accounts for Hershey Manor were maintained manually.

The City maintains 2 separate bank accounts in which public housing collections are deposited. Clark House and Sunset Park are deposited together while Hershey Manor is deposited into its own bank account. Carbon copies of the deposit slips are maintained for each deposit along with a copy of each receipt included in the deposit. In addition, the City now maintains a copy of the deposit report generated from HAPPY. According to the Finance Director, these reports were available, but not generated, during Ms. Fry's tenure.

The City Finance and Records Department is responsible for the billing and processing of yard waste bag and tattoo inspection fees and the issuance of cigarette permits and amusement licenses. Ms. Fry was responsible for each area, as follows:

- Yard waste bags and tattoo inspections – Ms. Fry prepared and sent invoices to the vendors who sold yard waste bags to their customers. The invoices showed the balance due. The invoice amounts were based on the billing requests provided to Ms. Fry by Transfer Station personnel after the yard waste bags were delivered to each vendor.

Tattoo inspections are performed annually and Ms. Fry prepared and sent the invoices to the vendors for the inspection fee. No license or permit is issued as a result of the inspections. As a result, the City is not able to determine whether all vendors have properly remitted payment.

The Accounting Clerks typically processed all payments received. However, during the lunch hour, Ms. Fry had access to any payments received in the office, as well as any payments received through the mail which had not already been processed.

- Cigarette permits and amusement licenses – Cigarette permit fees are not billed to the vendors, but rather are paid at the time the permit application is submitted. Applications are submitted annually and Ms. Fry issued the permits once the applications and payments had been received. Cigarette permits are issued on-line using the State's approved forms. The forms are not pre-numbered and City staff assign the numbers as the permits are issued. There is no independent review to account for the numerical sequence of the permits issued.

Payments for amusement licenses are received annually with a license application. Ms. Fry was responsible for issuing the licenses and the corresponding stickers for the machines. The City uses pre-numbered licenses for various licenses, including the amusement licenses. The licenses are maintained in a book using perforated forms, with the actual license given to the vendor and the stub remaining in the book to document which vendor the license was issued to. The stickers are also pre-numbered and are recorded on the license application form. There is no independent review to account for the numerical sequence of either the licenses or the stickers issued.

According to the Finance Director, the applications and checks were likely mailed to Ms. Fry's attention. However, she stated the Accounting Clerks should have been responsible for initial receipt of these payments.

On March 7, 2012, while reconciling the daily activity, an Accounting Clerk identified a receipt which had been reduced by \$500.00, resulting in a variance between the total of the receipts and the deposit total. The receipt, which was for an annual rent payment from a tenant of the City's public housing, had initially been recorded for \$4,037.00 but had been altered to \$3,537.00. The receipt was presented to the Finance Director and the Accountant for further investigation. On March 8, 2012, the Finance Director and the Accountant brought the receipt to Ms. Fry's attention and inquired if she could explain the discrepancy. Initially, Ms. Fry stated it was a system error but, toward the end of the conversation, stated, "You want me to say I did it; so, I did."

As a result of this statement, a detective from the Muscatine Police Department interviewed Ms. Fry regarding the altered receipt. Although Ms. Fry repeatedly denied altering the receipt, she ultimately admitted to the detective she had altered the receipt "to see if it could be done." At this time, City officials were unaware any tenant payments had not been properly deposited. However, because Ms. Fry admitted to altering the receipt, the Finance Director terminated her employment on March 8, 2012, subsequent to the law enforcement interview.

Subsequent to Ms. Fry's termination, the Finance Director and Accountant began a review of tenant accounts and identified tenant payments which had not been properly deposited. On April 4, 2012, the Finance Director contacted the Office of Auditor of State regarding the altered receipt and undeposited collections identified. As of that date, City officials had identified \$2,500.00 which had not been properly deposited. Because of the complex nature of the public housing deposits, we agreed to have City officials perform an internal review summarizing preliminary findings. The subsequent investigation conducted by the Office of Auditor of State was to verify the completeness and accuracy of the City's preliminary findings and determine if additional undeposited collections could be identified. We performed the procedures detailed in the Auditor of State's report for the period July 1, 2008 through March 8, 2012.

Detailed Findings

As a result of these procedures, we identified \$18,054.70 of undeposited collections, comprised of \$15,444.70 from the public housing program and \$2,610.00 of General Fund collections, such as yard waste bag fees and tattoo inspection fees, for the period July 1, 2008 through March 8, 2012. The City originally identified \$15,519.70 of undeposited collections, of which \$15,456.70 could be verified. An additional \$2,598.00 of undeposited collections was identified by our investigation. Of the total of \$18,054.70 identified:

- \$5,321.42 resulted from receipt alteration,
- \$4,246.42 resulted from manual ledger alteration,
- \$2,901.00 resulted from deposit alteration,
- \$1,872.00 resulted from computer system alteration and
- \$3,713.86 resulted from a combination of receipt, manual ledger, deposit and computer system alteration.

We were unable to determine if additional collections were not properly deposited because manual ledgers were not available prior to July 1, 2008 and adequate records were not always available for the period reviewed. If sufficient records had been readily available, additional undeposited collections may have been identified. **Table 1** summarizes the undeposited collections identified by the City which could be verified and the additional undeposited collections we identified. All undeposited collections are listed in **Exhibit A** and a detailed explanation of each type of alteration follows.

Alteration Type	Verified Amount	Additional Amount	Total
Receipt	\$ 4,031.42	1,290.00	5,321.42
Manual ledger	3,939.42	307.00	4,246.42
Deposit	2,506.00	395.00	2,901.00
Computer system	1,872.00	-	1,872.00
Combination	3,107.86	606.00	3,713.86
Total	\$ 15,456.70	2,598.00	18,054.70

Subsequent to the City’s review but prior to our investigation, the City identified the total loss by public housing development and issued 3 payments from the City’s General Fund totaling \$10,531.08 to reduce the loss to the public housing program. Further discussion of these payments is included in the “City Payments” section of this report.

UNDEPOSITED COLLECTIONS

As previously stated, each tenant residing in Clark House and Sunset Park has an electronic tenant account in HAPPY. Income information for each tenant is entered by the Housing Managers and HAPPY automatically calculates the monthly rent payment owed. The Housing Managers also complete tenant action forms which document the security and/or pet deposit owed by the tenant. The tenant action forms were submitted to Ms. Fry who was responsible for entering the amount owed in HAPPY. There was no independent review or approval to ensure the information recorded by the Housing Managers on the tenant action forms was properly entered. According to the Finance Director, the tenant action forms are now recorded by the Housing Managers and forwarded to the Accountant for review.

In addition to the electronic tenant accounts, Ms. Fry also maintained manual ledgers for each tenant of Clark House and Sunset Park. Because the software module for Hershey Manor had not been implemented during Ms. Fry's tenure, all tenant accounts were maintained on manual ledgers for Hershey Manor. There was no independent reconciliation of the manual ledgers to the electronic tenant accounts for Clark House and Sunset Park. According to the Finance Director, the manual ledgers are no longer used.

Ms. Fry also had the ability to void and/or delete transactions from HAPPY without prior approval or supporting documentation. According to the Finance Director, the ability to delete transaction history has been removed and the Accountant is the only employee with the ability to void a transaction. In addition, HAPPY requires the Accountant to enter a reason for the void. However, there is no independent review or approval.

Initially, the Finance Director and Accountant reviewed each deposit slip to determine if all payments had been properly deposited and recorded. Although they identified several discrepancies in this manner, they subsequently determined it would be more effective to review each tenant account by public housing development. The accounts for all current tenants were reviewed thoroughly. According to the Accountant, they did not fully investigate the accounts of former tenants because they were focused on correcting the balance of all current tenant accounts and not focused on identifying the total loss to the City.

We reviewed the supporting documentation prepared by City officials to verify the amounts identified as undeposited collections and to determine if additional undeposited amounts could be identified. Based on our review, we determined Ms. Fry altered supporting documentation for the undeposited collections identified, including the receipts, manual ledgers, deposits and amounts recorded in HAPPY. For each undeposited collection identified, 2 or more of these areas were altered. As a result, we classified them by the primary alteration which enabled Ms. Fry to not properly deposit the collections, as described in the following paragraphs.

Receipt Alteration – A receipt was generated from HAPPY for each tenant payment. HAPPY assigned a key sequence number, which could not be manually changed. However, the receipt number was manually entered in HAPPY by the Accounting Clerk receiving the payment. No independent review was done to account for the numerical sequence of the key sequence numbers or the receipt numbers. In addition, an independent review was not done to reconcile the receipt numbers recorded in HAPPY to the manual ledgers maintained for each tenant's account or for the tenant accounts maintained in HAPPY. According to the Finance Director, both the key sequence number and receipt number are now accounted for and the employee collecting the payment initials both copies of the receipt.

Subsequent to Ms. Fry's termination, City officials cleaned her desk and discovered a partial receipt which had been cut. Based on a review of all receipts, City officials determined Ms. Fry used the partial receipt to photocopy and alter receipts. The City identified and we verified 29 instances totaling \$4,031.42 where the receipt was altered. We identified 4 additional instances of receipt alteration totaling \$1,290.00. Total undeposited collections resulting from receipt alterations were \$5,321.42.

In 1 of the 33 instances identified, Tenant A moved into Sunset Park in May 2009. On May 4, 2009, Tenant A paid the security deposit, which must be paid in full prior to moving in. Ms. Fry posted a \$250.00 payment with receipt #2603 to the manual ledger maintained for Tenant A. In addition, the supporting documentation attached to the City's copy of the deposit slip included a copy of receipt #2603 for Tenant A in the amount of \$250.00. However, the copy of receipt #2603 maintained by the Housing Manager reflected Tenant A made a cash payment of \$400.00. The tenant action form maintained by the Housing Manager also reflected a \$400.00 cash payment for the security deposit. The total undeposited collection for this example is \$150.00. A copy of the receipt maintained by the Housing Manager is included in **Appendix 1** and a copy of the receipt attached to the deposit slip is included in **Appendix 2**.

On several occasions, Ms. Fry withheld cash and replaced the cash with late fees included in check payments received in a deposit. In 1 of the 33 instances identified, Tenant B remitted the rent payment after the due date and was required to pay \$40.00 in late fees. Tenant B issued a check in the amount of \$646.00 to pay the amount owed in full. The check was deposited on February 24, 2011. That deposit also contained \$65.00 in cash received from Tenant C, for a total deposit of \$711.00. The receipts attached to the City's copy of the deposit slip showed a payment of \$606.00 for Tenant B and a payment of \$105 for Tenant C. The receipts also indicated Tenant B had paid by check and Tenant C split the payment between cash and check. Further investigation determined Ms. Fry had recorded the \$606.00 rent charge and payment, but not the \$40.00 late fee charge or payment in the manual ledger maintained for Tenant B. By reducing the receipt for Tenant B, Ms. Fry was able to withhold \$40.00 cash from Tenant C's payment.

Manual Ledger Alteration – The manual ledgers maintained by Ms. Fry for each tenant should have included all charges to the account (i.e., rent, late fees and miscellaneous repair charges), all payments to the account (i.e., rent, security deposits, pet deposits, etc.) and the tenant's account balance. The City identified and we verified 13 instances totaling \$3,939.42 where the manual ledger was altered. We identified 2 additional instances of manual ledger alteration totaling \$307.00. Total undeposited collections resulting from manual ledger alteration were \$4,246.42.

In 1 of the 15 instances identified, Tenant D, a resident of Hershey Manor, issued a check in the amount of \$325.00 to the City of Muscatine on January 17, 2011. The check was a prepayment of February 2011 rent and cable charges. However, a receipt could not be located for this payment and the payment was not credited to Tenant D's account in the manual ledger. Based on a review of Tenant D's manual ledger, this tenant regularly prepaid rent and had a credit balance of \$325.00 at the end of December 2010. Not recording Tenant D's January 2011 payment reduced the outstanding credit balance to \$0.00. Further review of related deposits determined Tenant D's check payment was subsequently used in place of a cash payment received from a tenant residing at Sunset Park.

We also identified several instances where Ms. Fry collected cash payments for late fees but did not record either the charges or the payments in the tenants' manual ledgers. As a result, she was able to withhold the amount of unrecorded late fees in cash from deposits. During the course of the City's review, the Finance Director and Accountant also determined additional tenants should have been charged late fees; however, City officials elected not to pursue additional payment from the tenants. As a result, there is a loss to the City which has not been quantified.

Deposit Alteration – Although Ms. Fry was only to act as back-up cashier for public housing collections, she was the primary cashier for permit, license and inspection fees. She also had access to public housing collections during the lunch hour. Because Ms. Fry had access to several sources of cash and check payments, she was able to alter the supporting documentation attached to the deposit slips and substitute check payments received in an area for cash payments received in another area. The City identified and we verified 5 instances totaling \$2,506.00 where the supporting documentation attached to the deposit slip was altered. We identified an additional instance of deposit alteration totaling \$395.00. Total undeposited collections resulting from deposit alterations were \$2,901.00.

In 1 of the 6 instances, \$165.00 in cash and 5 checks totaling \$1,489.60 were deposited to the bank account maintained for Clark House on May 27, 2011. Of the 5 checks deposited, 2 were received from Tenant E as payment of the security deposit and first month's rent totaling \$289.60. A receipt was properly issued and the payments were properly posted to Tenant E's account. However, the remaining 3 checks, totaling \$1,200.00, were not tenant payments, but were payments received from vendors for yard waste bags and a cigarette permit. These checks should have been deposited to the bank account maintained for the City's General Fund. Further review of the supporting documentation attached to the deposit slip determined 7 tenants of Clark House had paid \$1,365.00 in cash. Ms. Fry substituted the 3 checks, totaling \$1,200.00, for cash received from tenants to ensure the deposit totaled the correct amount. **Table 2** summarizes the date, receipt number and amount for each of the 7 tenants identified.

Table 2

Date	Receipt Number	Amount
05/20/11	7008	\$ 270.00
05/23/11	7011	220.00
05/24/11	7014	50.00
05/24/11	7015	50.00
05/25/11	7018	119.00
05/26/11	7019	493.00
05/26/11	7020	163.00
Total		<u>\$ 1,365.00</u>

Computer System Alteration – Each employee in the City’s Finance and Records Department has access to HAPPY. However, the Accounting Clerks only have the ability to generate receipts. Ms. Fry could generate receipts, enter adjustments, void receipts and delete transaction history. According to the Finance Director, although City policy required a reason for any voids or deletions, Ms. Fry voided and/or deleted several items from HAPPY without documenting a reason. The City identified and we verified 5 instances totaling \$1,872.00 where information recorded in HAPPY was altered.

In 1 of the 5 instances, Tenant F made a cash payment of \$561.00 for rent, cable charges and parking fees on November 21, 2011. The payment was entered in HAPPY at 12:35 p.m. but subsequently voided at 12:36 p.m. As previously stated, Ms. Fry acted as back-up cashier during the lunch hour. According to the time sheets for November 21, 2011, Ms. Fry and another employee were the only 2 employees in the Finance and Records office from 12:00 p.m. to 1:00 p.m. The other employee is responsible for processing payroll and answering telephones and is not responsible for collections. According to the system edits, the transaction memo describing the payment as “Rent/Cable/Parking \$10” was also deleted from HAPPY. The manual ledger maintained for Tenant F included a balance due of \$551.00 for rent and cable charges and \$10.00 due for City parking. However, the November 21, 2011 payment was not credited to the account. On December 28, 2011, an adjustment was recorded in HAPPY in the amount of \$551.00 to eliminate the balance due from Tenant F for rent and cable charges.

Combination Alteration – The City identified and we verified 8 instances totaling \$3,107.86 where a combination of supporting documentation was altered without being able to identify the primary alteration which enabled the undeposited collection. We identified an additional instance where a combination of supporting documentation was altered, resulting in undeposited collections of \$606.00. Total undeposited collections resulting from a combination of supporting documentation alteration were \$3,713.86.

In 1 of the 9 instances identified, Tenant G made a \$341.00 cash payment for rent, cable charges, City parking and a late fee on October 7, 2011. A review of the supporting documentation attached to the deposit slip identified receipt #7722 which had been issued for \$331.00. However, a reprint of receipt #7722 from HAPPY reflected a total payment of \$341.00. It appears the receipt was altered and photocopied as the “Description” on the receipt attached to the deposit slip is not complete when compared to the receipt reprinted from HAPPY. Alteration of the receipt enabled Ms. Fry to withhold \$10.00 in cash from the deposit. A \$370.00 cash payment was received from the same tenant on November 30, 2011. Receipt #7906 was entered in HAPPY at 12:31 p.m. and subsequently voided at 12:33 p.m. As previously stated, Ms. Fry often acted as back-up cashier during the lunch hour. Further review of the deposit determined the \$370.00 was not included in the deposit. Total undeposited collections related to Tenant G were \$380.00.

We identified another instance where Ms. Fry manipulated the receipts and HAPPY for the same tenant over the course of several months, as follows:

- Tenant H moved into Sunset Park in March 2011 and paid \$700.00 for the security and pet deposits. Receipt #6708 reprinted from HAPPY shows \$700.00 was collected; however, receipt #6708 attached to the corresponding deposit slip shows only \$400.00 was received. In addition, the manual ledger maintained for Tenant H shows only a security deposit of \$400.00 was recorded. The remaining \$300.00 received was not properly deposited.
- In April 2011, Tenant H prepaid May 2011 rent. However, although HAPPY shows \$367.00 was received on April 15, 2011 on receipt #6846, a corresponding deposit for that receipt could not be located and the payment was not recorded in the manual ledger.
- In May 2011, Tenant H prepaid June 2011 rent. However, although HAPPY shows \$267.00 was received on May 13, 2011 on receipt #6997, a corresponding deposit for that receipt could not be located and the payment was not recorded in the manual ledger.
- On November 30, 2011, Ms. Fry recorded an adjustment in HAPPY in the amount of \$367.00 for Tenant H; however, no reason was documented for the adjustment. The transaction detail in HAPPY shows Tenant H made a payment on October 14, 2011, described as payment for November rent. However, the payment is recorded on the manual ledger as a rent payment for October, not November.
- On December 9, 2011, Tenant H made another payment recorded in HAPPY for \$367.00 on receipt #8021. This transaction was voided by Ms. Fry. However, receipt #8021 was recorded in the manual ledger for \$397.00 and the deposit report for that date reflects Tenant H paid \$397.00 on December 9, 2011 on receipt #8021.
- On January 6, 2012, Tenant H made a payment of \$417.00; however, only \$367.00 was due. The transaction detail in HAPPY shows \$367.00 was received on receipt #8095. The copy of receipt #8095 attached as supporting documentation to the deposit shows a payment of \$417.00 and Ms. Fry recorded a payment of \$417.00 in the manual ledger. This reduced the outstanding balance reflected in the manual ledger for Tenant H's account by \$50.00.
- On February 28, 2012, Tenant H made a payment of \$240.00 based on the outstanding balance reported by Ms. Fry in the manual ledger. However, the outstanding balance was not legitimate and Tenant H did not owe the \$240.00 paid. Although there is no other record of a payment on February 28, 2012, the payment is recorded in the manual ledger to reduce the outstanding balance created by Ms. Fry.

Total undeposited collections related to Tenant H were \$1,011.00.

Ms. Fry was subsequently arrested and charged with theft in the first degree and felony misconduct in office on July 31, 2012. She pled guilty on February 22, 2013.

CITY PAYMENTS

Because the public housing program also receives federal funding, City officials decided to restore the loss to the public housing program using funds from the City's General Fund. As a result, subsequent to the City's review but prior to our investigation, the Finance Director and Accountant summarized the loss identified by public housing development and issued 3 payments from the City's General Fund totaling \$10,531.08 to reduce the loss to the public housing program. However, the payments made did not fully restore the public housing program.

To calculate the payment amounts, the Finance Director and the Accountant reviewed the monthly rent listings for March 2012 through May 2012 and compared Ms. Fry's balance for each tenant to the balance they calculated. However, this did not directly correspond to the "Missing Funds Summary" prepared during the City's review. According to the Accountant, they were focused on correcting the balance of all current tenants and not focused on the total loss to the public housing program.

Because the 3 payments from the General Fund were issued prior to our investigation, any amounts we were unable to verify or any additional amounts we identified were not taken into consideration. In addition, by calculating the payment amounts using the monthly rent listings, the City did not take into account the General Fund collections which had been deposited to the public housing program. As a result of our investigation, we determined an additional \$4,913.62 would have to be issued from the City's General Fund to fully restore the public housing program.

Table 3 summarizes our calculation.

Description	Amount
Undeposited collections	\$ 18,054.70
Less: Repayment from General Fund	(10,531.08)
General Fund collections deposited	(2,610.00)
Total	\$ 4,913.62

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Muscatine to process collections. 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's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former Senior Accounting Clerk had control over posting charges and payments to tenant accounts for the public housing program and preparation of billings, collections and posting of payments for yard waste bags, tattoo inspections, cigarette permits and amusement licenses.

Recommendation – The duties within each function listed above should be segregated between the Finance Director, Accountant and Accounting Clerks. In addition, reconciliations should be performed by an independent person. The City Council should review financial records and examine supporting documentation for accounting records on a periodic basis.

- B. Accounts Receivable – An independent reconciliation of yard waste bag and tattoo inspection billings to payments is not performed. In addition, there is no independent review to account for the numerical sequence of cigarette permits, amusement licenses and amusement stickers.

Recommendation – The City should implement procedures to ensure an independent review of the accounts receivable ledger is performed. In addition, an independent person should account for the numerical sequence of all permits and licenses issued.

- C. Computer System – The former Senior Accounting Clerk had the ability to void and/or delete transactions in HAPPY without accompanying supporting documentation. The City has since removed the ability to delete a transaction and only the Accountant has the ability to void a transaction. In addition, HAPPY requires a reason be documented for all voided transactions.

Recommendation – The City should continue to restrict the ability to void and/or delete transactions. In addition, the Finance Director should review voided transactions for propriety.

- D. Manual Ledger – The former Senior Accounting Clerk maintained manual ledgers for all tenants. An independent reconciliation of the manual ledgers to HAPPY was not performed. The City has since discontinued the use of the manual ledgers.

Recommendation – The City should continue to record all tenant activity in HAPPY. An independent reconciliation of payments recorded in HAPPY to deposits should be performed on a monthly basis.

- E. Tenant Action Forms – The tenant action forms prepared by the Housing Managers were submitted to the former Senior Accounting Clerk for entry to HAPPY. An independent reconciliation was not performed to ensure the information recorded on the tenant action forms was correctly entered.

The City has since changed procedures. The Housing Managers now enter the information directly to HAPPY and provide the tenant action form to the Accountant for review.

Recommendation – The City should continue to ensure an independent person is reviewing the tenant action forms for propriety and the information recorded in HAPPY for accuracy.

- F. Numerical Sequence of Receipts – Receipts were generated from HAPPY for tenants of Clark House and Sunset Park which included a key sequence number assigned by HAPPY and a manual receipt number entered by the Accounting Clerk. An independent person did not account for the numerical sequence of receipts issued. The City has since implemented procedures to account for the numerical sequence of both the key sequence number and the manual receipt number.

Recommendation – The City should continue to ensure an independent person is accounting for the numerical sequence of all receipt numbers.

Exhibit

Exhibit AReport on Special Investigation of the
City of MuscatineUndeposited Collections
For the Period July 1, 2008 through March 8, 2012

Instance	Alteration of:					Total Identified
	Receipt	Manual Ledger	Deposit	Computer System	Combination	
<u>City's Verified Amount:</u>						
1	\$ -	386.42	-	-	-	386.42
2	-	-	102.00	-	-	102.00
3	25.00	-	-	-	-	25.00
4	283.42	-	-	-	-	283.42
5	-	325.00	-	-	-	325.00
6	209.00	-	-	-	-	209.00
7	40.00	-	-	-	-	40.00
8	-	15.00	-	-	-	15.00
9	-	-	1,200.00	-	-	1,200.00
10	-	-	766.00	-	-	766.00
11	-	373.00	-	-	-	373.00
12	85.00	-	-	-	-	85.00
13	495.00	-	-	-	-	495.00
14	40.00	-	-	-	-	40.00
15	144.00	-	-	-	-	144.00
16	40.00	-	-	-	-	40.00
17	40.00	-	-	-	-	40.00
18	344.00	-	-	-	-	344.00
19	298.00	-	-	-	-	298.00
20	-	-	-	-	440.00	440.00
21	423.00	-	-	-	-	423.00
22	-	543.00	-	-	-	543.00
23	-	-	-	524.00	-	524.00
24	-	-	-	561.00	-	561.00
25	40.00	-	-	-	-	40.00
26	10.00	-	-	-	-	10.00
27	-	-	-	84.00	-	84.00
28	-	-	-	342.00	-	342.00
29	-	50.00	-	-	-	50.00
30	30.00	-	-	-	-	30.00
31	-	-	-	-	380.00	380.00
32	4.00	-	-	-	-	4.00
33	-	643.00	-	-	-	643.00

Report on Special Investigation of the
City of Muscatine

Undeposited Collections
For the Period July 1, 2008 through March 8, 2012

Instance	Alteration of:				Total Identified	
	Receipt	Manual Ledger	Deposit	Computer System		
34	-	412.00	-	-	412.00	
35	-	-	-	361.00	361.00	
36	-	-	229.00	-	229.00	
37	7.00	-	-	-	7.00	
38	-	112.00	-	-	112.00	
39	40.00	-	-	-	40.00	
40	187.00	-	-	-	187.00	
41	118.00	-	-	-	118.00	
42	200.00	-	-	-	200.00	
43	64.00	-	-	-	64.00	
44	-	-	-	-	1,011.00	
45	60.00	-	-	-	60.00	
46	-	116.00	-	-	116.00	
47	39.00	-	-	-	39.00	
48	258.00	-	-	-	258.00	
49	-	421.00	-	-	421.00	
50	18.00	-	-	-	18.00	
51	-	309.00	-	-	309.00	
52	-	-	-	-	100.00	
53	-	-	209.00	-	209.00	
54	340.00	-	-	-	340.00	
55	150.00	-	-	-	150.00	
56	-	234.00	-	-	234.00	
57	-	-	-	-	720.00	
58	-	-	-	-	15.00	
59	-	-	-	-	423.00	
60	-	-	-	-	18.86	
Subtotal	4,031.42	3,939.42	2,506.00	1,872.00	3,107.86	15,456.70

Exhibit A

Report on Special Investigation of the
City of MuscatineUndeposited Collections
For the Period July 1, 2008 through March 8, 2012

Instance	Alteration of:					Total Identified
	Receipt	Manual Ledger	Deposit	Computer System	Combination	
<u>Additional Amounts:</u>						
1	4.00	-	-	-	-	4.00
2	61.00	-	-	-	-	61.00
3	719.00	-	-	-	-	719.00
4	506.00	-	-	-	-	506.00
5	-	102.00	-	-	-	102.00
6	-	-	-	-	606.00	606.00
7	-	-	395.00	-	-	395.00
8	-	205.00	-	-	-	205.00
Subtotal	1,290.00	307.00	395.00	-	606.00	2,598.00
Total	\$5,321.42	4,246.42	2,901.00	1,872.00	3,713.86	18,054.70

Report on Special Investigation of the
City of Muscatine

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Jennifer Campbell, CPA, Manager
Russell G. Jordan, CPA, Staff Auditor
Lara K. Van Wyk, Staff Auditor




Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

Report on Special Investigation of the
City of Muscatine

Copy of an Original Tenant Receipt

Public Housing
215 Sycamore
Muscatine, IA 52761
(563) 264-1554


2804 BLOOMINGTON LANE 2804D
MUSCATINE IA 52761


Receipt

			Number	Date
			2603	05/04/2009
ID	Transaction	Description	Amount Paid	Credit
11857	Payments	DEPOSIT \$400 CASH	400.00	400.00 CR
			Payments	\$400.00
				\$400.00 CR

Report on Special Investigation of the
City of Muscatine

Copy of an Altered Tenant Receipt

Public Housing
215 Sycamore
Muscatine, IA 52761
(563) 264-1554


2804 BLOOMINGTON LANE 2804D
MUSCATINE IA 52761

Receipt

ID	Transaction	Description	Number	Date
12500	Payments	SECURITY DEPOSIT	2603	05/04/2009
			Amount Paid	Credit
			250.00	250.00 CR
			Payments	\$250.00 \$250.00 CR